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ISLINGTON

Resources Department
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS BOARD

Members of the Pensions Board are summoned to attend a meeting which will be held in Committee Room 4, Islington Town Hall, Upper Street, N1 2UD on **17 June 2019 at 6.00pm.**

Enquiries to	:	Mary Green
Telephone	:	(020) 7527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	5 June 2019

Membership 2019/20

Employer representatives:
Maggie Elliott (Vice-Chair)
Councillor Paul Smith (Chair)
(vacancy)

Scheme member representatives:
Mike Calvert
Valerie Easmon-George(+ vacancy for substitute)
George Sharkey

Independent member
Alan Begg

Quorum is 3, including at least one employer representative and one member representative

A. Formal matters

1. Apologies for absence

2. 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.

B. Non-exempt items

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

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 Board will be on 10 September 2019

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London Borough of Islington

Pensions Board - 25 March 2019

Minutes of the meeting of the Pensions Board held at Islington Town Hall, Upper Street, N1 2UD on 25 March 2019 at 6.00 pm.

Present:		Mike Calvert, Marion Oliver and Paul Smith (Chair)
Also Present:	**Councillor:**	Dave Poyser
	Observers:	Alan Begg and Valerie Easmon-George – prospective members of the Pension Board

Councillor Paul Smith in the Chair

58 APOLOGIES FOR ABSENCE (Item A1)
Received from Maggie Elliott.

59 DECLARATION OF INTERESTS (Item A2)
None.

60 MINUTES OF THE PREVIOUS MEETING (Item A3)

RESOLVED:
That the minutes of the meeting held on 26 November 2018 be confirmed as a correct record and the Chair be authorised to sign them.

61 PENSION ADMINISTRATION PERFORMANCE (Item B1)
The Deputy Pensions Manager reported that the upcoming valuation of the Pension Fund would involve intensive staff and time resources. The Pension Team's aim was to complete the valuation by mid-July 2019. Work on the valuation would take priority and it was likely that regular operations would take a secondary seat during that time.

Following discussion on the importance of the availability of information on death and funeral benefits to pension members, it was agreed that this information needed to be available on line and on annual pension statements.

RESOLVED:
(a) That the performance of the Pension Administration Team against key indicators, for the period from 1 November 2018 to 28 February 2019, including information on complaints and internal disputes, as detailed in the report of the Interim Corporate Director of Resources, be noted.
(b) That the number of members auto-enrolled into the Local Government Pension scheme from November 2018 to February 2019, as detailed in paragraph 3.4 of the report, be noted.
(c) That information on Pension Fund members' entitlement to death and funeral benefits be made available on line and included on annual pension statements.

62 PENSION AUTO-ENROLMENT - APRIL 2019 (Item B2)

RESOLVED:
That it be noted that:
- Islington Council's auto-enrolment date was 1 April 2019

- All qualifying employees who had been assessed and were currently non-contributors to the Local Government Pension Scheme (LGPS) had been written to and advised of the requirements and benefits of auto-enrolment into the Scheme
- Information regarding auto-enrolment and the 50/50 section of the LGPS 2014 had been published on the Council's internal website page, which signposted users to a dedicated web page where more information was provided on auto-enrolment
- The auto-enrolment process would be actively promoted from the middle of March to the end of May 2019 to ensure that all employees had a clear understanding of the process and the reasons why the Council had taken the actions it had
- All staff in the Pensions Team and the Council's HR Business Partners had been briefed on auto-enrolment in order to assist with enquiries
- The Pension Team aimed to complete its declaration of compliance in relation to auto-enrolment with the Pensions Regulator by 30 April 2019.

63 **MHCLG CONSULTATION ON FAIR DEAL (Item B3)**

The Board noted that the proposals in the consultation document from the Ministry of Housing, Communities and Local Government applied to organisations providing a service to the authority. It was thought unlikely that there would be any loss to pensioners or employees and the proposals in the consultation document highlighted potentially provided better pension protection for employees.

RESOLVED:
(a) That the consultation policy document from the Ministry of Housing, Communities and Local Government on "Local Government Pension Scheme: Fair Deal – Strengthening pension protection", attached as Appendix 1 to the report of the Interim Corporate Director of Resources, be noted.
(b) That Mercers' overview of the New Fair Deal consultation and their comments on the proposals, detailed in paragraph 3.2.1 of the report, be noted as Islington Pension Fund's response to the consultation.

64 **PENSIONS BOARD FORWARD PLAN (Item B4)**

RESOLVED:
(a) That the objectives and draft business plan for the Pensions Board, detailed in Appendices A and B respectively of the report of the Interim Corporate Director of Resources, be approved, subject to the following amendment:

- "Members' training" to be added as a new objective after objective three on Appendix B

(b) That the objectives on the draft work programme be aligned to the dates of Board meetings in 2019/20 in Appendix A to the report and that the Head of Pension Fund and Treasury Management forward a copy of the final draft of the work programme to members of the Board for review when it becomes available.

The meeting ended at 6.45 pm

CHAIR

ISLINGTON

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

Report of: Director of Financial Management and S151 Officer

Meeting of	**Date**	**Agenda Item**	**Ward(s)**
Pensions Board/ Pensions Sub-Committee	17 June 2019		n/a

Delete as appropriate		**Non-exempt**

Subject: MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF PENSIONS SUB-COMMITTEE AND THE PENSIONS BOARD in 2019/20

1. Synopsis

To inform members of the remit and administrative arrangements for the Pensions Sub-Committee and the Pensions Board for the municipal year 2019 - 2020.

2. Recommendations

2.1 To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the municipal year 2019/20, as set out at Appendix A.

2.2 To note the membership of the Pensions Board, appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the municipal year 2019/20, as set out at Appendix A.

3. Background

3.1 The terms of reference of the Pensions Sub-Committee (as contained in Part 5 of the Council's Constitution) are set out at Appendix A. The quorum of the Sub-Committee is two Councillors.

3.2 The terms of reference of the Pensions Board are also detailed in Appendix A. The quorum for meetings of the Board is three, including at least one employer representative and one member representative

3.2 The membership and dates of meetings in 2019/20 are also set out at Appendix A for information.

4. Implications

4.1 Financial Implications

None.

4.2 Legal Implications

None.

4.3 Resident impact assessment

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.

A resident impact assessment has not been carried out since this report relates solely to the administrative arrangements for the Committee and will not impact upon residents.

