

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3<sup>rd</sup>December 2024

Ward(s): n/a

The appendix to the report is exempt and not for publication

## **SUBJECT: INTERIM FUNDING REVIEW UPDATE**

### **1. Synopsis**

- 1.1 This is an update report on the interim funding review of the Fund since the 2022 triennial actuarial valuation to September 2024. It sets out some key considerations and assumptions, which the Actuary will consider and a snapshot of the whole fund position as at 30 September 2024 (including a sensitivity to illustrate the impact of a change in discount rate) and the next steps for the 2025 Actuarial valuation.

### **2. Recommendations**

- 2.1 To note the report prepared by the Fund Actuary, Mercer attached as Exempt Appendix1.
- 2.2 To note the key developments, assumptions and results for the whole Fund and Council as at September 2024
- 2.3 To note the other considerations that will form part of the March 2025 Triennial valuation.

### 3. Background

- 3.1 The last triennial valuation was completed in March 2023 and is undertaken every 3 years to determine the funding position and investment strategy that can support sustainable contributions from employers. The next triennial valuation will take place as at 31 March 2025 (and will be completed by 31 March 2026).
- 3.2 The actuarial review covers three main elements: processing and validation of data, funding strategy review and assessment of contribution outcomes for employers (including any necessary covenant assessments).
- 3.3 The period since the 31 March 2022 valuation has seen market volatility, the Russian invasion of Ukraine, higher inflation and resulting higher interest rates as well as conflict in the Middle East. These factors will have had a significant impact on liabilities, and it is prudent for Members to review any risk mitigation factors they may consider relevant.
- 3.4 The position as at 30 June 2024 was discussed at the September meeting and the results, on a like for like assumptions as the 2022 triennial valuation, showed a fall in the funding position, and making prudent allowance for changes in the expected return outlook (and mortality) resulted in an increase to 99% of the funding position relative to that as at 31 March 2022.
- 3.5 An 18-month interim valuation has been undertaken by the Actuary at 30 September 2024 attached as exempt appendix1. This is a full reassessment of the expected return outlook / investment strategy changes and stochastic modelling of discount rates (including consideration of the impact on the balance sheet) and updated mortality trends. Ongoing discussions with officers in relation to the underlying funding strategy and affordability will continue through the triennial valuation process.
- 3.6 **Table1 - Headline position for the whole fund as at September 2024**

	<b>31<sup>st</sup> of March 2022</b>	<b>30<sup>th</sup> September 2024</b>	
	Final Valuation Position	Valuation- update past discount rate & mortality	Alternative discount rate (0.5% past)
Real discount rate - past	1.55%	2.00%	2.50%
Real discount rate - future	2.00%	2.00%	2.00%
Prudence-past/future	69%/63%	92%/(92%)	89%/92%
Life expectancy	CMI21 1.75%	CMI23 1.75%	CMI23 1.75%
Assets(£m)	1787	1982	1982

Liabilities (£m)	1866	1990	1845
Surplus/Deficit (£m)	-79	-8	137
Funding Level	96%	100%	107%
Primary Contributions	18.4%	18.6%	18.6%

- 3.7 Mercer will present the economic factors as well as demographics, affordability, political outlook and discount rates and sensitivities around these factors for a discussion to inform the valuation at 31 March 2025.
- 3.8 Members are asked to note the presentation and results and form a view on discount rates sensitivity and note other considerations such as Academies, covenants and ill-health for the valuation in March.

## 4. Implications

### 4.1 Financial implications

- 4.1.1 The cost of providing actuarial advice is part of fund management and administration fees charged to the pension fund.
- 4.1.2 The funding level of the pension fund assessed as part of a triennial actuarial valuation directly affects employer contributions. A reduced Pension Fund deficit emerging from the 2025 valuation would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed.

### 4.2 Legal Implications

No legal implications.

### 4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is [Islington Pension Fund Investment Strategy Statement](#)

### 4.4 Equalities Impact Assessment

None applicable to this report. 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

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

## **5. Conclusion and reasons for recommendation**

- 5.1 Members are asked to note the interim valuation results as per attached Exempt Appendix1.

### **Appendices : Exempt Appendix1- Interim valuation results to September 2024.**

#### **Background papers:**

None

Final report clearance:

**Signed by:** Corporate Director of Resources

Date: 25 November 2024

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

Financial implications Author: Joana Marfoh  
Legal implications –