Public Document Pack

ISLINGTON

PENSIONS BOARD

14 September 2021

SECOND DESPATCH

Please find enclosed the following item:

Item B3 Draft Pension Annual Report 2021 **1 - 28**

Enquiries to : Mary Green
Tel : Telephone: 020 7527 3005
Email : democracy@islington.gov.uk

This page is intentionally left blank

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pension Board	14th September 2021		n/a

Delete as appropriate		Non-exempt

SUBJECT: **Draft 2020/21 Summary Annual Pension Fund Report**

1. Synopsis

1.1 This report is for the local pension board to review the Fund's annual report and accounts as part of its work plan.

2. Recommendations

2.1 To note the draft 20/21 summary annual report attached as Appendix 1

2.2 To note 2020/21 pension fund statement of account, activities and performance.

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) Governance Regulations 2014 (the Governance Regulations) 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 The Pensions Sub -committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions -Sub Committee

The Pension Board should therefore be mindful;

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

The Draft 2020/21 Annual Pension Fund Report

3.4 The draft annual report is legislated to be signed off by our external auditors Grant Thornton and includes the pension fund statement of account to March 2021. A summarized copy of this report will be made available to members electronically.

3.5 The pension fund statement of accounts were produced and handed to the auditors in July. The draft accounts were reviewed by the board at their last meeting in June. The auditing is still ongoing and scheduled to be completed and presented at the Audit Committee by 30th September.

Summary Annual Report

3.6 The draft summary annual report covers the fund activities, performance, but not the statutory statement of accounts. Members are asked to comment on any matters in the draft Summary Annual Report and amendments made by officers before it is presented with the accounts for sign off by the external auditors and published by 1st December 2021.

4. Implications

4.1 **Financial Implications**

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

4.2 **Legal Implications**

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

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 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016

and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf .

4.4 **Residential 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 a policy document and therefore no specific equality implications arising from this report .

5. Conclusion and reasons for recommendation

Members are asked to review the draft summary annual report 2020/21 attached as Appendix 1 as per their agreed work plan

Background papers:

Islington pension board's terms of reference

Final report clearance:

Signed by:

Corporate Director of Resources Date 10 September 2021

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

This page is intentionally left blank

Appendix 1

London Borough of Islington Pension Fund Draft Summary Annual Report 2020/21

Contents

Foreword: Message from the Chair 3

1: Investment report 5

1.1. Fund manager performance

1.2. Long-term average returns

2: Pooling 8

3. Exercising Shareholder Voting Rights 8

4. Business plan 9

5: The local government pension scheme 10

5.1. Membership

5.2. Pension contributions

6: Democratic arrangements 14

6.1 Pensions Sub-Committee

6.2 Islington Council Local Pension Board

6.3 Activities of the Board

7: Funding of the pension scheme 17

7.1. Actuarial report

8: Summary of financial report 21

9. Statement of responsibilities 22

10. More information 23

Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2020/21 financial year.

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

After the sharp fall in global markets in the quarter to March 2020, equity returns in the main bounced back almost immediately despite the ongoing challenges of the COVID pandemic which has been larger and longer lasting than predicted. The outlook has got positive with the vaccine roll out.
The Fund returned 22.1% against a customised benchmark of 19.3% and an increase to its market value from £1.36billion to £1.66bn. The average Local Authority fund delivered an investment return of around 22.7%, driven by equities outperformance. Property was the most disappointing with an average 0.4% return.

The London CIV, our asset pooling organisation continues to grow its assets under management on Authorised Contractual Scheme (ACS). At the end of March 1 London CIV had c.54% of potential assets, £23.8bn (active and passive) across the 32 London Local Authorities (LLAs). As at the end of March 2021, 22 funds had been launched and LCIV are now also signatories to Climate Action 100+ and TCFD.

The Pensions-Sub Committee and the Pension Board continue to monitor and review Environment, Social and Governance (ESG) factors as a fundamental part of the Fund's strategy and its approach to being a long-term investor. Members completed a revision of their Investment Strategy Statement further integrating a comprehensive decarbonisation policy with targets and monitoring plan in June 2019 and set targets to 2022 and a monitoring plan.