4.4 Environmental Implications

Papers are circulated electronically where possible and consideration is given to how many copies of the agenda might be required on a meeting by meeting basis with a view to minimising numbers. Any agenda not used at the meeting are recycled.

5. Conclusion and reasons for recommendation

The report is submitted to inform members of the remit of the Committee.

Background papers:
None.

Final Report Clearance

Signed by

3.6.2019

Director of Financial Management and S151 Officer Date

Report author Mary Green
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E-mail mary.green@islington.gov.uk

APPENDIX A

1. PENSIONS SUB-COMMITTEE MEMBERSHIP 2019/20

Members	**Substitutes**
Councillor David Poyser (Chair)	Councillor Mouna Hamitouche MBE
Councillor Paul Convery	Councillor Roulin Khondoker
Councillor Andy Hull	Councillor Michael O'Sullivan
Councillor Sue Lukes	

2. MEETING DATES

PENSIONS BOARD MEETS AT 6.00PM AND PENSIONS SUB-COMMITTEE MEETS AT 7.30PM ON THE FOLLOWING DATES:

17 June 2019
10 September 2019
3 December 2019
24 March 2020
15 June 2020

The AGM will take place on 7 October 2019 at 1.00pm

3. TERMS OF REFERENCE OF THE PENSIONS SUB-COMMITTEE

Terms of Reference

1. To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements.

2. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.

3. To establish a strategy for disposition of the pension investment portfolio.

4. To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.

5. To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).

6. To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.

7. The Chair of the Pensions Sub-Committee will represent Islington Council at shareholder meetings of the London Collective Investment Vehicle (London LGPS CIV Limited). In the absence of the Chair a deputy may attend.

PENSIONS BOARD MEMBERSHIP 2019-2020

Employer representatives:
Maggie Elliott (Vice-Chair) (for a three year term from 3 June 2019)
Councillor Paul Smith (Chair)
(vacancy)

Scheme member representatives:
Mike Calvert (for a three year term from 3 June 2019)
Valerie Easmon-George (for a four year term, from 3 June 2019) (+ vacancy for substitute)
George Sharkey (for a four year term, with effect from 26 May 2017)

Independent member
Alan Begg (for a four year term, from 3 June 2019)

3.1 **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, with the exception of the member of the Board who is appointed to represent pensioner members of the LGPS

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.

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ISLINGTON

Resources Department
7 Newington Barrow Way
London, N7 7EP

Report of: Corporate Director of Resources

Meeting of	Date	Agenda Item	Ward(s)
Pension Board	17 June 2019		

Delete as appropriate		Non-exempt

SUBJECT: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1 This report provides the Board with information on the administration activities of the Pension Administration section of the Resources Department. The information is in respect of the period from 1 March 2019 to 30 April 2019.

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

1.3 There is information provided on the number of Local Government Pension Scheme members auto-enrolled into the scheme, for each month from February to April 2019.

1.4 Prudential Investment AVC Option Change.

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, and compliments & complaints.

2.3 To note the number of members' auto-enrolled into the Local Government Pension Scheme during the relevant period.

2.4 To note that Prudential has closed a number of AVC funds which effect 11 of our members. Advice has been requested from the Council's actuaries in relation to the new funds on offer which will be communicated to our members.

3. Background – Statistics and key performance indicators

3.1 The membership profile at 28 February 2019 and 30 April 2019 is shown in the following table.

Category	Feb - 19	Apr - 19
Number of current active members	6,284	6,294
Number of preserved benefits	7,157	7,463
Number of Pensions in payment	5,985	6,045
Number of Spouses/dependants pensions in payment	1,078	1,090
Total	20,504	20,892

3.2. Key performance indicators from 1 March 2019 to 30 April 2019:

Process	**Target days to complete**	**Volume**	**Target % Achieve-ment**	**% Achieved within target days**	**Actual average days**
Deaths	5	11	95%	100.00%	4.45
Retirement benefits	5	27	95%	96.30%	4.00
Pension estimates	10	43	95%	81.40%	14.57
Preserved benefit calculations	15	20	95%	95.00%	13.20
Transfer-in quotation	10	2	95%	100.00%	2.30
Transfer-in actual	10	0	95%	00.00%	0.00
Transfer out actual	12.5	9	95%	88.89%	8.50
Transfer out quotation	15	3	95%	100.00%	4.82
All processes	-	214	-	90.86%	-

3.3 The overall performance shows a slight dip on the 94.35% for the previous period to 28 February 2019. This will continue whilst we concentrate resources on preparation for the Pension Fund Valuation and the Annual Pension Benefit statement production.

3.4 Number of members auto-enrolled into the LGPS from February to April 2019:
:

Month	**No. of new entrants**
February 2019	*42*
March 2019	*30*
April 2019	*50*
Total	

3.5 Since the March 2019 meeting of the board 4 communications have been received thanking Pension Administration staff for their service.

3.6. There have been no complaints during the period.

3.7 There are no Internal Disputes to report.

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 Resident 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, a Resident 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 will be made to each meeting of the Pension Board and is provided in order to assess administration performance.

Background papers:

None,

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Finance**

Meeting of:	Date	Agenda item	Ward(s)
Local Pensions Board	17 June 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: LGPS Consultation: Changes to the Valuation Cycle and Management of Employer Risk

1. Synopsis

1.1 To consider the government's consultation policy document to seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales covering the following areas.:
(i) Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
(ii) A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
(iii) Proposals for flexibility on exit payments
(iv) Proposals for further policy changes to exit credits
(v). Proposals for policy changes to employers required to offer LGPS membership

2. Recommendation

2.1 To note the consultation policy document attached as Appendix 1

2.2 Consider the proposals being consulted on as summarised in para 3.1.1

2.3 To consider the questions in paragraph 3.1.2 and discuss responses to be submitted to MHCLG by the deadline of 31st July 2019.

3. Background

3.1 The Ministry of Housing, Communities and Local Government (MHCLG) issued this policy document proposal on 8th May for consultation to all stakeholders with a deadline of 31st July

2019. It covers matters relating to Local Government Pension Scheme 2013 in England and Wales

3.1.1 **The summary key proposals in the consultation are as follows:**

- to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. The MHCLG's preferred option for transitioning into this is to allow the 2019 valuation to complete as anticipated (with an output of three years' contribution requirements), and then have an out-of-cycle valuation performed in 2022 (with an output of two years' contribution requirements).
- the introduction of a power for LGPS funds to undertake interim valuations (in full or in part).
- the widening of the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- allowing an exit payment calculated on a full buy-out basis to be recovered over a period of time for cases where 'deferred employer' status might not be appropriate.
- a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.
- a removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

3.1.2 **The summary of consultation questions are listed:**

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

3.2 Members are asked to consider the full consultation document attached as Appendix 1 and discuss their views and responses to the questions listed in paragraph 3.1.2 for submission to MHCLH by the deadline of 31st July 2019.

