Public Document Pack

Governance and Human Resources
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee Room 4, Town Hall, Upper Street, N1 2UD on **9 March 2015 at 7.30 pm.**

John Lynch
Head of Democratic Services

Enquiries to	:	Mary Green
Tel	:	(020) 7527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	26 February 2015

Membership 2014/15	Substitute Members
Councillor Richard Greening (Chair)	Councillor Paul Convery
Councillor Andy Hull	Councillor Satnam Gill
Councillor Jean Roger Kaseki	Councillor Mouna Hamitouche MBE
Councillor Michael O'Sullivan	Councillor Dave Poyser

Quorum is 2 members of the Sub-Committee

A.	**Formal Matters**		**Pages (approximate times)**
1.	Apologies for absence		
2.	Declaration of substitutes		
3.	Declaration of interests		

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

*(a) Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
(d) Land - Any beneficial interest in land which is within the council's area.
(e) Licences- Any licence to occupy land in the council's area for a month or longer.
(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

4.	Minutes of the meeting held on 25 November 2014		1 - 4 (19:35)
B.	**Non-exempt items**		
1.	Pensions administration performance from November 2014 to 31 January 2015		5 - 8 (19:40)
2.	Pension Fund performance from October to December 2014 (to follow)		- (19:50)
3.	(a) Quarterly WM Company performance report		-

		Pages (approximate times)
	(b) Presentation from AllenbridgeEPIC Investment Advisers on quarterly performance	
4.	Presentation from Standard Life - corporate bonds and beyond (10 minute presentation followed by 10 minute Q&A)	- (20:10)
5.	Investment Strategy asset allocation implementation - infrastructure briefing	9 - 12 (20:30)
6.	Establishing an Islington Pension Board - progress	13 - 22 (20:50)
7.	Funding Strategy Statement update to reflect the Local Government Pension Scheme Regulations 2013	23 – 44 (21:05)
8.	Pension Fund Forward Plan 2015 (<u>to follow</u>)	- (21:30)

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items

1.	London Common Investment Vehicle – update (<u>to follow</u>)	- (21:40)
2.	Strategy review implementation - Infrastructure briefing from Mercer	-

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Pensions Sub Committee will be on 11 June 2015

This page is intentionally left blank

London Borough of Islington

Pensions Sub Committee - 25 November 2014

Non-confidential minutes of the meeting of the Pensions Sub Committee held at the Town Hall, Upper Street, London N1 2UD on 25 November 2014 at 7.30 pm.

Present:	**Councillors:**	Richard Greening (Chair), Satnam Gill, Jean Roger Kaseki and Michael O'Sullivan
Also Present:	**Councillor:**	Mouna Hamitouche MBE Brian Booker, retired pensioners' representative Karen Shackleton, AllenbridgeEPIC Investment Advisers, Nick Sykes and Catherine Bermingham, Mercer Investment Consulting

Councillor Richard Greening in the Chair

28 APOLOGIES FOR ABSENCE (Item A1)

Received from Vaughan West, GMB representative, and Councillor Andy Hull.

29 DECLARATION OF SUBSTITUTES (Item A2)

Councillor Satnam Gill substituted for Councillor Andy Hull.

30 DECLARATION OF INTERESTS (Item A3)

None.

31 MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2014 (Item A4)

RESOLVED:
That the minutes of the meeting held on 16 September 2014 be confirmed as a correct record and the Chair be authorised to sign them.

32 PENSIONS ADMINISTRATION PERFORMANCE FROM 1 AUGUST TO 31 OCTOBER 2014 (Item B1)

RESOLVED:
(a) That the performance against key performance indicators for the period from 1 August to 31 October 2014, including statistics regarding the internal dispute resolution procedure, complaints and compliments, as detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the trend in active membership since August 2008, illustrated in Appendix 1 of the report, be also noted.

33 PENSION FUND PERFORMANCE FROM JULY TO SEPTEMBER 2014 (Item B2)

Members expressed concern at the proposal to commit further funds of £50k to the set up costs of the London Common Investment Vehicle (CIV) at this stage, in the absence of a clear business case to prove the benefits to the Council, including reduced fees.

It was noted that the Joint Board of the CIV was due to meet in December 2014 and that Councillor O'Sullivan would attend as the Council's representative. Officers were asked to ensure that he was supplied with a briefing before that meeting.

There would be an update to the next meeting of the Sub-Committee.

RESOLVED:
(a) That the performance of the Fund from 1 July to 30 September 2014, detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the quarterly WM Company report on the overall performance, updated market value and asset allocation of the Fund, as at 30 September 2014, detailed in Annex A to the report, be noted.
(c) That the report by AllenbridgeEPIC Investment Advisers on fund managers' quarterly performance, detailed in Appendix 2 to the report and their presentation, be noted.
(d) That recommendation 2.4 in the report (viz "To consider the update from the London CIV working party and the projected budget, Appendix D, and agree to continue to support their work by committing a further £50, 000.00 to be paid in 2 lots of £25,000") be not approved.
(e) That it be noted that Councillor O'Sullivan was to attend the Joint Board of the CIV in December 2014, following a briefing to be supplied by officers, and that there would be an update to the next meeting of the Sub-Committee.