The pensions sub-committee in June 2021 revisited it decarbonisation targets to set short to medium targets from 2022 onwards and these are the highlights:

- Net zero emission target at 2050 including aligning with 1.5 degree Celsius scenario
- Investing at least 20% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2026
- Reduce carbon emissions of all listed portfolios that is equities and credit by 49% at 2026, and 60% by 2030 with a 2016 baseline (Reduce carbon emissions of all listed portfolio i.e. equities and credit by 60% by 2030

The targets and metrics and progress made as at 31 March 2021 against the 2022 targets include:

- Reducing the equity allocation's current exposure to carbon (so reducing its carbon intensity) by more than 50%, by the end of April 2022, compared to when it was measured in June 2016.
  Progress: 45.8% reduction of carbon intensity achieved

- Reducing the equity allocation's future exposure to carbon (so reducing its investment in fossil fuel reserves) by more than 75%, by the end of April 2022, compared to when it was measured in June 2016.
  Progress: 55% reduction of its exposure to fossil fuel reserves

- Investing at least 15% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2022.
  Progress: 13.9% investment in sustainable –themed investments

- Aiming to decarbonise other asset classes, besides equities, where possible.
- Engaging with companies in which the fund invests (including collectively through the London CIV), to urge them to reduce their carbon footprint and their reliance on fossil fuels.
- The fund measures its carbon footprint and carbon emissions on an annual basis.

The Committee expects its investment managers to include information on how carbon risk is being managed within their respective portfolios as part of regular reporting for the Fund. The Committee believes in engagement with carbon intensive companies and that this will enhance returns in the long term but will divest if they believe there is a long- term risk to returns because of stranded assets.

We are actively involved in the Local Authorities Pension Fund Forum (LAPFF) which engages with individual companies and the Institutional Investors Group on Climate Change (IIGCC).

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

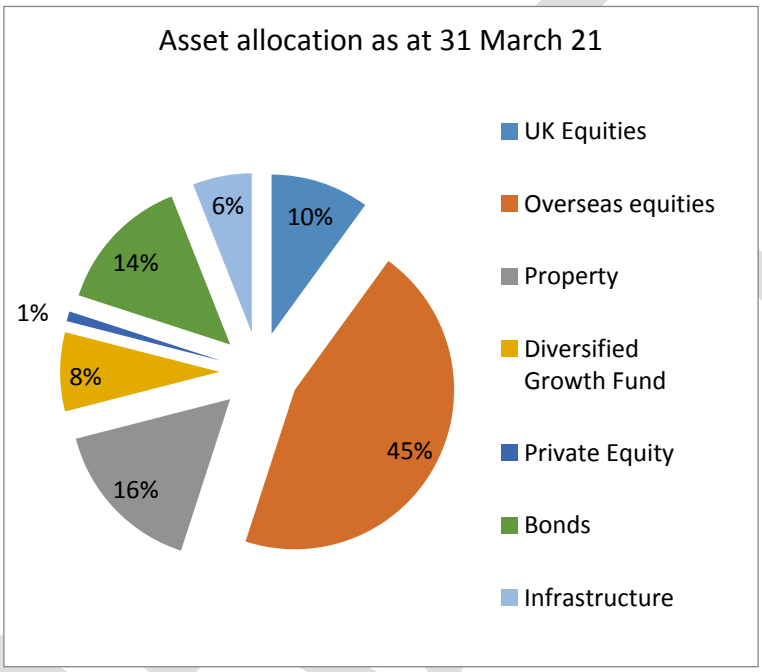
Cllr Dave Poyser

Chair of Pension Board

1: Investment report

The 2020/21 year saw our fund return of 22.1% compared to the customised benchmark of 19.3%. The average LA universe returned 22.7%. Our fund is structured differently from the average fund due to the proportionately higher exposure to property that returned 0.4% on average. Following the actuarial valuation and pandemic the strategic allocation was reviewed and amended to achieve target return of 2.2% above CPI within our risk tolerance.