4. Implications

4.1 Financial implications

None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 Legal Implications

None applicable to this report.

4.3 Environmental Implications

None applicable to this report. .

4.4 Resident Impact Assessment:

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."

4.4.1 An equalities impact assessment has not been conducted because this report is seeking. opinions on a government policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider the questions and agree responses to be submitted to MHCLG by the deadline of 31st July 2019

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Finance Date

Received by:

Head of Democratic Services Date

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Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

May 2019
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
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2 Marsham Street
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For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

May 2019

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covers the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result. Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme. Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.

	When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle[1], and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.

- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended[2] to allow the payment of 'exit credits' to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016[3]. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS's funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019**.

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[2] S.I. 2018/493

[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

Changes to the Local Government Pension Scheme (LGPS) valuation cycle

1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes[4].

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

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[4] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Dealing with changes in circumstances between valuations

2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations[5]. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

[5] https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement[6] requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

[6] Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Flexibility on exit payments

3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis[7] on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers[8] in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

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[7] Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

[8] Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)[9]:

> *"(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—*
>
> *(a) the contribution at the primary rate should be adjusted; or*
>
> *(b) any prior secondary rate adjustment should be increased or reduced,*
>
> *with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable."*

[9] In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?

3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector[10] defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become “deferred employers”. A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a ‘relevant event’ (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

[10] These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;

2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;

3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Exit credits under the LGPS Regulations 2013

4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes[11] to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016[12], as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

[11] S.I. 2018/493
[12] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS[13]. Use of the deemed employer approach,

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[13] https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Employers required to offer LGPS membership

5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.

- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.

- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation 'Insolvency regime for further education and sixth form colleges', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a "funded scheme". This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

Public sector equality duty

6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

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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	17 June 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: **Draft 2018/19 Pension Fund Statement of Accounts**

1. Synopsis

1.1 This report is for the local pension board to review the Funds 2018/19 statement of accounts as part of its work programme objective to make recommendations on statutory and non-statutory policies and strategies

2. Recommendation

2.1 To review the draft pension funds accounts attached as Appendix 1 before it is audited by our external auditors Grant Thornton

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 The Local Government Pension Scheme (Amendment) Governance Regulations 2015 (the Governance Regulations) provide that Pensions Board 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 2018/19 Pension Fund Statement of Accounts

3.4 The draft pension fund accounts are being finalised and working papers compiled to be handed to the auditors in June for the auditing to be completed and Audit Committee approval before the statutory deadline of 31st July. The main highlights include:

- An increase in net assets of 5.3% to £1,377million

- Employees' contributions totalled £12.1million compared to 11.9million in 2017/18

- Employers' contributions amounted to £34.8 million compared to the £33.3 million in the previous year.

- Pensions paid totalled £47.3 million compared to £44.6million in 2017/18, a rise of 6.1%. The increase was driven by annual pension increase of 3%

- As at 31 March 2019, the total income into the fund was £69.6million against an expenditure of £66.6 million. The other drivers apart from pension payments were retirement lump sums and transfer outs. This means that the fund was able to meet all its commitments from contributions and investment income.

3.5 Members should also note that the pension fund annual report will be on the September agenda for comments before the Pension AGM in October.

3.6 Members are asked to review the draft statement of accounts and amendments made by officers before sign off by our external auditors.

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 council is required to prepare a pension fund statement of accounts in respect of each financial year. That statement forms part of the council's overall statement of accounts which must be approved by the council's Audit Committee by 31 July. The role of the Pension Board is to review the draft statement and provide any comments thereon to the council.

4.3 Environmental Implications

None applicable to this report. Environmental implications will be included in each report to the board as necessary.

4.4 **Resident 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

5. Conclusion and reasons for recommendation

5.1 Members are asked to note and review draft 2018/19 statement of accounts as per their agreed work plan

Background papers:
None.

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

Report Author: Joana Marfoh
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Pension Fund

Explanatory Foreword

The principal purpose of the Islington Council Pension Fund is to provide pensions for its employees (other than teachers who have their own national fund) under the Local Government Pension Scheme.

The Pension Fund is a defined benefit scheme built up from contributions paid by both employees and the council, together with interest and dividends received from the Fund's investments; out of which pensions and other benefits are paid. Employees' contributions to the Fund and the extent of benefits paid out are fixed by Government Regulations. An independent actuary assesses the council's contribution rate every three years. The Local Government Pension Scheme is operated under regulations made under Sections 7 and 12 of the Local Government Superannuation Act 1972. The Local Government Pension Scheme Regulations 2016 (as amended ("the 2016 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Saving and Amendment) Regulations 2014 ("2014 Transitional Regulations") (collectively; "the Regulations" provide the statutory framework from which the administering Authority is required to cover contributions, valuation of the Fund and benefits. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2018/19 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the provisions of Chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes.

The Council has delegated the investment arrangements of the scheme to the Pensions Sub-Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment policy lies with it. The Committee is made up of four elected members of the council who each have voting rights, and four observers, representing members of the fund, who do not have voting rights. The Committee reports to the Audit Committee and has fully delegated authority to make investment decisions. The Committee obtains and considers advice from the Corporate Director of Resources, as necessary from the Pension Fund's appointed actuary (including specific investment advice), investment managers and investment advisers.

The investment portfolio is managed by investment managers. The fund has two private equity fund managers Pantheon Ventures (total commitment £28.2million) and Standard Life (total commitment £48.1 million). The fund ~~also~~ has one fund of funds private global property manager, Franklin Templeton Fund 1 and Fund II (total commitment £50 million). The fund also has two Infrastructure managers, Quinbrook Infrastructure Partners (total commitment £52million and Pantheon Access - £78million. The fund managers have discretion to buy and sell investments within the constraints set by the Pensions Sub-Committee.

"The Investment Strategy Statement, Funding Strategy Statement and Governance Policy Statement, for the Fund are available on the council's website:

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

Power is given in The Local Government Pension Scheme Regulations 2016 (as amended) ("the 2016 Regulations" and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 to admit employees of other organisations to the London Borough of Islington Pension Fund.