34 STRATEGY REVIEW UPDATE - IMPLEMENTATION (Item B3)

RESOLVED:
That Mercer's proposals for the future investment strategy implementation and governance structure for the Fund, detailed in the exempt appendix at agenda item E2, be approved and that officers implement the timetable detailed on page 83 of the exempt appendix.

35 STATEMENT OF INVESTMENT PRINCIPLES - UPDATE (Item B4)

RESOLVED:
That, subject to an amendment being made to the final line of paragraph 30 of the Statement of Investment Principles by the insertion of the word "wage" after "living":

(a) The revised Statement of Principles attached at Appendix 1 of the report of the Corporate Director of Finance and Resources, incorporating amendments to the paragraphs on "Exercise of Shareholder Rights (including Voting Rights) and Social, Environmental or Ethical Considerations", be approved.
(b) That it be noted that leading Counsel's view was that the amended Statement of Investment Principles represented a lawful approach, subject to practicalities.
(c) That the final Statement of Investment Principles be revised to incorporate the revised asset allocation for the Fund (see minute 34 above)
(d) That officers be authorised to make final revisions to the Statement of Investment Principles and to publish it on the Council's website

36 DCLG STATUTORY CONSULTATION ON SCHEME GOVERNANCE (Item B5)

RESOLVED:
(a) That the requirement to set up a local Pensions Board by 1 April 2015, which must include at least two employee and two employer representatives, and detailed in the report of the Corporate Director of Finance and Resources, be noted.
(b) That the Audit Committee be requested to establish a Local Pensions Board (including its terms of reference and membership) which will have responsibility for :

(i) assisting the administering authority in securing compliance with the LGPS regulations and any requirements imposed by the Pensions Regulator and in ensuring effective and efficient governance and administration of the scheme;
(ii) risk management: and
(iii) scrutiny of decisions taken by the Pensions Sub-Committee, as a separate body from the Pensions Sub-Committee, and with a separate Chair by 1 April 2015.

(c) That recognised Trade Unions, pensioner members and employers of the pensions scheme be consulted on the proposed Local Pensions Board and be invited to nominate persons for appointment as board members.
(d) That the Corporate Director of Finance and Resources, in consultation with the Assistant Chief Executive-Governance and HR, and the Chair, consider how best to implement the regulatory requirements, updating the Sub-Committee and the Audit Committee at their next meetings.

37 **PENSION FUND FORWARD PLAN 2014/15 (Item B6)**

RESOLVED:
(a) That the following amendments be made to the Forward Plan of business for meetings of the Sub-Committee for 2014/15, detailed in Appendix A to the report of the Corporate Director of Finance and Resources:

9 March 2014 and September 2015 – delete "Global equities manager presentation" from the March meeting and bring forward the September 2015 item on "Standard Life presentation" to the 9 March 2015.

9 March 2015 – include the update on the London CIV in the performance report

(b) That it be noted that all updates on the London CIV will be circulated to members of the Sub-Committee as they become available
(c) That the training session on 9 March 2015 be changed to "Emerging markets" and that for 4 June 2015 to "Social infrastructure".

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:
That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

Agenda Item	Title	Reason for Exemption
E1	Contract for Diversified Growth Fund manager – exempt Appendix	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
E2	Strategy review update – implementation – exempt appendix	ditto

38 **CONTRACT AWARD FOR DIVERSIFIED GROWTH FUND MANAGER (Item E1)**

RESOLVED:
(a) That the outcome of the tender process to procure a Diversified Growth Manager, detailed in the exempt report of the Corporate Director of Finance and Resources, be noted.
(b) That Fund Manager A be appointed as the Islington Pension Fund Diversified Growth Manager, as recommended in exempt Appendix 1 of the report, and that officers be requested to negotiate a fee reduction with Fund Manager A.
(c) That Fund Managers B and C be appointed as reserves and, in the event that negotiations on a fee reduction are unsuccessful with Fund Manager A, officers be authorised to assume negotiations with Fund Manager B or C.
(d) That the Corporate Director of Finance and Resources, in consultation with the Assistant Chief Executive – Governance and Human Resources, be authorised to negotiate and agree the fund management agreement with Fund Manager A in the first instance, or Fund Manager B or C if necessary.

39 **STRATEGY REVIEW UPDATE - EXEMPT APPENDIX (Item E2)**

RESOLVED:
That the contents of exempt appendix E2 be noted (see minute 34 for decision)

The meeting ended at 9.00 pm

CHAIR

ISLINGTON

Municipal Offices
7 Newington Barrow Way
London, N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of	Date	Agenda Item	Ward(s)
Pensions Sub-Committee	9 March 2015		

Delete as appropriate		Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1 This report provides Members with information on the administration activities of the Pension administration section of the Finance Department. The information is in respect of the period from 1 November 2014 to 31 January 2015.