During the year to 31 March 2021 the fund's asset allocation was as follows



The new agreed strategic asset allocation is as follows;

Equites	Property including social housing	Private debt	Multi asset credit	Infrastructure
50%	25%	10%	5%	10%

1.1. Fund manager performance (BNY Mellon Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12-month performance to 31 March 2021

Manager	**Mandate**	**Market value £'000**	**12-month return %**
Islington Council Treasury team	UK equities	172,855	25.7

Manager	Mandate	Market value £'000	12-month return %
London LGPS CIV RBC sub fund	Global equities	165,291	46.3
London LGPS CIV Newton sub fud	Global equities	291,510	37.3
Legal and General	Global/Emerging equities	207,277	38.2
BMO	Emerging/ Frontier equities	74,260	36.7
Standard Life	Corporate bonds	166,462	7.3
M&G(1)	Multi asset credit	75,177	n/a
Aviva	Property	131,174	6.1
Columbia Threadneedle	Property	84,104	1.7
Franklin Templeton	Property	14,899	-8.6
Hearthstone	Property	28,317	1.2
Standard Life	Private equity	13,216	-4.7
Pantheon	Private equity	3,474	-9.9
Schroders	Diversified growth fund	132,289	24.2
Pantheon	Infrastructure	32,640	0.1
Quinbrook	Infrastructure	60,487	8.5
BNY Mellon(2)	Cash deposits	8,686	n/a
Total Market Value		**1,662,118**	22.1

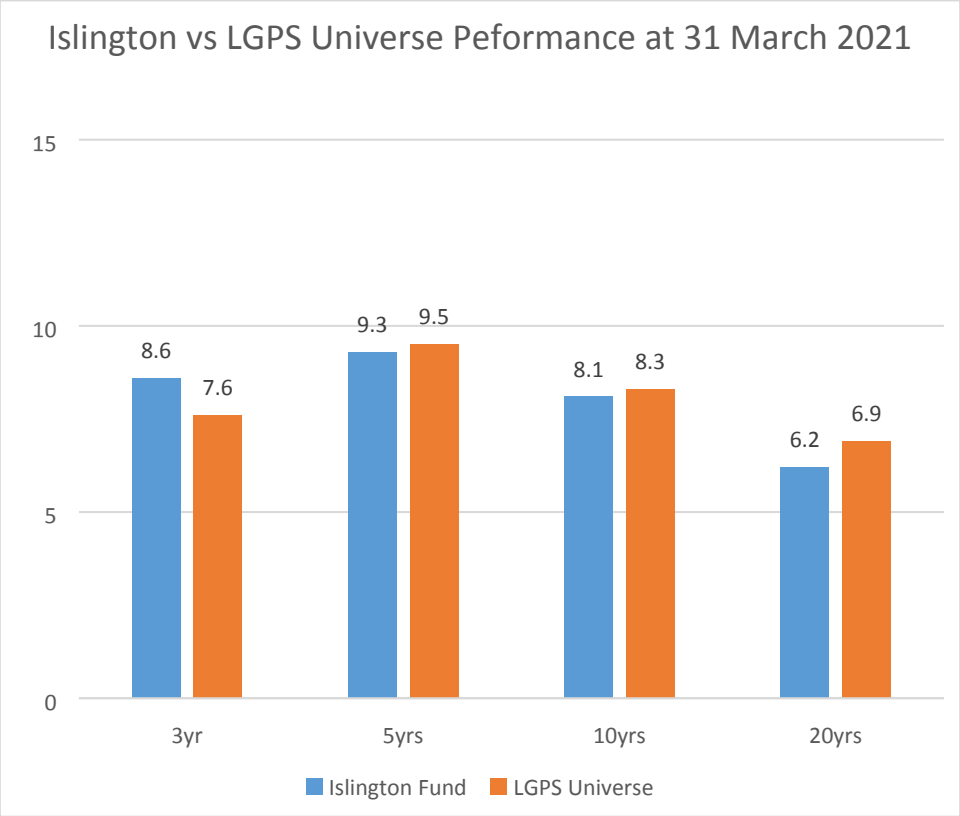
(1) M&G commenced in March 2021
(2) BNY Mellon hedge overseas equities holdings

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

Period	1years	3 years	5years
Fund return per annum %	22.1	8.6	9.3
Benchmark%	19.3	7.7	8.3

Over the 20- year period the fund has returned 6.2% per annum in absolute terms.

The Islington Council pension fund also compares itself against its peers through the league table compiled by the Local Authority Pension Performance Analytics. The graph below shows the pension fund compared to the average performance of the universe over the 3, 5, 10 and 20 year periods.



The Fund is top quartile over the latest three year period and has improved over the last five years. In the last five years the relative volatility has also reduced further while the Fund return has improved closer to average. The 20-year ranking is below average largely as a result of poor equity selection over the period.

