ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	23rd November 2021		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: FUNDING REVIEW UPDATE

1. Synopsis

1.1 This is an update report on the funding level of the Fund since the 2019 actuarial review to September 2021. It also set out some commentary on related funding matters, which the Actuary will be considering in the coming months in preparation for the 31 March 2022 actuarial valuation.

2. Recommendations

2.1 To note the briefing prepared by our Fund Actuary attached as Exempt Appendix1

2.2 To note that based on 2019 actuarial valuation assumptions the funding position as at September 2021 is estimated to be 102%.

3. Background

3.1 The 2019 actuarial valuation was completed in March 2020 and is undertaken to determine the funding position and investment strategy that can support sustainable contributions from employers.

3.2 The actuarial review covers three main elements; processing and validation of data, funding strategy review and covenant assessment.

3.3 The 30 months since the valuation has seen market volatility, Brexit, the COVID-19 pandemic, recovery after vaccine roll out and inflation rises. These factors will have an effect on the medium term funding level and it is prudent for Members to review any risk mitigation factors they may consider.

3.4 Mercers our Fund actuary has prepared a presentation (attached as Exempt Appendix 1) to review the whole funding level.

3.5 The summary findings to note include the following:

- On the assumptions adopted for the 2019 actuarial valuation, the funding position has continued to improve and as at 30 September 2021, the position was estimated to be 102%.

- The main drivers of the improvement in funding position since 2019 have been larger than expected investment returns and the deficit contributions payable by employers.

- However, despite the improvements in the funding position, the current economic outlook is uncertain for a number of reasons – rising inflation, continued fallout from the pandemic, Brexit, etc.

- These uncertainties will have an impact on the level of expected investment return the Fund may achieve in the future, and in particular the excess return above inflation i.e. real return.

- It is likely therefore that the discount rates adopted by the Actuary at the 2022 valuation may need to reduce relative to those adopted in 2019. The Actuary has illustrated in the attached presentation that the funding position would fall to 98% were discount rates to reduce by 0.25% p.a. This would result in an increase in the percentage (%) contributions payable towards ongoing benefit accrual of 1-2 % of pay p.a. under this scenario.

- Whilst still representing a very good funding position relative to that in 2019, contribution outcomes for employers from the 2022 valuation will depend on the extent to which any reduction in deficit contributions (arising due to the improved funding level) will offset any increase in the future service rate to emerge (arising due to an anticipated reduction in discount rate). For the Council, there is already a planned phased increase to the future service rate following the 2022 valuation (14.6% to 16.9%), which would be in addition to any contribution increases that may apply due to a reduction in the discount rate.

- However, the Council has also made a commitment to pay c£30m into the Fund prior to the valuation date. This commitment has been communicated to the Government Actuary's Department (GAD) as part of the discussions around their Section 13 report that will be released in the future and has ensured that the Fund did not get "flagged" in the report.

- Along with the strong investment returns, this additional contribution will provide additional mitigation against the impact of the increase in contributions due from 2023, thereby helping to reduce future budget pressures.

3.6 The Actuary will undertake a more detailed analysis on the current funding position and subsequent contribution outcomes under different scenario, over the coming months, to commence discussions with Officers around future budgetary pressures for the Council.

3.7 Members are asked to note the presentation and the summary findings in paragraph 3.5.

4. Implications

4.1 Financial implications

4.1.1 The cost of providing actuarial advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

No legal implications

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

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 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.

4.4.1 An equalities impact assessment has not been conducted because this report is an update on existing exercise and the consultation of employers will mitigate any inequality issues.

5. Conclusion and reasons for recommendation

5.1 Members asked to note the presentation from our Fund Actuary and the summary findings in para 3.5.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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