1.2 The report also provides information regarding the Internal Dispute Resolution Procedure, compliments and complaints.

2. Recommendations

2.1 To note the performance against key performance indicators for the relevant period.

2.2 To note the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints.

2.2 To note the information regarding the action being taken to appoint a new Representative for the retired members.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 31 October 2014 and 31 January 2015 is shown in the following table.

Category	Oct - 14	Jan - 15
Number of current active members	6,020	6,048
Number of preserved benefits	6,526	6,529
Number of Pensions in payment	5,096	5,141
Number of Spouses/dependants pensions in payment	934	935
Total	18,576	18,653

3.1.1 There has been a slight increase in membership over the period. It should be noted, however, that the rate of increase in the number of former employees with preserved benefits is likely to be slower in future now that a minimum of 2 years membership is required. Previously an employee only needed to have 3 months membership for preserved benefits.

3.2. Key performance indicators from 1 November 2014 to 31 January 2015:

Process	**Target days to complete**	**Volume**	**Target % Achievement**	**% Achieved within target days**	**Actual average days**
Deaths	5	38	95%	92.11%	4.31
Retirement benefits	5	67	95%	85.07%	4.95
Pension estimates	10	80	95%	93.75%	6.68
Preserved benefit calculations	15	56	95%	87.50%	9.50
Transfer-in quotation	10	2	95%	50.00%	6.50
Transfer-in actual	10	6	95%	66.67%	3.33
Transfer out actual	12.5	14	95%	92.86%	3.21
Transfer out quotation	15	4	95%	50.00%	9.66
All processes	-	511	-	90.61%	-

3.3 The overall performance is slightly down on the 91.58% for the previous period to 31 October 2014. There was a significant variation in respect of death cases; 38 deaths in this period compared with 9 the last time and as a consequence the performance for deaths reduced from 100% to 92.11% this period. In addition the number of Retirement benefits in the previous period was 32 with a 90.63% performance compared with 67 cases and a performance of 85.07% this period.

3.4 During the 2 year period to 31 January 2015, 103 communications have been received thanking Pension Administration staff for the service, including 11 since the previous meeting of the Sub Committee.

3.5. No complaints have been received since the previous meeting of the Sub-Committee.

3.6 There have been no new Internal Dispute Resolution Procedure (IDRP) cases.

3.7 A replacement for Brian Booker's role as Retired Members Representative is being sought and letters have been sent asking for volunteers. A ballot will be held if there is more than one applicant. This representative will also be invited to join the local pension board effective from 1 April 2015.

4. Implications

4.1 Financial Implications

4.1.1 The cost of administering the Local Government Pension Scheme is chargeable to the Pension Fund.

4.2 Legal Implications

4.2.1 There are no specific legal implications in this report.

4.3 Equalities Impact Assessment

4.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.3.2 In respect of this report, an Equality Impact Assessment is not being made because the contents of the report relate to processes that are strictly in accordance with the statutory Local Government Pension Scheme Regulations. The LGPS Regulations are made under the Superannuation Act 1972, and the Council has a statutory duty to comply with the LGPS Regulations.

4.4 Environmental Implications

4.4.1 The environmental impacts have been considered and it was identified that the proposals in this report would have no adverse impacts

5 Conclusion and reasons for recommendations

5.1 The report is made to each meeting of the Committee and is provided in order to assess administration performance.

Background papers: None

Final Report Clearance

Signed by

	Corporate Director of Finance and Resources	Date
Received by	Head of Democratic Services	Date

Report author : Steve Rogers
Tel : (020) 7527 2028
Fax : (020) 7527 2596
E-mail : steve.rogers@islington.gov.uk

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	9 March 2015		n/a

Delete as appropriate	Non-exempt	

Appendix A attached is Private and Confidential

SUBJECT: Investment Strategy Asset Allocation Implementation – Infrastructure Briefing

1. Synopsis

1.1 To consider an Infrastructure presentation paper prepared by Mercer attached as Appendix A (private and confidential).

1.2 This is a follow on paper to enable Members to set a framework to implement the Fund's agreed investment strategy in November to allocate assets to infrastructure. This should form part of its 25% defensive basket.

2. Recommendations

2.1 To consider Mercer's presentation on Infrastructure set out in Appendix A (private and confidential)

2.2 To discuss and agree the following:

- Objectives- what role will infrastructure play?
- What is our risk and return requirement
- What are the Fund's constraints- eg liquidity, amounts, speed of deployment and investment choice

2.3 Subject to decisions taken at 2.2 above;
Consider the next following steps:

- Geography, sector, development stage
- Type (listed equity, unlisted equity, debt)

- Implementation method such as fund of funds, direct investment or direct funds
- Governance

3. Background

3.1 Members agreed at the November 2013 meeting to maintain the current split of 75% in growth assets and 25% in defensive assets. A further paper in March 2014 provided information on alternative asset types, expected returns and associated risk and it was agreed to reduce the Fund's equity allocation by 10% to invest in a diversified growth fund and to consider further the restructuring of the current bond investments. A follow on paper on credit and liability hedging approaches was discussed at the July meeting.