The 10 Top Holdings in our segregated equity account are listed in the table below as at 31 March 2021.

INSTITUTION	MARKET VALUE (£'000s)
ROYAL DUTCH SHELL PLC	7,557
ASTRAZENECA PLC	6,290
HSBC HOLDINGS PLC	5,797
DIAGEO PLC	5,182
RIO TTINTO PLC	5,054
GLAXOSMITH PLC	4,290
BP	3,890
BRITISH AMERICA PLC	3,559
UNILEVER PLC	3,401
RECKITT BENCKISER GROUP PLC	3,057

It is worth noting that due to the Fund's low carbon strategy and restructuring, our total fund carbon footprint and emissions continues to decrease, and holdings in carbon intensive companies across the fund have fallen by 45%.

2: Pooling

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

Since then it has secured regulatory approval, established a team of 35 staff and by the end of March 2021, £23.8bn of LLAs assets were under LCIVs oversight.

Islington has three funds managed on the LCIV platform; two global active equities valued at £457m and global passive equities of £207m. The estimated fees saving for the year for pooling these three funds is £xxx. As more funds and asset classes become available and meet our needs, we will look to transfer more assets.

2.1 Key highlights for the Pool in 2020/21 year included the following:

- The launch of a renewable infrastructure fund with £435m commitment
- Commitment to set ambitious short and long term net zero targets before November 2021 COP 26.
- Private debt fund launch with £290m commitment
- Climate and stewardship policies have been set out
- Global alpha growth Paris aligned fund launched in April
- A further build on current stewardship and voting capabilities with Hermes EOS

3. Exercise of shareholder rights -voting

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

3.2 The table below lists the voting record by region at company annual meetings for the quarter ending 31 March 2021

	UK & British Overseas	**Europe & Global EU**	**Total**
For	317	77	394
Abstain	40	30	70
Oppose	101	7	108
Non-Voting	0	1	1
Total	458	115	573

4: Business plan

The Myners principles and compliance forms part of Islington Pension Fund's published Investment Strategy Statement. The Pensions Sub Committee agreed a four-year business plan to June'2020 in compliance with Myners Principle 1, 'Effective decision-making through a forward looking business plan'.

4.1 The key objectives of the four- year business plan, last reviewed in September 2020 are listed below along with actions taken to June 2021.

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities plus an expectation of strong business ethics from fund managers also"

Actions:

- Strategic allocation was still fit for purpose after impact of lockdown and recovery scenario testing was undertaken in 2020.
- Preferred manager was appointed to run the MAC mandate of £75m and funded in March 2021
- Reduction in fees was agreed with our global manager after mandate restructuring
- Members complied with TPR directives of reviewing agreed objectives and performance of investment consultancy service providers by December 2020

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

Actions:

- Pension board review draft statement of accounts before auditing and monitor pension's administration cashflow
- Risk register is reviewed 6monthly to include pandemic impact and improvements have been requested in the layout.
- A new improved website is almost completed, with documents accessible on line for some self-service options.

- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund, addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members

Actions:

- Work with LAPFF and IIGCC, and the LCIV continues
- Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as at March 2021.
- Net Zero carbon target to 2050 was agreed by Members in June along with new carbon reductions targets to 2026 and 2030 allocation and an increase allocation to green opportunities.
- Voting records are published
- Recent appointment of MAC had a specific criteria on ESG integration in the investment process.

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

Actions:

- Regular monitoring meeting were also arranged with emerging/frontier market manager for reassurances on strategy after changes in management.
- 1>1 meetings with managers have been held with officers and advisors to report to members
- Members agreed to recommit to global property FTRETP III in December.

