



**ISLINGTON**

**For a more equal future**

# **London Borough of Islington Pension Fund Draft Annual Report 2022/23**

**DRAFT**

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# Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2022/23 financial year.

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

The world economy continued to face multiple challenges from, ongoing effects of Russian invasion of Ukraine, high core inflation, and resulting high interest rates that triggered banking sector turmoil. The Fund's performance is measured against a customised benchmark and returned -3.3% compared to the benchmark of -2.6% for the 12 months to March. Its market value decreased marginally from £1.78 billion to £1.74bn as of March 2023. The three and five-year long-term performance, however, has been above inflation and benchmark. The average Local Authority fund delivered an investment return of around -1.6%, driven by alternatives especially private equity. Equities performance was flat, bonds deeply negative and property values were in decline.

The London CIV, our asset pooling organisation continues to grow its assets under management on Authorised Contractual Scheme (ACS). At the end of March, the London CIV had £26.8bn (active and passive) across the 32 London Local Authorities (LLAs). As at the end of March 2023, 22 funds had been launched and LCIV are now also signatories to UNPRI, SAB Transparency Code and Pension for Purpose.

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

The Pensions sub-Committee in June 2021 revisited its decarbonisation targets to set short to medium targets from 2022 onwards and these are the highlights:

- Net zero emission target at 2050 including aligning with 1.5 degree Celsius scenario
- Investing at least 20% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2026
- Reduce carbon emissions of all listed portfolios that is equities and credit by 49% at 2026, and 60% by 2030 with a 2016 baseline (Reduce carbon emissions of all listed portfolio i.e. equities and credit by 60% by 2030)
- **Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:**
  - 1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.
  - 2) The Fund reviewing targets annually.
  - 3.) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2023 and will develop mechanisms to evaluate the progress.

4) The Fund monitoring ESG (including climate change) risks annually and set targets to mitigate these risks. Monitoring will include annual analysis of the carbon footprint of the Fund's portfolio, as well as conducting a periodic scenario analysis based on multiple climate change scenarios ranging from 2°C to 4°C.

The targets and metrics and progress made as at 31<sup>st</sup> March 2023 are below:

- i) Net zero emission target in 2050 including aligning with the 1.5-degree Celsius scenario.
- ii) Investing at least 20% of the fund in sustainability themed investments (such as low carbon technology or green infrastructure) by the end of April 2026.  
**(March'23 results- 16%)**
- iii) Reduce carbon Intensity of all listed portfolios i.e., equities and credit by 49% by 2026 and 60% by 2030 against a baseline in 2016. **(March'23 results- 40%)**

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

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

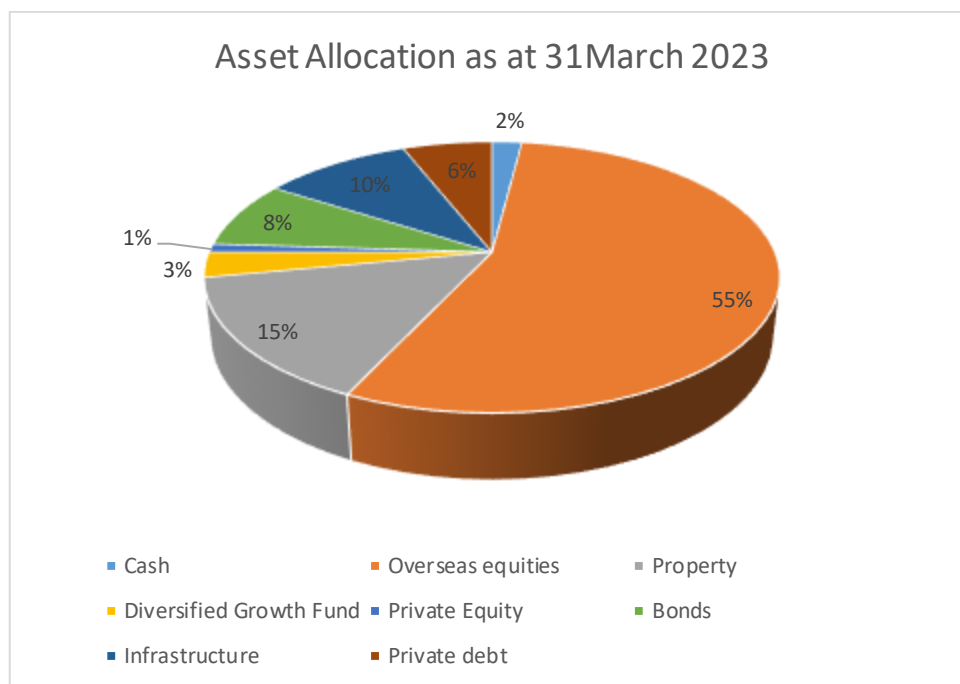
We would like to thank our in-house pension administration staff, advisors and service providers for their support during the year.

Cllr David Poyser  
Chair of Pension Board

# 1: Investment report

The 22/23 year saw our fund return -3.3% compared to the customised benchmark (aggregated benchmark of all our investment portfolios) of -2.6%. The fund was ahead of benchmark over both 3 and 5 years. The average LA universe returned -1.6%. Our fund is structured differently from the average fund due to the higher commitment to property and low exposure to alternatives.