Lists of the scheduled and admitted bodies to the fund are detailed below:

Organisation	Employer
Islington Council	Administering Authority
St Mary Magdalene Academy	Scheduled Body
City of London Academy, Islington	Scheduled Body
The New North Academy	Scheduled Body

William Tyndale Primary School	Scheduled Body
St Mary Magdalene Academy: the Courtyard	Scheduled Body
Tech City College (formerly Stem 6th)	Scheduled Body
Elliot Foundation	Scheduled Body
The Family School	Scheduled Body
The Bridge School	Scheduled Body
City of London Academy, Highbury Grove	Scheduled Body
City of London Academy, Highgate Hill	Scheduled Body
The Bridge Satellite Provision	Scheduled Body
The Bridge Integrated Learning Space	Scheduled Body
City of London Primary Academy, Islington	Scheduled Body
Clerkenwell Parochial CofE Primary School	Scheduled Body
Hungerford Primary School	Scheduled Body

Volunteering Matters (formerly CSV)	Admitted Body
Camden & Islington NHS Foundation Trust	Admitted Body
Braithwaite	Admitted Body
Pleydell	Admitted Body
NCP Services (Islington South)	Admitted Body
SSE Contraction Ltd (Islington Lighting)	Admitted Body
Brunswick	Admitted Body
Southern Housing Group	Admitted Body
Caterlink	Admitted Body
Engie Services Ltd(Cofely Workplace Ltd)	Admitted Body
RM Education	Admitted Body
Breyer Group	Admitted Body
Mears Ltd	Admitted Body
Greenwich Leisure Ltd	Admitted Body
W J Catering	Admitted Body
Isledon Arts CIC	Admitted Body
Pabulum	Admitted Body
Bouyges ES FM UK Ltd.	Admitted Body

There are also fourteen other admitted bodies that do not currently have any active members. These are:

London Property Maintenance

FSST

St Lukes

Association of London Authorities (ALA)

Family Services Unit (FSU)

Redbrick

Cushman & Wakefield

Kier Islington

Mouchel Parkman

Cambridge Education Associates (CEA)

Notting Hill Housing Trust

Aquaterra

Kier Support Services

Circle Anglia

Accounting Policies

The accounts have been prepared in accordance with the provisions of Chapter 2 of Recommended Accounting Practice of the Pension SORP May 2007 and the 2017/18 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is IFRS compliant. The financial statements have been prepared on an accruals basis except for transfers to and from the scheme which are accounted for on a cash basis.

The principal accounting policies of the scheme are as follows:

1. Investments

Investment values are at bid price.

Listed investments are shown in the Pension Fund accounts at market value, determined by Stock Exchange prices at the net asset statement date.

Fixed interest securities are stated at their bid price. The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income.

Current market value of equities is based on bid price as provided by fund managers.

Index linked securities are valued at bid price.

Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads or single price where there are no bid/offer spreads as provided by the investment manager.

Managed funds and Unit trusts are valued at the price quoted by their respective managers on the last trading day of the year, which is determined by the market value of the underlying investments.

Private equity is priced on the latest audited valuation plus any drawdowns and distributions to the 31 March 2019.

Property is valued on the unit price as quoted by the fund manager.

Derivatives are stated at market value.

Corporate bonds are managed in a pooled fund valued at a single swinging price.

Acquisition costs of assets are included within the historic cost of the assets.

2. Investment Income

Investment income (e.g. dividends and interest on Government Stocks) is accounted for on an accruals basis.

Investment income is taken into account where dividends have been declared at the end of the financial year.

Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line in the face of the account.

3. Foreign Currencies

Foreign income has been translated into sterling at the date of the transaction. Foreign income due at the year-end has been translated into sterling at the rate ruling as at 31 March 2019.

4. Contributions

Normal contributions, both from employees and employers, are accounted for in the payroll month to which they relate at values specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

5. Benefits Payable

Benefits payable and refund of contributions are brought into the accounts on the basis of valid claims approved during the year. Under the rules of the Fund, retirees receive a lump sum retirement grant in respect of any membership up to 31 March 2009, in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose regarding the type or amount of benefit, then these lump sums are accounted for on an accruals basis from the date that the option is exercised. Other benefits are accounted for on the date the member leaves the Fund or on death.

6. Transfers

Transfer values are those sums paid by, or received from, other pension schemes and included in the accounts on the basis of the date paid for transfers to or from other Local Government schemes.

7. Expenses

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

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

Administrative expenses

All administrative expenses are accounted for on an accrual basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, central establishment, computer recharges, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

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

Investment management expenses

All investment management expenses are accounted for an accrual basis.

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

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

8. Stock Lending

The fund does not participate in stock lending.

9. Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) paid by scheme members are not included within the accounts as these are managed independently of the fund by specialist AVC fund providers. This is in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016. Total contribution paid by members during 2018/19 amounted to £207k and the value of the fund as at 31 March 2019 was £1.5m.

10. Actuarial Position

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Fund Account

2017/18 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2018/19 £'000	Note
	Contributions receivable		
33,327	Employer contributions	34,849	2a
11,883	Members contributions	12,127	2
4,156	Transfers in from other pension funds	3,631	3
2,662	Other Income	2,573	4
52,028	**Total Income**	**53,180**	
	Benefits payable		
(44,632)	Pensions	(47,273)	5
(6,551)	Lump sum benefits	(8,967)	
(5,714)	Payment to and on account of leavers	(7,467)	6
(56,897)	**Total Expenditure**	**(63,707)**	
(2,698)	**Management Expenses**	**(2,937)**	**7**
(7,567)	**Net additions/ (withdrawals) from dealing with members**	**(13,464)**	

	Returns on investments		
14,347	Investment income	16,393	8
45,755	Change in market value (realised & unrealised)	66,386	
60,102	**Total Returns on investments**	**82,779**	

	Net return on investments		
52,535	Net increase/decrease in fund in year	69,315	
1,254,886	**Opening net assets of the scheme**	**1,307,421**	
1,307,421	**Closing net assets of the scheme**	**1,376,736**	

Net Assets Statement

2017/18 £'000	Net Assets Statement for the year ended 31 March 2018	2018/19 £'000	Note
	Investments		
1,319,901	Investment assets	1,364,616	9
14,084	Other Investment and Cash	22,263	9
1,333,985	**Total Investments**	**1,386,879**	
	Current Assets and Liabilities		
5,176	Current assets	3,545	10
(31,740)	Current liabilities	(13,688)	11
1,307,421	**Net assets of the scheme at 31 March**	**1,376,736**	

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Notes to the Pensions Account

1. Basis of Preparation

The statement of accounts summarises the fund's transactions for the 2018/19 financial year and its positions as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in Note 15 of these accounts.