- Net–zero carbon target transition training run be Mercer was provided to all pension sub cttee and board members.
- Members attend seminars and LCIV AGMs as a shareholder

♦ To develop collaboration opportunities with other funds for sharing of services and pooling

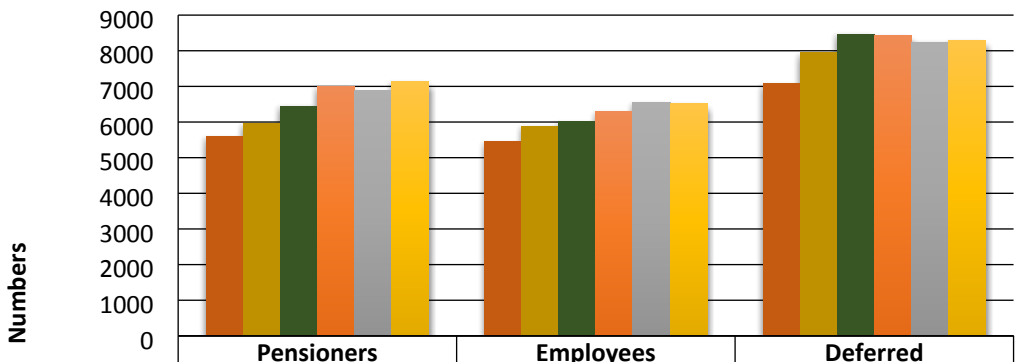
Actions:

- Officers sourced collaboration with previous LA procurement to procure Private debt due to commonality of best in class.
- Pension Chair Members' collaboration of a North London LA group meet regularly to share ideas
- Fund participates in the London CIV seed investor groups on aligned interest products

5: The local government pension scheme

5.1. Membership

The scheme membership continues to grow year on year. Deferred members and pensioners are increasing at the expense of active employees. The profile from 2012 to 2021 is shown below.



	Pensioners	Employees	Deferred
2012/13	5592	5455	7072
2014/15	5951	5888	7942
2016/17	6448	6026	8465
2018/19	6990	6284	8416
2019/20	6874	6552	8241
2020/21	7144	6524	8289

The total membership over the same period is as follows:

March 2010	16,796
March 2011	17,495
March 2012	17,690
March 2013	18,119

March 2014	19,005
March 2015	19,781
March 2016	20,387
March 2017	20,939
March 2018	21,566
March 2019	21,690
March 2020	21,667
March 2021	**21,957**

5.2 Benefits

The LGPS is referred to as a 'defined benefit' scheme.

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

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

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

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

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

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

The core benefits of the scheme are:

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

5.2.1 Pension contributions

The employee pension contribution percentage is according to the pay band applicable. For example a pension contribution of 6.5% of pay applies where annual salary is in the range £22,901.00 to £37,200.00 a year. A person on £30,000.00 a year (£2,500.00 a month) pays £162.50 a month in pension

contributions, but income tax relief is given by deducting the contribution from taxable pay so £162.50 a month costs £130.00 net if the tax rate is 20%.

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

The contribution rates that currently apply (2020/21), depending on the annual salary band, is shown below.

Contribution Rate and banding 2021/2022

Actual pensionable pay for an employment (2021/2022)	Main scheme contribution rate	50/50 section contribution rate
Up to £14,600	5.50%	2.75%
£14,601 to £22,900	5.80%	2.90%
£22,901 to £37,200	6.50%	3.25%
£37,201 to £47,100	6.80%	3.40%
£47,101 to £65,900	8.50%	4.25%
£65,901 to £93,400	9.90%	4.95%
£93,401 to £110,000	10.50%	5.25%
£110,001 to £165,000	11.40%	5.70%
£165,001 or more	12.50%	6.25%

5.2.2 Retirement age

Since April 2014 there has no longer been a standard scheme retirement age in the LGPS; instead each person has an individual Normal Pension Age (NPA) which is the date of entitlement to State Pension (with a minimum of age 65). Members can choose to retire and claim their pension from Islington Pension Fund at any time from age 55 to 75, providing that they have met the 2 year vesting period in the LGPS. If a member claims their pension before their NPA, it will normally be reduced. Members must take their pension benefits in the LGPS before their 75th birthday.

5.3 Keeping up to date

Information regarding the LGPS can be accessed by visiting the following websites:

https://islington.gov.uk/IslingtonCouncilLGPS
https://www.lgpsmember.org/

Employees who are not members of the LGPS
There are many advantages in being a member of the LGPS. 'Auto-enrolment' rules mean that employees who opt-out of the scheme are 're-enrolled' every three years. The next re-enrolment date for those who have opted-out is 1st April 2022.

5.4 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2021, in respect of the main procedures/processes.