During the year to 31 March 2023 the fund's asset allocation was as follows



The agreed strategic asset allocation as at 31<sup>st</sup> March 2023 is as follows;

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

## 1.1. Fund manager performance (BNY Mellon Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12-month performance to 31 March 2023

Manager	Mandate	Market value £'000	12-month return %
Islington Council Treasury team	Cash	27,212	n/a

<b>Manager</b>	<b>Mandate</b>	<b>Market value £'000</b>	<b>12-month return %</b>
London LGPS CIV RBC sub fund	Global equities	166,436	-7.6
London LGPS CIV Newton sub fund	Global equities	322,860	0.2
Legal and General	Global/Emerging equities	233,378	-1.1
Legal and General-Paris Aligned <sup>(1)</sup>	Global equities	164,064	n/a
Polen Capital (BMO)	Emerging equities	67,461	-4.0
Standard Life	Corporate bonds	68,167	-10.9
M&G	Multi asset credit	77,583	2.3
Aviva	Property	129,779	-13.2
Columbia Threadneedle	Property	90,327	-13.4
Franklin Templeton	Property	25,060	23.3
Hearthstone	Property	27,951	3.2
Standard Life	Private equity	8,526	14.4
Pantheon	Private equity	1,975	0.2
Schroders	Diversified growth fund	45,760	-6.5
Pantheon	Infrastructure	69,757	22.1
Quinbrook	Infrastructure	98,656	15.6
Churchill	Private debt	54,805	9.9
Crescent	Private debt	34,641	7.5
Permira <sup>(3)</sup>	Private debt	15,481	n/a
BNY Mellon <sup>(2)</sup>	Cash deposits	6,746	n/a
<b>Total Market Value</b>		<b>1,736,625</b>	<b>-3.3</b>

(1) L&G Pars Aligned commenced in Aug'2022

(2) BNY Mellon hedge overseas equities holdings

(3) Permira capital drawdown in December 2022

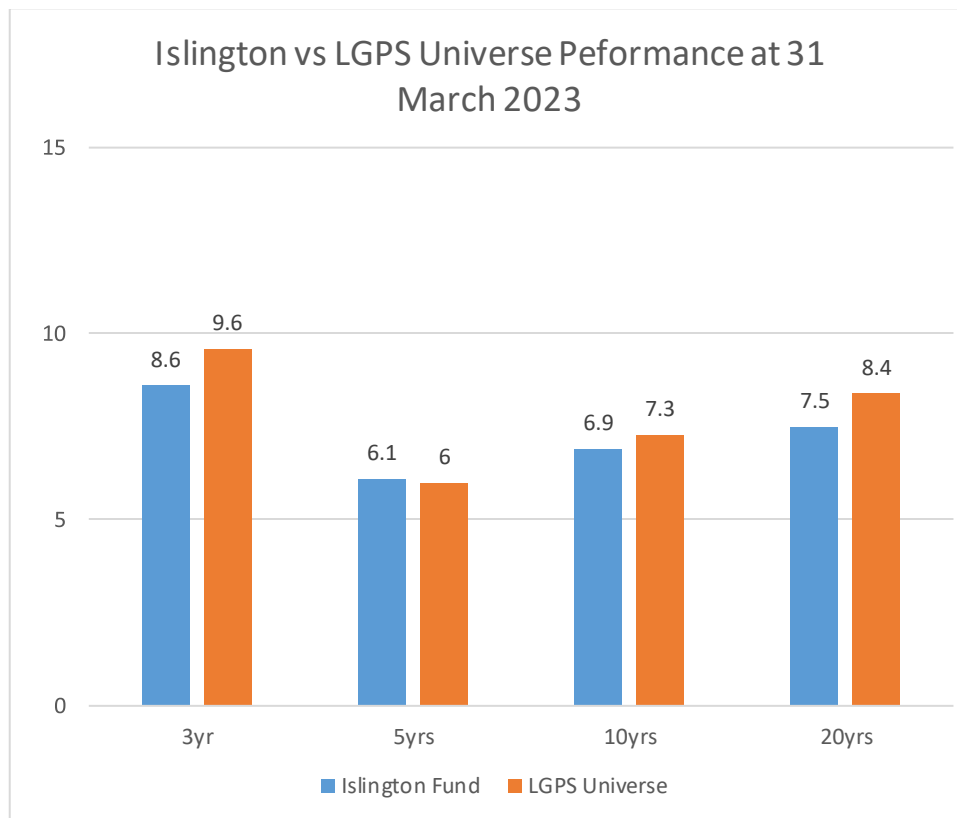
All the Council's funds are in pooled vehicles.

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

<b>Period</b>	<b>1year</b>	<b>3 years</b>	<b>5years</b>
Fund return per annum %	-3.3%	8.6%	6.1%
Benchmark%	-2.6%	8.0%	5.7%

Over the 20- year period the fund has returned 7.5% per annum in absolute terms.