2. Contributions Receivable

a) Employers' Contributions

The following table sets out an analysis of the contributions made by the council and its admitted bodies.

Contributions receivable - Employers' contributions	Normal Contributions		Special Contributions		Strain Recovery*	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	30,011	31,877	-	-	1,385	702
Scheduled Bodies						
St Mary Magdalene Academy	203	199	-	-	-	-
City of London Academy	134	154	-	-	-	-
New North Community School	85	97	-	-	-	-
William Tyndale School	91	104	-	-	-	-
The Courtyard School	15	19	-	-	-	-
Tech City (Stem 6th form Academy)	11	14	-	-	-	-
Elliot Foundation	85	105	-	-	-	-
The Bridge Integrated Learning Space	21	39	-	-	-	-
Family School Academy	14	16	-	-	-	-
The Bridge School	428	454	-	-	-	-
City of London Academy Highbury Grove	49	283	-	-	-	-
City of London Academy, Highgate Hill	45	61	-	-	-	-
The Bridge Satellite Provision	5	15	-	-	-	-
City of London Primary Academy, Islington	14	9	-	-	-	-
Clerkenwell Parochial Academy	22	77	-	-	-	-
Hungerford School		108				
Admitted bodies						
Volunteering Matters(CSV)	149	154	-	-	-	-
Camden & Islington NHS Foundation Trust	77	81	-	-	-	-
Braithwaite	5	5	-	-	-	-
Pleydell	16	15	-	-	-	-
NCP Services (Islington South)	-	-	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	12	12	-	-	-	-
Brunswick	18	17	-	-	-	-
Southern Housing Group	4	8	-	-	-	-

Caterlink	154	157	-	-	-	-
Engie Services Ltd(Cofely Workplace Ltd)	133	108	-	-	-	-
R M Education	6	(205)	-	-	-	-
Breyer Group	5	5	-	-	-	-
Mears Ltd	29	31	-	-	-	-
Greenwich Leisure Ltd	82	77	-	-	-	-
WJ Catering	2	2	-	-	-	-
Isledon Arts CIC	8	8	-	-	-	6
Pabulum	9	3	-	-	-	-
Alliance In Partnership		21				
Bouyges ES FM UK Ltd.		14				
Totals	31,942	34,142	0	0	1,385	707

*Note 15 provides further information regarding "Strain Recovery"

b) Members' Contributions

The following table sets out an analysis of the contributions made by employees of the council and its admitted bodies.

Contributions receivable - Members contributions	**Normal Contributions (inc Added Years Contributions)**	
	2017/18	**2018/19**
	£'000	*£'000*
Administering Authority		
Islington Council	11,148	11,245
Scheduled Bodies		
St Mary Magdalene	104	99
City of London Academy	65	71
New North Community School	33	35
William Tyndale School	26	30
The Courtyard School	10	13
Tech City (Stem 6th form Academy)	10	10
Elliot Foundation	97	106
The Bridge Integrated Learning Space	12	146
Family School Academy	6	23
The Bridge School	127	7
City of London Academy Highbury Grove	16	70
City of London Academy, Highgate Hill	16	30
The Bridge Satellite Provision	3	7
City of London Primary Academy, Islington	5	9
Clerkenwell Parochial academy	7	15
Hungerford School		27
Admitted bodies		
Volunteering Matters (CSV)	-	0
Camden & Islington NHS Foundation Trust	12	11
Braithwaite	2	2
Pleydell	6	6
NCP Services (Islington South)	9	8
SSE Contracting Ltd (Islington Lighting)	3	4
Brunswick	6	5
Southern Housing Group	5	2
Caterlink	52	50
Engie Ltd (Cofely Workplace Ltd)	48	36

R M Education	3	1
Breyer Group	3	2
Mears Ltd	9	9
Greenwich Leisure Ltd	34	30
WJ Catering	1	1
Isledon Arts CIC	3	3
Pabulum	2	1
Alliance In Partnership		9
Bouyges ES FM UK Ltd.		4
Totals	**11,883**	**12,127**

3. Transfers in

2017/18 £'000	Transfers in	2018/19 £'000
-	Group transfers in from other schemes	-
4,156	Individual transfers in from other schemes	3,631
4,156	**Total transfers in**	**3,631**

4. Other Income

2017/18 £'000	Other Income	2018/19 £'000
-	Income from Other Investments	-
-	Interest	-
2,662	Other	2,573
2,662	**Total other income**	**2,573**

5. Benefits

The following table sets out an analysis of the benefits paid to former employees of this council and the admitted bodies.

Benefits Payable	Pensions		Lump sum benefits		Lump sum death	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	41,499	43,897	5,114	6,869	1,337	1,486
Scheduled Bodies						
St Mary Magdalene Academy	23	25	14	-	-	-
City of London Academy	29	40	-	27	-	93
New North Community School	9	9	-	-	-	-
William Tyndale School	19	20	-	-	-	-
The Courtyard	3	5	7	-	-	-
Tech City (Stem 6th form Academy)	-	1		8		-
Elliot Foundation	-	0		-		-
Admitted bodies						
Volunteering Matters (CSV)	1,099	1,239	54	252	-	24
Aquaterra	220	240	-	65	-	-
CEA	809	831	-	-	-	-
FSST	3	3	-	-	-	-
Kier Islington Ltd (Caxton)	570	578	-	-	-	-
St Lukes	2	2	-	-	-	-
Redbrick	2	2	-	-	-	-
Circle Anglia	68	70	-	-	-	-
ALA	22	20	3	-	-	-
Notting Hill Trust	8	8	-	-	-	-
Camden & Islington NHS Foundation Trust	52	59	-	36	-	-
NCP Services (Islington South)	4	6	-	11	-	-
SSE Contracting Ltd (Islington Lighting)	53	54	-	-	-	-
Brunswick	9	9	-	-	-	-
Cushman & Wakefield LLP	8	8	-	-	-	-
Mouchel Parkman	31	32	-	-	-	-
London Property Maintenance	-	0	-	-	-	-
Caterlink	15	18	-	5	-	-
Engie Ltd (Balfour Beatty)	19	24	-	32	-	-
Kier Support Services	20	20	-	-	-	-
Mears	15	16	-	-	-	-
Greenwich Leisure Ltd	21	22	22	-	-	-
WJ Catering	-	12		57		-
Isledon Arts CIC	-	1		2		-
Alliance In Partnership	-	2		-		-
Totals Out	**44,632**	**47,273**	**5,214**	**7,364**	**1,337**	**1,603**