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	172	95%	97.0%	5.5
Retirement benefits	5	278	95%	88.0%	8.0
Pension estimates	10	540	95%	80.0%	12.0
Preserved benefit calculations	15	193	95%	65.0%	23.0
Transfer-in quotation	10	122	95%	91.0%	14.0
Transfer-in actual	10	113	95%	98.0%	10.5
Transfer out quotation	15	119	95%	83.0%	17.5
Transfer out actual	12.5	108	95%	94.0%	13.5

Over the period, 82% of the 1,713 processes undertaken by the Pensions Administration team were completed within the target days.

Contacts

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

The Pension's Office, Third floor, 7 Newington Barrow Way, London N7 7EP

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

Surname range	Telephone enquiries	Email enquiries
A – DA	020 7527 2028	shahid.daudi@islington.gov.uk
DB – J	020 7527 4492	ali.sari@islington.gov.uk
K – Q	020 7527 6733	romel.senior-walcott@islington.gov.uk
R – Z	020 7527 2320	yonatan.worku@islington.gov.uk

6: Democratic arrangements

6.1 Pensions Sub-Committee

In 2020/21 the Pensions Sub-Committee were responsible for all decision making on pensions matters and stewardship of the pension fund. The Chair and Members of the sub-committee are:

Membership	**Substitutes**
Cllr Paul Convery) Chair	Cllr Mouna Hamitouche MBE
Satnam Gill OBE (Vice Chair)	Cllr David Poyser
Cllr Sue Lukes	Cllr Roulin Khondoker
Cllr Mick O'Sullivan	

Ps: Audit Committee made some new appointments to Pension Sub- Committee in June 2021
There is only one substitute: Councillor Jenny Kay
Councillor MIck Gilgunn has replaced Cllr Sue Lukes

Other Representatives:
Four trade union observers
Pensioner representative Valarie Easmon-George
Observer from Volunteering Matters (An 'admitted body')

Fund Investment Advisors:
Mercer
MJ Hudson Allenbridge

Fund Actuary:
Mercer

Fund Custodian:
BNY Mellon

Performance Monitoring:
BNY Mellon

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

Fund AVC Providers
Equitable Life, Prudential, Phoenix Life

Fund Auditors
Grant Thornton UK LLP

Bankers
Barclays Bank

6.2. Islington Council Local Pension Board

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

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

The membership of the board is as follows:

Councillor Dave Poyser	Employer representative- Chair
Maggie Elliott - Chair of Governors of the Edventure Collaborative (which is the federation of Montem and Drayton Park Primary Schools)	Employer representative-Vice Chair
George Sharkey, GMB	Member representative
Mike Calvert, Unison	Member representative
Valarie Easmon George	Retired members representative
-	Employer representative
Alan Begg	Independent member

The Board's terms of reference specify that the Board shall meet bi-annually and normally on the same date as the Pensions Sub-Committee, in order that its deliberations may be taken into account in relation to relevant items on the agenda of the Pensions Sub-Committee. Board members agreed to meet quarterly in 2019.

For the municipal year 2020/21, the Board met on 30th June 2020 15th September 2020, 8thDecember 2020 and 23rd March 2021. Members receive copies of agenda and reports of the pension sub-committee and vice versa.

6.3 Activities of the Board

(i) Members reviewed their agreed a work programme at the March 2019 meeting for progress and amendments where required. The objectives are as follows:

- To ensure accurate record keeping, data quality and improvements
- To ensure Governance Compliance Statement sets out delegation, function and structure
- To ensure Fund has the appropriate policies in place to safeguard the Fund's assets through appropriate methods of risk management
- To ensure members have the necessary skills knowledge and understanding
- The General Data Protection Regulation (GDRP is upheld
- To ensure the effective and efficient governance and administration of the Scheme
- That the Pension board are able to make recommendations on Statutory and non-statutory policies and strategies
- Self-Assessment review of the effectiveness of the Board

(i) Auto enrolment data is reviewed quarterly and have worked with officers to encourage opt ins and highlight scheme benefits

(ii) Risk register is reviewed 6monthly to include pandemic impact and improvements have been requested in the layout

(iii) Pension board have an agreed work plan and forward plan to decide committee agenda

(iv) McCloud implementation process was discussed by the board and resource engagement is now agreed to carry this forward and a workplan is to be agreed at a future meeting

(v) Attended joint training with Pension Subs-Committee members on Net Zero Carbon target