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



The Fund is top quartile over the latest five year. The drag can be attributed to comparatively low exposure to alternatives and high-level property that has seen reduction in values with high interest rates. The fund has experienced low volatility over the last five years comparatively and achieved higher returns and hence very efficient. It also holds diversified assets to reduce volatility of equities.

## 2: Pooling

Islington is one of 32 London local authorities who have become active participants in the London CIV programme. The LCIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund a limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The London CIV received its ACS authorisation in November 2015.

Since then, it has secured regulatory approval, established a team of experienced staff and by the end of March 2023, £26.8bn of LLAs assets were under LCIVs oversight.



Islington has four funds (i.e 51% of the whole fund) managed on the LCIV platform; two global active equities valued at £489.2m and global passive equities of £397.4m. The estimated fees saving for the year for pooling these four funds is £0.240m. As more funds and asset classes become available and meet our needs, we will look to transfer more assets.

2.1 Key highlights of progress against London CIV’s vision in 2022/23 year included the following:

**Business**

- Approval achieved from all shareholders to revised Articles and Shareholder Agreement to meet FCA requirements.
- Streamlined Board whilst retaining same level of shareholder input.
- Commenced review of all areas of the business

**Tenets of pooling**

- Individual manager fee savings in the 2022/23 reporting year of £1.4m
- Performance improving but further improvement needed.

**Value add service**

- Climate Reporting service to be provided free of charge to cover all funds (pooled and unpooled)
- Commenced impact investment education and developed impact investment framework.
- The launch of the LCIV UK Housing Fund

**Sustainability Activities**

- Stewardship and engagement activity includes net zero, biodiversity, deforestation, human rights, diversity & inclusion with 418 companies via EOS across 1,709 topics and collaborations with 20 engagement partners to leverage their combined influence.
- Participated in 19,948 votes.

A link to London CIV annual review <https://londonciv.org.uk/reports-and-regulatory-information>.

## 3. Exercise of shareholder rights -voting

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

3.2 The table below lists the voting record by region at company annual meetings for the quarter ending 31 December 2022. Please note the internal UK Fund has now been transitioned to an external manager and voting will be undertaken by the manager as part of the pooled fund.

	<b>For</b>	<b>Abstain</b>	<b>Oppose</b>	<b>Non-Voting</b>	<b>Total</b>
<b>UK &amp; British Overseas</b>	27	3	11	0	41

## 4: Business plan

The Myners principles and compliance forms part of Islington Pension Fund's published Investment Strategy Statement. The Pensions Sub Committee agreed a four-year business plan to June 2021 in compliance with Myners Principle 1, 'Effective decision-making through a forward looking business plan'.

4.1 The key objectives of the four- year business plan, last reviewed in September 2022 are listed below along with actions taken to June 2023.

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

*Actions:*

- 2022 Actuarial Valuation was completed and signed off by 31/3/23.
- A full investment strategy review and allocation was discussed by members. The themes taken into consideration included liquidity, risk and net zero carbonisation targets.
- Members and officers submitted a response to the government's consultation on LGPS- governance and reporting of climate change risks.
- Investment advisors service was reviewed on performance and the agreed objectives.

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

*Actions:*

- Pension board review draft statement of accounts before auditing and monitor pension's administration cashflow
- A revamped risk register is now reviewed at each pension board meeting.
- Board monitors performance and resources to achieve benchmark targets and monitor complaints and feedback.
- Though deferred and Councillors ABS was on time the delay to corporate and school members has been communicated via izzi and other bulletins with a new target date.
- ◆ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund, addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members.

*Actions:*

- Work with LAPFF and IIGCC, and the LCIV continues
- Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2023 with positive results
- Voting records are published in our annual report
- LCIV provides engagement reports for our equity managers.

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

*Actions:*

- Review meetings held include Hearthstone, Polen, M&G, Pantheon, Columbia Threadneedle
- 1>1 meetings with managers have been held with officers and advisors to report to members
- Members attend seminars, LAPFF and LCIV AGMs and monthly business update meetings as shareholders.