6. Payments to and on Account of Leavers

2017/18 £'000	Payment to and on Account of Leavers	2018/19 £'000
154	Refunds of Contributions	193
5,560	Individual Transfer	7,274
5,714	**Total payments to and on account of leavers**	**7,467**

7. Management Expenses

2017/18 £'000	Management Expenses	2018/19 £'000
1,242	Administrative Cost (7a)	1,324
1010	Investment Management Expenses (7b)	1,214
446	Oversight and Governance Cost (7c)	399
2,698	**Total Management Expenses**	**2,937**

7(a) Administrative Expenses

2017/18 £'000	Administrative expenses	2018/19 £'000
898	Employee Cost	898
344	Support services	426
-	Other expenses	
1,242	**Total administrative expenses**	**1,324**

All other costs of administration are borne by Islington Council.

7(b) Investment Expenses

2017/18 £'000	Investment Expenses	2018/19 £'000
961	Management Fees	1,181
49	Custody Fees	33
1,010	**Total investment management expenses**	**1,214**

7(c) Oversight and Governance Cost

2017/18 £'000	Oversight & Governance Cost	2018/19 £'000
21	Performance Management Services	25
386	Advisory Services Fees	312
9	Operation and Support	21
9	Actuarial Fees	25
21	Audit Fees	16
-	Legal Fees	
446	**Total Oversight & Governance Cost**	**399**

8. Income from Investments

2017/18 £'000	Investment Income	2018/19 £'000
12,056	Dividends from equities	7,229
(233)	Income from other investments vehicles	5,791
2,524	Net rents from pooled investment properties	3,356
-	Interest on cash deposits	17
14,347	**Total Investment income**	**16,393**
-	Irrecoverable withholding tax	
14,347	**Total Investment income**	**16,393**

9. Investments

Investments	Market value 01 Apr 18 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 19 £'000
Fixed interest securities	80			2	78
Indexed linked securities	125			-	125
Equities	169,334		4,879	(3,637)	168,092
Pooled investment vehicles (P.I.V)	928,474	5,798	111,190	(45,918)	869,000
Other Investment - P.I.V	-			-	
Properties - P.I.V	195,601	65,433	11,590	(11,233)	260,677
Private Equity - P.I.V	26,287	619	7,360	(7,887)	27,433
Infrastructure - PIV	-	61,397	19,899	2,287	39,211
Total	**1,319,901**	**133,247**	**154,918**	**(66,386)**	**1,364,616**
Other Investment & Cash	14,084				22,263
Total Investments	**1,333,985**				**1,386,879**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year. Investments are now valued at bid price.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. In addition, indirect costs are incurred thorough bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Investment Assets by Type	2017/18 £'000	2018/19 £'000
Fixed interest securities (valued at Bid Price)		
Fixed interest securities (valued at Bid Price)	80	78
Total Fixed interest securities	**80**	**78**
Index -linked		
UK public sector quoted	125	125
Total Index -linked	**125**	**125**

Equities (valued at Bid Price)			
UK quoted		126,485	125,805
Overseas quoted		37,244	37,111
Total Equities		**163,729**	**162,916**
Pooled investment vehicles (valued at Bid Price)			
UK Managed Funds	Property	112,452	117,187
	Other : Bond	248,487	157,775
Overseas Managed Funds	Other : Equity	147,199	162,254
	Property	18,833	25,781
	Other : Private Equity	26,287	27,433
UK Unit trusts (valued at Bid Price)	Property	64,316	117,709
	Other	538,393	554,147
Infrastructure Investment			39,211
Total Pooled investment vehicles		**1,155,967**	**1,201,497**
Insurance policies			
Insurance policies		-	
Other investment balances (valued at Amortised cost)			
Outstanding trades		(2)	-
Outstanding dividends & RWT		1,686	2,058
Cash deposits : Sterling		9,100	9,913
Cash deposits : Other		3,301	10,292
Total Other investment balances		**14,084**	**22,263**
Total Investment Assets		**1,333,985**	**1,386,879**

Type of future	Expiration	Market Value	Market Value
UK FTSE exchange traded	Less than 1 year	-	-
UK gilt exchange traded	Less than 1 year	-	-
Total		**0**	**0**

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

10. Current Assets

2017/18 £'000	Current Assets	2018/19 £'000
1,525	Contributions due from Employers & Employee	706
19	Sundry Debtors	46
3633	Cash Balances	2,793
5,177	**Total**	**3,545**

11. Total Liabilities

2017/18 £'000	Current Liabilities	2018/19 £'000
(601)	Accrued Benefits	(930)
(11,249)	**Sundry Creditors	(480)
(8,920)	*Receipt in Advance	(8,863)
(2,107)	Accrued Expenses	(3,415)
(22,877)	**Total Current liabilities**	**(13,688)**

2017/18 £'000	Non-Current Liabilities	2018/19 £'000
(8,863)	*Receipt in Advance	-
(8,863)	**Total Non-Current Liabilities**	**0**
(31,740)	**Total Liabilities**	**(13,688)**

12. Benefits

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age.

Other Types of Retirement Pension:

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

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

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

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

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

d) Payment of a Contribution Equivalent Premium (CEP) restores the Employee's rights in the state pension scheme as if he/she had not been contracted out, and extinguishes his/her accrued rights to a guaranteed minimum pension (GMP) in the local government pension scheme.

e) Regulations permit the council to charge administration costs and the investment managers' fees to the Fund. Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges. The fees paid to the investment managers are their charges for managing the investments of the Fund.