3.2 Members agreed in November 2014, a new asset allocation and an implementation plan over the short to medium term period, in particular

- To allocate part of its assets to new areas of investment, namely frontier emerging markets, infrastructure and social housing, coupled with the DGF allocation.
- Identify implementation considerations of the proposed investment strategy; and
- Identify the governance requirements of the proposed investment strategy

.

3.3 A Diversified Growth Fund manager was recommended for appointment and £100million is to be allocated to this manager. Contract and legal negotiations are now underway and the anticipated funding will be post April 2015 once the year end accounts are closed.

3.4 Infrastructure has a wide scope and complex parts and therefore Mercer have been asked to prepare this presentation to enable Members to define their objectives, risk and return. These parameters once agreed will enhance and clarify the basis for further considerations such as the type, sector, geography, and implementation and governance structure.

4. Implications

4.1 **Financial implications**
Fund management and administration fees are charged directly to the pension fund. The transfer of assets will generate some costs.

4.2 **Legal Implications**
None applicable to this report.

4.3 **Environmental Implications**
None applicable to this report.

4.4 **Equality Impact Assessment**
None applicable to this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider the presentation Appendix A (private and confidential), discuss and agree recommendations outlined in 2.2 to 2.3 and receive a further progress report at the next meeting in June.

Background papers:
None

Final report clearance:

Signed by:

	Corporate Director of Finance & Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	9 March 2015		n/a

Delete as appropriate		Non-exempt

SUBJECT: ESTABLISHING AN ISLINGTON PENSION BOARD PROGRESS REPORT

1. Synopsis

1.1 This is an information report to update Members on progress made since the last meeting in November in establishing an Islingtom local pension board .

2. Recommendations

2.1 To note progress made since the last meeting in November

2.2 To agree that the Corporate Director of Finance and Resources, in consultation with the Assistant Chief Executive, Governance and HR, and the Chair ,continue to consider how best to implement the regulatory requirements, updating the Sub-Committee and the Audit Committee at their next meetings.

3. Background

3.1 The Public Services Pensions Act 2013 requires the establishment of local pension boards for each Local Government Pension Fund. Each administering authority must establish a pensions board no later than 1 April 2015.

3.2 Local Government Pension Scheme (Amendment) Regulations 2014 provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 At the last meeting in November, Members agreed to request the Audit committee to establish a separate Islington local pension board and receive progress reports

Progress since November 2014

3.4
- Local Government Pension Scheme (Amendment) Governance Regulations 2015 was laid before Parliament on 28 January 2015.
- The constitution and role of a local pension board member was agreed by the Audit committee on 29 January. See Appendix 1
- The Shadow Scheme Advisory board issued a guidance and templates on the creation and operation of local pension boards following the final regulations.

3.5 The Pension Regulator released a free e -learning toolkit for public service schemes and a draft code of practice to help people who run pension schemes fulfil their legal duities. The programme has seven courses covering the governance and administration of public service schemes, as described in the draft public service code of practice. The modules are,

- Conflicts of interest,
- Managing risk and internal controls,
- Maintaining accurate member data,
- Maintaining member contributions,
- Providing information to members and others,
- Resolving internal disputes, and
- Reporting breaches of the law.

The link to the toolkit is https://education.thepensionsregulator.gov.uk/login/index.php).

3.6 The Pension Regulator (TPR)issued a consultation on 5 Febuary regarding proposed approach to compliance and enforcement in relation to public service pension schemes with a closing date of 5 March.

In broad terms it sets out:

- how TPR identify and assess risk in public service schemes and how this forms the basis for their operational activity
- their approach to monitoring public service schemes through reactive and proactive sources
- how a public service scheme may be investigated by a case team, and
- the enforcement options available to them and other enablement and educative interventions that may be used

The full consultation document can be found at http://www.thepensionsregulator.gov.uk/doc-library/compliance-and-enforcement-policy-for-public-service-pension-schemes.aspx .

3.7 The Islington Pension Board constitution will have 3 employers and employees each and I independent member with no voting rights. Recognised trade unions, scheme employers and pensioner members of our scheme have being asked to nominate representatives for appointment to the board with a formal selection process being established in the event that the number of nominees exceeds the available places. All members will be appointed by the Audit committee or the Full Council and it is anticipated that appointments will be made at Audit's committee's meeting in March 2015.

4. Implications

4.1 **Financial implications:**

4.2 Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

4.3 **Legal Implications:**
The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015.

The draft Code of Practice is issued by the Pensions Regulator under s90A of the Pensions Act 2004.

'Conflict of interest' in relation to the Pensions Board is defined as: "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme) (s 5(5) of the Public Services Pensions Act 2013).

4.4 **Environmental Implications:**
None applicable to this report.