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

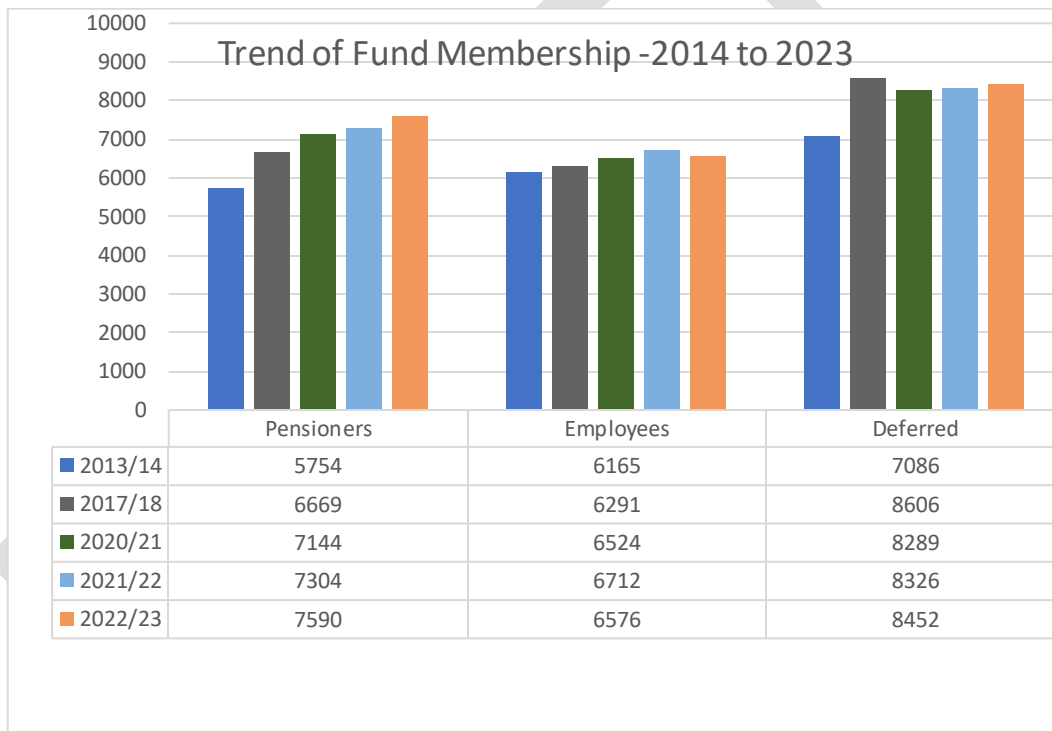
*Actions:*

- Pension Chair Members' collaboration of a North London LA group meet regularly to share ideas.

## 5: The local government pension scheme

### 5.1. Membership

The scheme membership continues to grow year on year. Deferred members and pensioners are increasing at the expense of active employees. The profile from 2014 to 2023 is shown below.



The total membership over the period is as follows:

March 2010	March 2012	March 2014	March 2016	March 2018	March 2020	March 2022
16,796	17,690	19,005	20,387	21,566	21,667	22,342
March 2011	March 2013	March 2015	March 2017	March 2019	March 2021	March 2023
17,495	18,119	19,781	20,939	21,690	21,957	22,618

### 5.2 Benefits

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

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

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

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

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

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

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

The core benefits of the scheme are:

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

### **5.2.1 Pension contributions**

The employee pension contribution percentage is according to the pay band applicable. For example a pension contribution of 6.5% of pay applies where annual salary is in the range £25,901.00 to £42,100.00 a year. A person earning £30,000.00 a year (£2,500.00 a month) pays £162.50 a month in pension contributions, but income tax relief is given by deducting the contribution from taxable pay so £162.50 a month costs £130.00 net if the tax rate is 20%.

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

The contribution rates that currently apply (2023/24), depending on the annual salary band, is shown below.

### Contribution Rate and banding 2023/2024

Band	Salary	Main section contribution %	50/50 section contribution %
1	Up to £16,500	5.50%	2.75%
2	£16,501 to £25,900	5.80%	2.90%
3	£25,901 to £42,100	6.50%	3.25%
4	£42,101 to £53,300	6.80%	3.40%
5	£53,301 to £74,700	8.50%	4.25%
6	£74,701 to £105,900	9.90%	4.95%
7	£105,901 to £124,800	10.50%	5.25%
8	£124,801 to £187,200	11.40%	5.70%
9	£187,201 or more	12.50%	6.25%

### 5.2.2 Retirement age

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

### 5.3 Keeping up to date

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

<https://islington.gov.uk/IslingtonCouncilLGPS>

<https://www.lgpsmember.org/>

### Employees who are not members of the LGPS

There are many advantages in being a member of the LGPS. 'Auto-enrolment' rules mean that employees who opt-out of the scheme are 're-enrolled' every three years. The next re-enrolment date for those who have opted-out is 1<sup>st</sup> April 2025.

## 5.4 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2023, in respect of the **key** procedures/processes.

Process	Total Cases Processed	Target days to complete	% Achieved within target days	Actual average days
Deaths	209	5	90.0%	7
Retirement benefits	371	5	81.0%	8.5
Pension estimates	488	10	68.0%	16.0
Preserved benefit calculations	163	15	70.0%	18.0
Transfer-in quotation	67	10	85.0%	11.0
Transfer-in actual	176	10	82.0%	14
Transfer out quotation	81	15	89.0%	17.0
Transfer out actual	49	12.5	83.0%	13.0
Payroll Adj.	205	10	100.0%	9.0
Refunds	68	10	98.0%	12.0
Starters	427	30	75.0%	32

Over the period, the Pensions Administration Staff completed 2,304 key processes of which 82% were concluded within the target days.