13. Contributions

Contributions are credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.5% and 12.5% according to the annual earnings band an employee falls in.

b) Employers' contributions determined by the triennial actuarial review. The last review as at 31 March 2016, effective from 1 April 2017 fixed at 14.6% of pensionable payroll costs phased over 3 years (13.9% in 18/19). In common with many other local authorities, the Pension Fund has a deficit. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over twenty-two years. A lump sum contribution of £8.92m was made in 2018/19 (£8.97m in 2017/18) (a discounted amount due to payment in advance in April 2017)

c) Upgraded Pensions relate to compensation payments (added years) made on redundancy or efficiency grounds, the index-linked increases thereon, and certain non-contributing service which the council has treated as counting at full length in the payment of benefits. Income is transferred to the Pension Fund from the General Fund to offset these payments.

d) Contributions are invested and used for the benefit of the Pension Fund. The investment income in the form of dividends, interest and capital realisation is paid into the Fund.

e) Transfers to and from the Fund and other organisations are permitted. Transfers within the local government scheme are on a year for year, day for day basis but in all other transfers the money received from the organisation is used to purchase an amount of reckonable service in the local government scheme.

f) The Pension Fund is Tax Exempt

14. Actuarial Position

Mercer, an independent actuary, values the Fund every three years. The actuary's job is to decide whether present contribution rates are sufficient for funding purposes. They may, if the situation demands, recommend an increase in contributions to ensure the solvency of the Fund. The latest actuarial valuation, including calculated changes to the ongoing employer contribution rate to meet current service accrual, and to the lump sums needed to meet past service deficit, was carried out as at 31 March 2016. The next valuation is due to take place as at 31 March 2019.

The Pension Fund Triennial revaluation carried out as at 31 March 2016 came into effect in terms of altered employer contributions from 1 April 2017 to 31 March 2020. Under this revaluation the Fund assets were valued at £1,084m and, a deficit of £299m. The funding level has improved to 78% compared to 70% at 31 March 2013. The actuary has defined a common employer contribution rate of 14.7% of pensionable pay per annum, and an average additional contribution of 6% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.7% of pensionable pay in total.

Additional monetary amounts are paid each year and inflated by the amount specified in the annual Pensions Increase Order of 3.7% to complete a 22-year programme of payments to bring the Fund back to 100% funding.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions (2016 valuation) were as follows for future service:

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

Assets have been valued at their market value at the valuation date.

The Audit Commission published a report on the impact of early retirement on public sector pension funds in 1997, "Retiring Nature: Early Retirement in Local Government".

Following the council's consideration of this report, a system of controls was put in place to protect the Pension Fund from the unfunded costs or "strain" placed on the Fund to finance early retirements due to redundancy, and also high levels of medical retirements. As a result, all medical retirements must be considered and approved by the council's Occupational Health Adviser based on practice guidelines issued by the adviser's professional body.

In addition, the levels of medical retirements are monitored annually to ensure that the costs incurred are not significantly different from the annual allowance for such costs made by the Fund actuary. For early retirements resulting from redundancy, there is no allowance in the Pension Fund for the costs of the additional years of benefit payable before normal retirement age, or the loss of contribution income, (the capitalised sum of these cash streams are termed the "strain" on the Pension Fund). To allow for this, when departments consider redundancies involving an early retirement, they must take into account the "strain" cost in the appraisal, and if an early retirement is permitted, the department must repay the "strain" payment into the Fund. Instalments over three years are permitted, with an interest charge.

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

15. Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26(yet to be updated)

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

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

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

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

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

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £2,091 million.

16. Fund Membership (yet to be updated)

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

17. Additional Voluntary Contributions

2017/18 *Market Value £'000*	Additional Voluntary Contribution	2018/19 *Market Value £'000*
1,099	Prudential	1,237
224	Equitable life	215
83	Phoenix Life (formerly NPI)	87
1,406	**Total Additional Voluntary Contributions**	**1,539**

18. Contingent Assets and Liabilities

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

19. Contractual Commitments

There were no contractual commitments at the period end.

20. Related Parties

Islington Pension Fund is administered by Islington Council. As at 31 March 2019, the Pension Fund held in receipt for the Islington Council £11.7m (£28.3m~31 March 2018). Full contributions from the council for the year are disclosed in Note 2.

Two members of the pension board are in receipt of pensions benefits from the Islington Council Pension Fund (Marion Oliver and Valerie George). Members of the Pensions Sub-committee are related parties of the fund and four of them are deferred members of the LGPS. Each member of the pension board and the pension fund committee is required to declare their interest at each meeting. No other declarations were made during the year.

21. Post Balance Sheet Events

None.

22. Risk and Risk Management

The Fund's primary risk is that assets fall short of liabilities in the long term and as a result not able to honour promised benefits to members. The Fund has identified the investment risk inherent in the predominantly equity based strategy, as it biggest risk. Investment Strategy adopted by the pension sub-committee to mitigate this risk includes a diversified asset allocation to include property, private equity and bonds. The equity portfolio is diversified by region and company holdings. The committee monitors managers regularly by performance benchmark and reviews strategies as markets evolve.

23. Price and Currency Risk

Price and currency risk can be quantified by observing the potential market movement on the riskier assets and possible change in valuation.

Price risk

Price Risk	Final Market Value as at 31/03/19 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	162,708	8.50%	176,615	148,801
Overseas Equities	583,630	10.00%	642,213	525,046
Total Bonds	157,775	5.40%	166,273	149,276
Pooled Multi Asset	113,648	4.60%	118,861	108,436
Cash	19,327	0.50%	19,424	19,231
Property	260,677	3.20%	269,041	252,313
Infrastructure	39,211	5.50%	41,356	37,066
Private Equity	27,433	13.20%	31,060	23,805
Total Assets	**1,364,409**	**5.30%**	**1,464,843**	**1,263,974**

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

Currency risk

The overseas equities are currently 50- 75% hedged hence mitigating any volatility in the major currencies of the dollar, yen and euro. 75% of the overseas equities are in the basket of the passive currency overlay hedge and as such the table below shows the aggregate currency exposure to overseas equities. A single outcome exchange rate volatility impact reflects the changes in value.