4.4 **Equality Impact Assessment:**

4.4.1 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

The proposed regulations to setting the local pension board require equal representation of employers and employees to exercise their functions. The constitution addresses the equality issue and a further impact assessment is not applicable.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note progress made since the November committee meeting to establishing an Islington Local Pension Board by 1 April 2015 and agree, the Corporate Director of Finance and Resources in consultation with the Assistant Chief Executive, Governance and HR and the Chair continue to consider how best to implement the regulatory requirements, updating the Sub-Committee and the Audit Committee at their next meetings.

Appendices: Appendix 1- Islington local pension board constitution

Background papers: The TPR code of practise for public services schemes.
29 January 2015 Audit Committee -Establishing Pension Board Report
TPR consultation http://www.thepensionsregulator.gov.uk/doc-library/compliance-and-enforcement-policy-for-public-service-pension-schemes.aspx

Final report clearance:

Signed by:

	Corporate Director of Finance and Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Fax: (020) 7527 2056
Email: Joana.marfoh@islington.gov.uk

APPENDIX 1

Constitution of the Pension Board of the London Borough of Islington Pension Scheme[1]

Terms of Reference

1. To assist the London Borough of Islington as scheme manager in securing compliance with:
    a. the Local Government Pension Scheme Regulations 2013;
    b. any other legislation relating to the governance and administration of the Local Government Pension Fund Scheme (LGPS);
    c. requirements imposed by the Pensions Regulator in respect of the LGPS;
    d. such other matters as the LGPS regulations may specify

2. To assist the London Borough of Islington in securing the effective and efficient governance and administration of the scheme;

3. To consider cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;

4. To produce an annual report outlining the work of the Board throughout the financial year.

5. To make recommendations to the Pension Sub-committee.

Composition

The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting

No substitutes are permitted.

All members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.

Any person who is applying for or appointed as a member of the Pension Board must provide the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Members of the Pension Sub-Committee shall be invited to attend meetings of the Board as observers.

[1] Established under regulation 106 of the Local Government Pension Scheme 2013

Tenure

Board members shall be appointed for three to four years. The period of appointment shall be determined on appointment by the full Council or the Council's Audit Committee to ensure continuation of membership in equal numbers for the employer and member representatives and to achieve rolling reappointment to maintain knowledge and experience on the Board.

Board members may be re-appointed to the Board.

At least 3 months' notice of resignation from the Board must be given by Board member, to enable a replacement member to be found and the required balance of members maintained.

Quorum

The quorum of the Board shall be 3 including at least one employer representative and one member representative.

Voting

It is expected that the Board will function as far as possible by consensus, however each Board member, other than the Independent Member, shall have one vote.
.
The chair of the committee shall have a casting vote in the event of an equality of votes.

Frequency of meetings and notice and record requirements

Meetings shall be held bi-annually and normally in public unless confidential or exempt information is to be discussed..

Additional meetings may be called at the request of the Chair of the Board or of the Islington Council Pension Scheme Sub-committee.

Normally meetings shall be called on 5 clear days' notice to members of the Board published on the Islington council website but if in the reasonable opinion of the Chair the holding of a meeting is urgent shorter notice of such length as the Chair shall determine may be given.

A formal record of the proceedings of the Board shall be maintained by the council's Democratic Services and circulated to members of the Board after approval by the Chair.

Procedure at meetings of the Board

The Council's committee procedure rules in Part 4 of its Constitution shall apply except that where there is a conflict between the committee rules and these terms of reference the latter shall apply.

The Board shall normally meet on the same date as the Pensions sub-committee in order that its deliberations may be taken into account in relation to relevant items the agenda of the Pensions sub-committee.

Remuneration of Members

Remuneration for Board members will be limited to a refund of actual expenses incurred in attending Board meetings. The Independent Member shall be entitled to any allowance provided for in the Islington Council Members Allowances Scheme in respect of the role.

Standards of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore the "seven principles of public life" will be applied to all Pension Board members and embodied in their code of conduct.

These are –

- **Selflessness** - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity** - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity** - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability** - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness** - Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.
- **Honesty** - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership** - Holders of public office should promote and support these principles by leadership and example.

As members of a publicly-funded body involved in the discharge of public business, all members of a Board should comply with these principles in the exercise of their functions. They require the highest standards of conduct.

Members of the Board will also be expected to adhere to the Council's Code of Conduct which will be issued to them upon appointment

Conflicts of Interest

The Corporate Director of Finance and Resources shall be responsible for maintaining a conflicts of interest policy for the Board.

The Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013 require that members of the Board do not have conflicts of interests. All members of the Board will be required to declare any interests and any potential conflicts of interest in accordance with these requirements on appointment and at regular intervals thereafter so they can be included in the Board's register of interests.

An appointed member of the Board is under a duty to provide the Scheme Manager with such information as the Scheme Manager reasonably requires to satisfy itself that such person has no conflicts of interest.

Conflicts of interest will be included as an open agenda item at Board meetings and revisited during the meeting where necessary.