### Contacts

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

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

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

Surname	Phone Enquiries	Email Enquiries
A - G	020 7527 2028 020 7527 2993	shahid.daudi@islington.gov.uk sarah.watts@islington.gov.uk
H - M	020 7527 2849 020 7527 2409	sal.ghani@islington.gov.uk algie.theodoric@islington.gov.uk
N - P	020 7527 4492 020 7527 2710	ali.sari@islington.gov.uk douglas.mogekwu@islington.gov.uk
Q - Z	020 7527 2320 020 7527 2167	yonatan.worku@islington.gov.uk kelly.thompson@islington.gov.uk

## 6: Democratic arrangements

### 6.1 Pensions Sub-Committee

In 2022/23 the Pensions Sub-Committee were responsible for all decision making on pensions matters and stewardship of the pension fund. The Chair and Members of the sub-committee are:

#### Membership

Cllr Paul Convery (Chair)  
 Cllr Dairmaid Ward (Vice Chair)  
 Cllr Satnam Gill OBE (Vice Chair)  
 Cllr Mick O'Sullivan

#### Substitutes

Cllr Jenny Kay  
 Cllr Ben Mackmurdie

#### Other Representatives:

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

#### Fund Investment Advisors:

Mercer  
 MJ Hudson Allenbridge

#### Fund Actuary:

Mercer

#### Fund Legal Advisor

Internal Legal Department

#### Fund Custodian:

BNY Mellon

## **Performance Monitoring:**

BNY Mellon

## **Corporate Governance Research and Voting Advice Service:**

Pension Investments Research Consultants

## **Fund AVC Providers**

Equitable Life, Prudential, Phoenix Life

## **Fund Auditors**

Grant Thornton UK LLP

## **Bankers**

Barclays Bank

## **6.2. Islington Council Local Pension Board**

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

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

The membership of the board is as follows:

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

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

For the municipal year 22/23, the Board met on 28<sup>th</sup> June 2022, 28<sup>th</sup> September 2022, 5<sup>th</sup> December 2022 and 6<sup>th</sup> March 2023. Members receive copies of agenda and reports of the pension sub-committee and vice versa.



### 6.3 Activities of the Board

(i) Members reviewed their agreed a work programme at the March 2022 meeting for progress and amendments where required. The objectives are as follows:

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

(ii) Risk register is reviewed quarterly, and board oversaw improvements and re-design for alignment with the Council's corporate objectives

(iii) Pension board reviewed all Audit investigations of fraud in pensions

(iv) The board reviewed consultation with employers on the draft Funding Strategy Statement as part of the 2022 Actuarial Valuation of the fund

(v) The board agreed the changes to the Council's Pension Fund website to make the complaints process clearer to members and customers

(vi) They reviewed progress on key projects by the Pensions team, such as transfer of the pension server to the cloud and development of a member self-service platform

(vii) They reviewed the draft pension statement of accounts income and expenditure for 2022/23

(viii) They also reviewed pension administration annual cashflow forecast and 3-year budget forecast

(ix) They agreed, that the Pension Regulator Toolkit for Board members on training, knowledge and understanding, be recirculated, and the CIPFA knowledge and skill assessment risk be completed by all members to reassess training needs to be enable them to scrutinise the pension sub-committee.

(x) An overhaul and review of the boards terms of reference has been undertaken and agreed.

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

[Islington Council - Democracy](#)

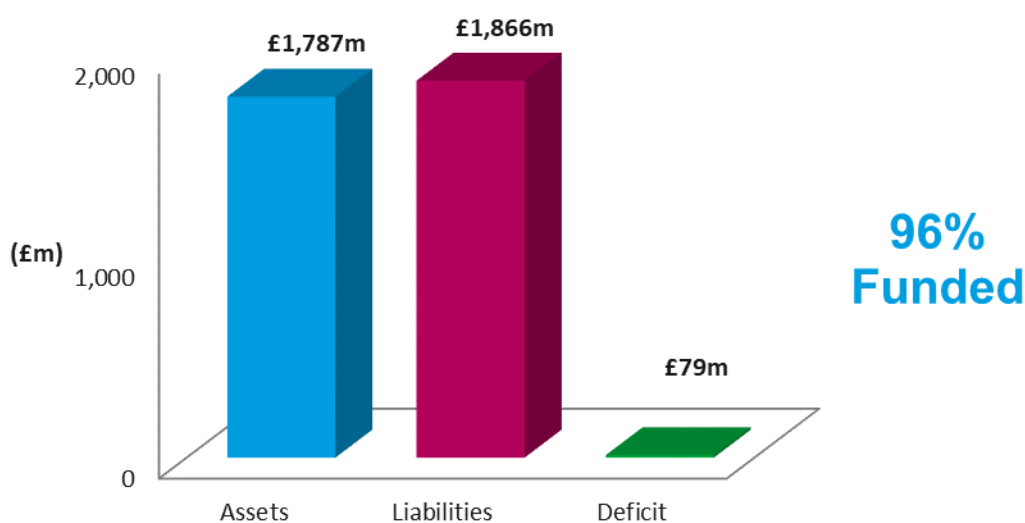
# 7. Funding of the pension scheme

## 7.1 ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £1,787 million represented 96% of the Fund's past service liabilities of £1,866 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £79 million.



The valuation also showed that a Primary contribution rate of 18.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus, it may be appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the 2022 actuarial valuation the average recovery period adopted was 16 years. The total recovery payment (the "Secondary rate" for 2023/26) was, on average, an addition of approximately £5.1m per annum (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2023.