Currency Risk(by asset class)	Final Market Value as at 31/03/19 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	583,630	5.60%	616,542	550,717
Overseas Private Equity	27,433	5.60%	28,980	25,886
Overseas Infrastructure	39,211	5.60%	41,422	37,000
Overseas property	25,780	5.60%	27,234	24,327
Total Assets	**676,054**	5.60%	**714,178**	**637,930**

24. Financial Instruments

The following table provides an analysis of the financial assets and liabilities of Pension Fund grouped into Level 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assets				
Financial assets at fair value through profit and loss	1,297,972	88,907		1,386,879
Loans and Receivables		3,545		3,545
Total Financial Assets	**1,297,972**	**92,452**	**0**	**1,390,424**
Financial Liabilities				
Financial liabilities at fair value through profit and loss				-
Financial liabilities at amortised cost		(13,688)		(13,688)
Total Financial Liabilities	**0**	**(13,688)**	**0**	**(13,688)**
Net Financial Assets	**1,297,972**	**78,764**	**0**	**1,376,736**

Values at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Asests				
Financial assets at fair value through profit and loss	1,293,614	40,371	-	1,333,985
Loans and Receivables	-	5,176	-	5,176
Total Financial Assets	**1,293,614**	**45,547**	**0**	**1,339,161**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(31,740)	-	(31,740)
Total Financial Liabilities	**0**	**(31,740)**	**0**	**(31,740)**
Net Financial Assets	**1,293,614**	**13,807**	**0**	**1,307,421**

Valuation of financial instruments carried a fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. These instruments include our private equity managers and cash held in the fund.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which The Islington Council Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December Cash flow adjustments are used to roll forward the valuation to 31 March as appropriate.

24. Investment Assets by Fund Manager

Investment Assets by Fund Manager	2017/18 £'000	2018/19 £'000
LBI In House Fund		
EQUITIES		
UK quoted - LBI self-managed	126,485	125,805
Overseas quoted - LBI self-managed	37,244	37,111
CASH DEPOSITS		
Sterling	1,853	2,625
Other	2,817	9,808
OTHER INVESTMENT BALANCES		
Outstanding Dividends/Tax	1,174	1,571
Outstanding trades		
FIXED INTEREST		
UK	80	78
INDEX-LINKED		
UK	125	125
POOLED FUNDS		
UK	5,605	5,177
Total LBI In House Fund	**175,383**	**182,300**
Newton-London CIV		
EQUITIES		
Overseas quoted - NEWTON		
UK quoted - NEWTON		
POOLED FUNDS		
UK quoted	190,907	218,049
Overseas quoted		
CASH DEPOSITS		
Sterling	109	109

Other	439	477
OTHER INVESTMENT BALANCES		
Outstanding Dividends	411	390
Outstanding trades		
Total Newton	**191,866**	**219,025**
Allianz / LONDON CIV		
EQUITIES		
Overseas quoted - RCM		
UK quoted - RCM		
POOLED FUNDS		
Other	106,770	118,596
CASH DEPOSITS		
Sterling	279	284
Other	7	8
OTHER INVESTMENT BALANCES		
Outstanding Dividends	101	97
Outstanding trades		
Total RCM	**107,157**	**118,985**
Standard Life Bonds		
POOLED INVESTMENT VEHICLES		
Managed funds	248,487	157,775
Pantheon		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	6,488	9,174
Standard Life		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	19,799	18,258
Aviva Lime Property		
UK UNIT TRUSTS		
Property	64,316	117,709
Threadneedle Pensions		
POOLED INVESTMENT: Property	84,778	88,673
Baring English Growth Fund		
UK UNIT TRUSTS	0	
Thesis		
POOLED INVESTMENT: Property	27,674	28,514
BNY Mellon		
CASH DEPOSITS : Sterling	6,896	6,894
outstanding fx trades	-2	
Total BNY Mellon	**6,894**	**6,894**
Legal & General		
POOLED INVESTMENT VEHICLES		
Managed funds	147,199	162,254
Franklin Templeton		
Pooled Investment Global Property	18,833	25,781
Schroders		
Pooled Investment Multi Asset	128,530	113,648

BMO		
Pooled Investment Managed Funds	74,776	76,207
LGIM		
Pooled Investment Managed Funds	31,805	22,471
Pantheon Infrastructure		
Infrastructure	0	16,500
Quinbrook Infrastructure		
Infrastructure	0	22,711
Total Investment Assets	**1,333,985**	**1,386,879**

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Board Committee	17 June 2019		n/a

Delete as appropriate		Non-exempt

SUBJECT: PENSIONS BOARD COMMITTEE 2019/20– FORWARD WORK PLAN

1. Synopsis

1.1 The Appendix to this report provides information for Members of the Board on agenda items for forthcoming meetings and training topics where required as per its work programme objectives.

2. Recommendation

2.1 To consider and note Appendix A attached

2.2 To amend the forward plan where there is change in priorities.

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.

3.1 Based on the LGPS and The Pension Regulator's guidance on the role of the pension boards, the focus should include the following:

A)Its own training, knowledge and understanding
b) Avoiding any conflicts of interest
c) Ensuring its own statutory compliance
d) Checking fund governance
e) Reviewing fund risks and internal systems and controls
f) Checking fund external advisors/service providers and their internal controls
g) Reviewing fund member record keeping
h) Checking fund contributions
i) Reviewing fund administration
j) Benchmarking fund performance and Value for Money (VFM)
k) Fraud prevention
l) Employer and member communications
m) Complaints and dispute resolution
n) Reporting regulatory breaches

3.2 The Pension Board must also consider its Annual Report and the review of Pension Fund's draft Annual Report and audited accounts and triennial actuarial review.

3.3 Members agreed a work programme at the March meeting and this will be reviewed annually for progress and amendment if 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

3.4 Members need to consider their priorities for the next 12months and use that to formulate their agenda for forthcoming meetings. The draft plan attached as Appendix A is a guide for members to discuss and amend. It will be updated as necessary at each meeting, to reflect any changes in administration policy, new regulation and pension fund priorities after discussions with Members.

4. Implications

Financial implications

4.1 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**

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary.

4..4 **Resident 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

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5 Conclusion and reasons for recommendation

5.1 To advise Members of forthcoming items of business to the Pension Board-Committee and training topics,

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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APPENDIX A

Pensions Board-Committee Forward Plan for June 2019 to March 2020

Date of meeting	Work programme objective	Reports
	To ensure the effective and efficient governance and administration of the Scheme	Please note: there will be a standing item to each meeting on: • Admin Performance report • Forward work plan
17 June 2019	That the Pension board are able to make recommendations on Statutory and non-statutory policies and strategies	Draft Accounts 2018/19 LGPS Consultation: Changes to the Valuation Cycle and Management of Employer Risk
10 September		Annual pension report
7 October		AGM
3 December 2019		Draft Funding Strategy Statement consultation- Employers
24 March 2020		

Proposed Training committee meetings

November 2018- pension sub cttee meeting	Training Actuarial Review update

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