Members of the Board should review conflicts of interest at least annually and maintain their entry in the Board's register of interests.

Conflicts of Interest shall be treated akin to, and have the same effect as, disclosable pecuniary interests under the Members' Code of Conduct.

Knowledge of Members and Training

All employer and member representatives on the Board are required to have capacity (i.e time to commit to the preparing for and attending the Board and training) to represent scheme employers or scheme members (as appropriate).

All members of the Pension Board must be conversant with –

- The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- Any document recording policy about the administration of the LGPS which is for the time being adopted by the Islington Pension Fund.

A member of the Pension Board must have knowledge and understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

It is for individual Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Board.

Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Board members should draw to the attention of the Corporate Director of Finance and Resources any areas in which they consider they need training or information.

Board members will comply with the Scheme Manager's training policy
and are required to promptly complete any training designated by the Board as mandatory.

The Board should prepare and keep updated a list of the core documents recording policy about the administration of the Fund and make sure that the list and documents (as well as the rules of the LGPS) are accessible to its members (see publication of pension board information below).

Termination of Board Membership

Appointments will terminate at the expiry of a member's term of office.

Membership of the Board shall automatically terminate in the event that:

- a member who is a councillor is appointed to the Pensions Sub-Committee as a member or a substitute member;
- a member is appointed to the role of an officer of the Scheme Manager with responsibility for the discharge of functions under the Regulations;
- a representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers;

Any appointment to the Pension Board may be terminated by the Council or the Audit Committee if any of the following situations arise:

- a member has a conflict of interest which cannot be managed in accordance with the Board's conflicts policy;
- a member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training;
- a member is not adequately meeting their duties in some other respect after this having been drawn to their attention and an adequate time being given for improvement;
- continued membership of a member is likely to cause damage to the reputation of the Board and/or of the council.

Where issues of this nature arise, the chair of the Board will have lead responsibility for an initial informal discussion with the member about the concerns. The Chair of the Board will be advised by the Corporate Director of Finance and Resources. If the issue cannot be satisfactorily resolved, the Board may recommend to the Council or its Audit Committee that the Board Member be removed from the Board.

Undertaking

Board members will be required to sign a written undertaking that they understand the requirements of the role and commit to those requirements. This will include without limitation:

- disclosing all dual interests and responsibilities which have the potential to become conflicts of interest and providing the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest
- committing to attend meetings as required;
- committing to undertake and attend the necessary knowledge and understanding training;
- undertaking to abide by the Board's terms of reference and wider constitutional documents.
- complying with the Council's code of conduct
- complying with the Councils obligations and policies on data protection, information security and acceptable use.
- agreeing that they have read and understood a knowledge and policy document including a list of the core documents recording policy about the administration of the fund as set out by the Corporate Director of Finance on behalf of the Scheme Manager

Advisers to the Board

The Board will primarily be supported in its role and responsibilities by officers of the Council. Subject to any applicable regulation and legislation from time to time in force and to their use and any fees being agreed by the Corporate Director of Finance and Resources on behalf of the Scheme Manager in advance, the Board may consult with other advisors to help it better perform its duties including:

- The Fund's Actuary;
- The Fund's Administrator;
- The Fund's Investment Adviser(s);
- The Scheme Manager
- Other advisers, as approved by the Scheme Manager.

Reporting Breaches

Any breach brought to the attention of the Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy document.

Publication of Pension Board information

Up to date information will be posted on the Islington Pension Fund website showing

- The names and information of the Pension Board members
- How the scheme members are represented on the Pension Board
- The responsibilities of the Pension Board as a whole
- The full terms of reference and policies of the Pension Board and how they operate
- The Pension Board appointment process
- Who each individual Pension Board member represents
- Any specific roles and responsibilities of individual Pension Board members.

Pension Board papers, agendas and minutes of meetings will be published on the Islington Pension Fund area of the Council's website. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

Definitions

The undernoted terms shall have the following meaning when used in this document:

“Pension Board” or “Board”	Means the Pension Board for the administering authority for the LB Islington Pension Fund as required under the Public Service Pensions Act 2013
”Scheme Manager”	Means LB Islington as administering authority of the Islington Pension Fund.
“LGPS”	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013,the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
“Scheme”	Means the Local Government Pension Scheme as defined under “LGPS”

ISLINGTON

Municipal Offices
7 Newington Barrow Way, London N7 7EP

Report of: **Corporate Director of Finance and Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	9 March 2015		n/a

Delete as appropriate		Non-exempt

SUBJECT: FUNDING STRATEGY STATEMENT (FSS) UPDATE TO REFLECT THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATION 2013

1. Synopsis

This report updates the Fund's current FSS agreed in March 2014 to reflect the LGPS Regulation 2013. The amendments once agreed will be published on the Council's website.