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.65% per annum	5.10% per annum
Rate of pay increases (long term)	4.60% per annum	4.60% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.10% per annum	3.10% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

## 7.2 Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS26

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 2023 (the 31 March 2022 assumptions are included for comparison):

	31 March 2022	31 March 2023
Rate of return on investments (discount rate)	2.8% per annum	4.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	3.4% per annum	2.7% per annum
Rate of pay increases*	4.9% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	3.5% per annum	2.8% per annum

\*This is the long-term assumption. An allowance corresponding to that made at the 2019 formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

<b>Start of period liabilities</b>	<b>£2,692m</b>
Interest on liabilities	£75m
<b>Net benefits accrued/paid over the period*</b>	<b>£45m</b>
Actuarial (gains)/losses (see below)	(£895m)
<b>End of period liabilities</b>	<b>£1,917m</b>

*\*this includes any increase in liabilities arising as a result of early retirements*

Key factors leading to the actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a.. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.4% p.a.. In combination, these factors lead to a significant reduction in liabilities
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities
- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities
- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

The “McCloud judgment”: The figures above allow for the impact of the judgment based on the proposed remedy.

**GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.**

**Covid 19 / Ukraine:** The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

**Current high inflation:** The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

Paul Middleman  
Fellow of the Institute and  
Faculty of Actuaries

Michelle Doman  
Fellow of the Institute and  
Faculty of Actuaries

Mercer Limited  
May 2023

# 8: Summary of financial report

## 8.1 Income and expenditure for 2022/23

- A minor decrease in net assets of £48million (2.3%) to £1,739million due to volatility in the market, primarily due to high inflation and interest rates and Ukraine war impact.
- Employees' contributions totalled £15.6million compared to £14.4million in 2021/22
- Employers' contributions including deficit contributions amounted to £53.6million compared to the £32.7million in the previous year this was mainly because the Council made a one -off lump sum £20m contribution to pay off the accrued deficit to March 2019, funded from Housing Revenue Account.
- Pensions paid totalled £54.3 million compared to £51.7million in 21/22. The increase was mainly due to the annual pension increase of 3.1%.
- Investment management fees in previous years have not included charges on pooled funds where fees are deducted at source, however for 2022/23 the full fees on both private and public portfolio are shown in the accounts as £12m to give transparency on cost.

As at 31 March 2023, £79.8million income (excluding investment income) was received against an expenditure of £79.5 million. The other drivers apart from pension payments were retirement lump sums and transfer in. This means that the fund met all its commitments from contributions during the year.

There were in total 349 retirements, 12 of which were due to ill-health.

The detailed reporting of the pension fund accounts for 2022/23 forms part of the council's annual statement of accounts which include the statement of responsibilities and covers all the council services. This can be found at [www.islington.gov.uk](http://www.islington.gov.uk)

# 9: Statement of Responsibilities

(To follow after audit)

DRAFT

# 10: Statement of Accounts 2022/23

## Islington Pension Fund

### Fund Account

2021/22 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2022/23 £'000	Note
<b>Contributions receivable</b>			
31,449	Employer contributions	33,032	7a
1,252	Deficit recovery contributions	20,591	7a
14,457	Members contributions	15,618	7b
2,667	Transfers in from other pension funds	7,866	8
2,321	Other Income	2,382	9
<b>52,146</b>	<b>Total Income</b>	<b>79,489</b>	
<b>Benefits payable</b>			
(51,746)	Pensions	(54,275)	10
(10,707)	Lump sum benefits	(10,860)	10
(4,518)	Payment to and on account of leavers	(2,218)	11
<b>(66,971)</b>	<b>Total Expenditure</b>	<b>(67,353)</b>	
<b>(14,825)</b>	<b>Net additions/ (withdrawals) from dealing with members</b>	<b>12,136</b>	
<b>(3,114)</b>	<b>Management Expenses</b>	<b>(12,237)</b>	12
<b>(17,939)</b>	<b>Net additions/ (withdrawals) including fund management expenses</b>	<b>(101)</b>	
<b>Net Returns on investments</b>			
13,081	Investment income	26,154	13
128,410	Change in market value (realised & unrealised)	(74,094)	
<b>141,491</b>	<b>Total Returns on investments</b>	<b>(47,940)</b>	
123,552	Net increase/(decrease) in fund in year	(48,041)	
<b>1,663,855</b>	<b>Opening net assets of the scheme</b>	<b>1,787,407</b>	
<b>1,787,407</b>	<b>Closing net assets of the scheme</b>	<b>1,739,366</b>	

### Net Assets Statement

2021/22 £'000	Net Assets Statement for the year ended 31 March 2023	2022/23 £'000	Note
<b>Investments</b>			
1,767,578	Investment assets	1,703,621	14
16,845	Other Investment and Cash	33,004	14
<b>1,784,423</b>	<b>Total Investments</b>	<b>1,736,625</b>	
<b>Current Assets and Liabilities</b>			
5,727	Current assets	5,421	16
(2,743)	Current liabilities	(2,680)	17
<b>1,787,407</b>	<b>Net assets of the scheme available to fund benefits at 31 March</b>	<b>1,739,366</b>	

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

### 10.1 Description of Fund

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 administered by Islington Council, 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. Government Regulations fix employees' contributions to the Fund and the extent of benefits paid out. An independent actuary assesses the council's contribution rate every three years.