(vi) They also reviewed the draft pension statement of accounts for 2020/21

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

http://democracy.islington.gov.uk

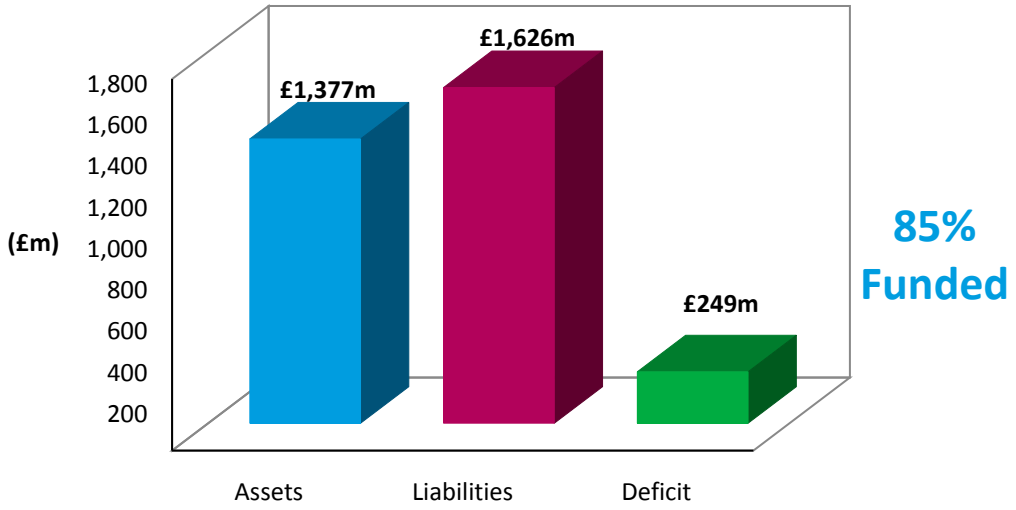
7. Funding of the pension scheme

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,377 million represented 85% of the Fund's past service liabilities of £1,626 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £249 million.



The valuation also showed that a Primary contribution rate of 16.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 19 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £5.5m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this is predominantly paid in year one with surplus off-sets applying in the subsequent two years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities

arising from early retirements (including ill-health retirements for certain employers) will be made to the Fund by the employers.

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

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

	For past service liabilities (Solvency Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.2% per annum	4.65% per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.
The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £6 million and an increase in the Primary Contribution rate of 0.6% of Pensionable Pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate of £5.5 million per annum shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. Since then, we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but the Administering Authority is considering

updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. There is flexibility within the Rates and Adjustments certificate for employers to opt to make additional contributions, for example where it is cost effective to do so or to support reduced risk. The position will kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.
The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a. at the prior year end). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. at the prior year end to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £2,241 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£53 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£13 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £308 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £2,615 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards**.** This will give rise to a further cost to the LGPS and its employers, and an estimation of this

cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman

Fellow of the Institute and

Faculty of Actuaries

Michelle Doman

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

June 2021

8: Summary of financial report

8.1 Income and expenditure for 2020/21

- An increase in net assets of £304million (22.3%) to £1,663million due to an increase in market value of assets especially equities after initial COVID-19 market falls.

- Employees' contributions totalled £13.5million compared to 12.9million in 2019/20

  Employers' contributions amounted to £57.1million compared to the £38.7 million in the previous year this was mainly due to the Council paying its 3-year past year's deficit contribution upfront in April 2020 instead of spreading it over 3years to 22/23

- Other Income comprised of transfers from other pension fund and recharges amounted to £8.1 million compared to £6.2 million in 2018/19

- Pensions paid totalled £50.4 million compared to £50.2million in 2019/20. The increase was low because the annual pension increase was 0.5%.

As at 31 March 2021, £78.1million income (excluding investment income) was received against an expenditure of £70.5 million. The other drivers apart from pension payments were retirement lump sums and transfer in. This means that the fund was able to meet all its commitments from contributions only and did not dip into investment income during the year.

The detailed reporting of the pension fund accounts for 2021/21 forms part of the council's annual statement of accounts which include the statement of responsibilities and covers all the council services. This can be found at www.islington.gov.uk/accounts.

9: Statement of Responsibilities

Accounts are yet to be signed off by S151 officer and Audit committee.

10: More information and comments

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

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

Email: pensions@islington.gov.uk

Telephone: 020 7527 2382

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

This page is intentionally left blank