1.1 The LGPS 2013 Regulations requires Administering Authorities to review and publish their Funding Strategy Statement before 1 April 2015, following consultation with such persons as it considers appropriate. Under the Regulations the administering authority must prepare, maintain and publish a written statement setting out their funding strategy and in accordance with the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

2. Recommendation

2.1 To note the tracked changes to the Council's FSS agreed in March 2014 attached as Appendix A
2.2 To agree and accept the changes
2.3 To require the Corporate Director Finance and Resources to publish the agreed FSS through the Council's website before 1st April 2015

3. Background

3.1 As a requirement of section 77 of the Local Government Pension Scheme Regulations 1997 (as amended), the pension fund has to undertake a triennial actuarial valuation every three year. The latest as at 31st March 2013 calculated employer contributions rates for 2014/15 onwards subject to review on 31st March 2016.

3.2 As part of the review , In December and early January 2014, all employers admitted into the Islington council pension fund were consulted to give their views on the 2013 actuarial valuation. They were asked to consider the draft funding strategy statement in particular the following points:

- aspects relating to the actuarial assumptions adopted, including the short-term pay restraint assumption of 1% p.a. for 3 years
- the proposed approach in relation to periods over which deficit is recovered and any surplus is spread.
- the level of allowance for current and future members electing for the 50:50 scheme if appropriate; and
- whether allowance for the impact of changes in financial markets since the valuation date should be allowed for, and if there are any other post-valuation date events that the Fund and the Actuary should be aware of when setting the final contributions for employers..

3.3 All comments received were reported to the 13 March 2014 Pension Sub Committee and a final FSS agreed and published by 1 April 2014.

3.4 The 2013 FSS is now being amended to reflect the LGPS Regulation 2013 and to update the Fund's asset allocation strategy agreed in November 2014. These amendments will not require consultation with other employers as the changes are to the regulations as stated.

4. Implications

4.1 **Financial Implications:**

4.1.1 Costs of preparation of the FSS are administrative costs that are chargeable to the pension fund. The wider financial implications of the strategy itself was taken into account in preparing the 2013 valuation report and have been incorporated into the Council's Medium Term Financial Strategy and budget planning processes

4.2 **Legal Implications:**

4.2.1 The Council must produce a Funding Strategy Statement (FSS) a requirement introduced by the Local Government Pension Scheme Regulation 2013 in accordance with Regulation 58 and the guidance paper issued in March 2004 by the Chartered institute of Public Finance and Accountancy (CIPFA) Pensions Panel. Under the Regulations the administering authority must prepare, maintain and publish a written statement setting out their funding strategy following consultation with appropriate persons.

4.3 **Environmental Implications:**

4.3.1 None applicable

4.4 **Equality Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

An equalities impact assessment has not been conducted because this report is not considering any policy changes. All employers have been consulted on changes to assumptions and there are no equalities issues arising.

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the tracked changes to the 2013 FSS attached as Appendix A and agree the changes so that it can be published before 1 April 2015.

Appendices- Appendix A –Draft 2015 FSS

Background papers: N/A

Final report clearance:

Signed by:

	Corporate Director of Finance and Resources	Date
Received by:		
	Head of Democratic Services	Date

Report Author:	Joana Marfoh
Tel:	020-7527-2382
Fax:	020-527-2056
Email:	Joana.marfoh’@slington.gov.uk

This page is intentionally left blank

Islington Council Pension Fund

Funding Strategy Statement ~~2013~~ 2015

This Funding Strategy Statement (FSS) has been prepared by Islington Council (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the ICPF), in accordance with Regulation ~~35~~ 58 of the Local Government Pension Scheme Regulations 2013 ~~the Local Government Pension Scheme (Administration) Regulations 2008~~ (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 ~~The Local Government Pension Scheme) (Administration) Regulations 2008~~ (as amended) ("the ~~Administration~~ 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to :-
- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the ICPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published before 31 March 2015, and whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

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

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the ICPF are specified in the governing legislation ~~(the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations) and the Administration Regulations. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 regulations") governs the ICPF from 1 April 2014~~ contained in the 2013 Regulations and the 2014 Transitional Regulations. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the ~~Administration~~ 2013 Regulations which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate. Contributions to the ICPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

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

The purpose of this Funding Strategy Statement is:

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

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

3. AIMS AND PURPOSE OF THE ICPF

The aims of the fund are to:

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

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the ~~Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)~~, the 2013 Regulations, the 2014 Transitional Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the ICPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, ~~and~~
- monitor all aspects of the ICPF's performance and funding and amend FSS/SIP, and
- with effect from 1 April 2015, establish, support and monitor a Local Pension Pension Board ("LPB") in accordance with the requirements set down in the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The Individual Employer should:

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

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS.