#### a) General

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

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.

Investment managers manage the investment portfolio. The fund has two private equity fund managers Pantheon Ventures (total commitments £36.99m) and Standard Life (total commitments £49.93m).

The fund has one fund of funds private global property manager, Franklin Templeton Fund 1, II and III (total commitment £99.0m).

The fund has two Infrastructure managers, Quinbrook Infrastructure Partners (total commitment £51.0m) and Pantheon Access £76.1m.

The fund also has three Private Debt managers Churchill Middle Market (total commitment £72.3m), Permira Credit Solutions (total commitment £50m) and Crescent Credit Solutions (total commitment £70.36m).

The fund managers have discretion to buy and sell investments within the constraints set by the Pensions Sub-Committee. Islington has funds that are managed by the London CIV, (see note 28). Islington Council is one of the 33 London Boroughs that oversees the operation of London LGPS CIV Ltd. The CIV has been established to facilitate the mandatory pooling of all London pension fund investments, which includes the Islington Pension Fund. A Joint Committee of London Councils who representing the shareholders will recommend the appointment directors to the company and receive reports from the company oversees it.

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



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:

## b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Islington Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable, and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

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

Administering Authority	Islington Council
Scheduled Body	Admitted Body
St Mary Magdalene Academy	Volunteering Matters (formerly CSV)
City of London Academy Islington	Camden & Islington NHS Foundation Trust
The New North Academy	Braithwaite
William Tyndale Primary School	Pleydell
St Mary Magdalene Academy: The Courtyard	NCP Services (Islington South)
Elliot Foundation	SSE Contraction Ltd (Islington Lighting)
Pears Family School Academy	Brunswick
The Bridge School	Caterlink
City of London Academy, Highbury Grove	Caterlink – Pooles Park
City of London Academy, Highgate Hill	Engie Services Ltd(Cofely Workplace Ltd)
The Bridge Satellite Provision	Greenwich Leisure Ltd
The Bridge Integrated Learning Space	Isledon Arts CIC
City of London Primary Academy, Islington	Bouyges ES FM UK Ltd.
Hungerford School	
London Screen Academy	

### c) Fund Membership

Membership of the Fund	Administering Body		Admitted Bodies		Scheduled Bodies		Totals	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	No's	No's	No's	No's	No's	No's	No's	No's
Employees Contributing into the Fund	6,087	5,916	106	95	519	565	6,712	6,576
Pensioners	5,778	6,012	501	524	50	54	6,329	6,590
Widows/ Children's Pensions	914	925	55	68	6	7	975	1,000
Deferred Benefits	7,333	7,482	660	630	333	340	8,326	8,452
<b>Totals</b>	<b>20,112</b>	<b>20,335</b>	<b>1,322</b>	<b>1,317</b>	<b>908</b>	<b>966</b>	<b>22,342</b>	<b>22,618</b>

### d) Funding

Contributions are credited to the Pension Fund consisting mainly of:

- i. Employees' contributions ranging between 5.5% and 12.5% according to the annual earnings band an employee falls in.
- ii. Employers' contributions determined by the triennial actuarial review. The last review as at 31 March 2019, effective from 1 April 2020 fixed at 14.6% of pensionable payroll costs phased over 3 years (14.6% in 19/20).  
In common with many other local authorities, the Pension Fund has a deficit. The deficit at the valuation was £79 million. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over nineteen years.  
The Council made a Housing Revenue Account deficit lump sum payment of £20m in 2022-23 to the Pension fund in advance to fund the deficit following the triennial valuation.
- iii. 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.
- iv. 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.
- v. 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.

## e) Benefits

- i. 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
- III- Health Retirement subject to approval by council's medical adviser

- ii. Voluntary Scheme Pay, Mandatory Scheme Pay and Lifetime Allowance  
Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.
- iii. Lump sum payments on retirement or death in service.

	Service Pre 1 April 2008	Services Post 31 March 2008	Service Post 31 March 2014
<b>Pension</b>	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
<b>Lump sum</b>	Automatic lump sum of 3 x salary. In addition, 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 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 exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

- iv. 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 leaves after then and 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
- v. 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.

## 10.2 Basis of Preparation

The statement of accounts summarises the fund's transactions for the 2022/23 financial year and its positions as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Updated in 2021/22), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. There are no Code changes affecting pension funds for 2022/23, nor new CIPFA Guidance in 2022/23

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 18 of these accounts.

The Pension Fund Accounts have been prepared on a going concern basis.

### **Going concern**

Going concern is assessed by management using four key factors as follows:

- Investment returns, diversification, and Net Asset Values
- Cashflow forecasts and liquidity
- Membership trends
- Funding levels and delivery of agreed recovery plans

The period from April 2022 to March 2023 has seen market volatility caused by impact of Ukraine invasion, consequent high energy prices, cost of living and high inflation.