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

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

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

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

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following previous consultations with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where deficits remain.
- In addition, a maximum deficit recovery period of 22 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

Formatted: Indent: Hanging: 0.97 cm

- For any employers assessed to be in surplus at the valuation date, their individual contribution requirements may be adjusted to such an extent that any surplus is used (i.e. run-off) over a period to be determined by the administering authority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount).
- The employer contributions will be expressed and certified as two separate elements:
    - a percentage of pensionable payroll in respect of the future accrual of benefit
    - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, at the discretion of the Administering Authority, over a maximum period of 3 years.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In determining the above objectives the Administering Authority will have regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

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

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

For all employers, any additional annual monetary lump sums in respect of any deficit (or surplus adjustments) identified by the Actuary at the valuation will be subject to annual increases in line with expected increase in the Consumer Prices Index (CPI). In order to assist with budgeting requirements for employers in the Fund, the annual increases will be set in line with the assumption for CPI inflation adopted at the valuation, as set out in Appendix 1(paragraph 2.1.5).

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the funding target. It is envisaged that this option will only be afforded to eligible employers where an increase in contributions is required (compared to the projected 2014/15 level of contribution) when adopting the maximum 22 year recovery period. This higher level of return assumed will, in particular reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, **after specific agreement has been obtained by Fund Officers from the Islington Council Pension Fund Panel**, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

With regard to costs for ill-health or voluntary early retirement, for certain employers in the Fund, allowance will be included within the certified future service contribution rate. Additionally, any "strain" costs generated on redundancy, efficiency, or flexible retirements are collected by additional capital payments in the year.

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

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES (See Appendix 3)

The results of the 2013 valuation show the liabilities to be 70% covered by the current assets, with the funding deficit of 30% being covered by future deficit contributions.

In assessing the value of the ICPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the ICPF, as set out in the SIP. http://www.islington.gov.uk/publicrecords/library/Finance/Business-planning/Procedures/2012-2013/(2012-06-18)-Statement-of-Investment-Principles-Nov-2011.pdf

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the ICPF's assets in line with the least risk portfolio would minimise fluctuations in the ICPF's ongoing funding level between successive actuarial valuations.

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

The current benchmark investment strategy has~~is~~ been ~~ing~~ reviewed alongside the 2013 actuarial valuation and investment strategy is to maintain a 75% /25% growth and matching split. ~~-~~At November 2014 the agreed target asset allocation ~~1~~ ~~it~~ is summarised as :

Asset Class (Summary)		%
	~~Total~~ Equities ~~/ Growth Assets~~	56~~0~~.0
	~~Total~~ Fixed Income/infrastructure and Social HousingMatching assets~~Corporate Bonds~~	25.0
	~~Total~~ Property	15.0
	~~Total~~ Private Equity	4~~10~~.0
	TOTAL	**100.0**

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum when setting the funding target.

During the recovery period, an overall asset out-performance assumption of up to 2.75% per annum will be allowed for in the calculation of the required deficit recovery contributions for certain employers in the ICPF. The Administering Authority believes that this is a reasonable “best estimate” allowance for asset out-performance during the recovery period based on the investment strategy as set out in the SIP and following analysis undertaken by the Actuary and the Fund’s investment advisors.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

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

What are the Risks?
Financial

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

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Insurance of certain benefits

Formatted: Indent: Left: 0.95 cm, First line: 0.05 cm, Outline numbered + Level: 1 + Numbering Style: Bullet + Aligned at: 0.95 cm + Tab after: 1.59 cm + Indent at: 1.59 cm, Tab stops: 0.95 cm, List tab + Not at 1.59 cm

Formatted: Indent: Left: 0.95 cm

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

Formatted: Indent: Left: 0.95 cm, Space After: 6 pt

Regulatory

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

Governance

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

8. MONITORING AND REVIEW

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

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

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

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

~~**Joana Marfoh**~~
~~**Head of Treasury and Pension Fund Management**~~

~~**Islington Council as administering authority for the Islington Council Pension Fund**~~

APPENDIX 1

1 ACTUARIAL VALUATION AS AT 31 MARCH 2013

2 Method and assumptions used in calculating the funding target

2.1.1 Method

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

2.1.2 Financial assumptions

2.1.2..1 Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

2.1.2..2 Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

2.1.2..3 Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption, at the discretion of the administering authority and based on evidence provided by employers, allowance has been made for short term pay restraint for certain employers of 1% per annum for 3 years. For other employers in the Fund, were warranted and at the agreement of the administering authority, allowance will be made for short-term pay restraint of 1% p.a. for 3 years followed by Inflation (CPI) for 3 years before reverting to the long-term assumption.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

2.1.3 Demographic assumptions

2.1.3..1 Mortality

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

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

Commutation

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

2.1.3..2 Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

2.1.3..3 Expenses

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

2.1.3..4 Discretionary Benefits

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

2.1.4 Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a. (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common/Primary Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

2.1.5 Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

* a short/medium pay adjustment will also be made if appropriate

2.1.5..1 Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		**Base table**	**Adjustment**	**Improvement model**	**Long term rate**
CURRENT ANNUITANTS	Normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	177% / 120%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	105% / 101%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to 2014/15 levels), an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. Therefore the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 5.95% p.a. (i.e. a return of 2.75% p.a. in excess of gilts) reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

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

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

This page is intentionally left blank