The fund performance was marginally below benchmark and valuation fall of £44m.

However, the fund is diversified with inflation matching assets and income generation in the short to medium term.

Cashflow forecast confirm that for the 23/24 financial year the fund will not have to sell assets to meet benefit payments.

The fund is an open fund with active membership and a sturdy level of membership from 21/22 to 22/23.

The 2022 valuation results showed a better funding position of 96% compared to 85% in 2019, giving assurance of being able to achieve the funding target of 100% over 16year recovery period.

For the reason set out above, the administering authority is satisfied the fund is a going concern and the financial statements for 2022/23 have been prepared on this basis accordingly.

## 10.3 Summary of Significant Accounting Policies

### **Fund Account – revenue recognition**

#### **A) Contributions**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employer's contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Any amount not due until future years are classed as long-term financial assets

## **B) Transfers**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (Note 8). Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

## **C) Investment Income**

- **Interest income** is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- **Dividend Income** - Dividends have been accounted for on an accruals basis. Investment income on overseas investments has been converted into sterling at the rate of exchange on settlement date. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
- **Distributions from pooled funds** are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset in the net asset statement.
- **Movement in the net market value of investments** – Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.
- **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 2023.

## **Fund Account – expense items**

### **D) 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.

### **E) Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments incurs withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### **F) VAT**

Input VAT is generally recoverable on all Fund activities.

## **G) Mandatory Scheme Pays (MSP), Voluntary Scheme Pays (VSP) and lifetime allowance**

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

## **H) 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 -

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

Where fees are netted off returns by investment managers, these expenses are adjusted in the change of market value of investments.

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.

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2022/23, £1.7m of fees is based on such estimates for property funds

The costs of the council's in-house fund management team are also charged to the fund as well as a proportion of the time spent by officers on investment management activity.

## **Net assets statement**

### **I) Financial assets**

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete as at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

- **Changes in the net market value of investments** (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

- **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 valued using the latest audited valuation and is carried at fair value. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

## **J) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

## **K) Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Derivative contracts' changes in fair value are included in change in market value. The fund holds forward exchange contract consists of an asset and liability.

## **L) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## **M) Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

## **N) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the

Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

## **O) Stock Lending**

The fund does not participate in stock lending.

## **P) 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 but are disclosed for information in Note 20.

## **Q) 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.

#### 10.4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

There were no critical judgements made during 2022/23.

#### 10.5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts.

Estimates and assumptions take account of historical experience, current trends and future expectations; however, actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions		
<b>Actuarial present value of promised retirement benefits.</b>	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Mercer. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	<b>Change in assumptions – year ended 31<sup>st</sup> March 2023</b>	<b>Approx% change in liabilities</b>	<b>Approx monetary value £m</b>
		0.5% p.a. decrease in discount rate	8% increase	£161m increase
		0.5% p.a. increase in salary increase rate	<1% increase	£17m increase
		0.5% p.a. increase in inflation / pension increase rate	8% increase	£160m increase
		1 year increase in member life expectancy	2% increase	£39m increase
<b>Private equity Private debt and Infrastructure investments</b>	The Partnership's investments in Portfolio Partnerships are carried at fair value as determined in good faith by the General Partner in accordance with US GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	Private equity, private debt and infrastructure investments are valued at £283.8m in the financial statements. These investments were valued as at the 31st March 2023. These assets have been predicted a sensitivity range of 9.3% –11.9% by the performance analytics. (See note 26a).		
<b>Property and Pooled Property funds</b>	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	The total Property Funds are £273M (including pooled property). These assets were valued as at 31st March 2023. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by 4.8% (See note 26a).		



## 10.6 EVENTS AFTER THE REPORTING DATE

We have received the 2022 triennial valuation result on 31 March 2023, the employer contribution rate for the next three years has been set at 18.3%. The funding level is 96% and has a deficit of £79m to be recovered over a 16year period.

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## 10.7 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	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Administering Authority</b>						
Islington Council *	28,189	49,860	-		1,543	692
<b>Scheduled Bodies</b>						
St Mary Magdalene Academy	246	290	-		24	
City of London Academy	163	164	-		-	
The New North Academy	104	110	-		-	
William Tyndale School	141	153	-		-	
The Courtyard School	44	57	-		-	
Elliot Foundation	187	186	-		-	
The Bridge School	586	656	-		-	
The Bridge School Academy	78	79	-		-	
Pears Family School Academy	28	24	-		-	
City of London Academy Highbury Grove	341	368	-		-	
City of London Academy, Highgate Hill	90	101	-		-	
The Bridge Satellite Provision	46	48	-		-	
City of London Primary Academy, Islington	26	42	-		-	
Clerkenwell Parochial Academy	35		-		10	
Hungerford School	166	125	-		-	
London Screen Academy	109	122	-		-	
<b>Sub-Total Scheduled Bodies</b>	<b>2,390</b>	<b>2,525</b>	<b>-</b>		<b>34</b>	<b>-</b>
<b>Admitted bodies</b>						
Volunteering Matters(CSV)	100	100	-		-	13
Camden & Islington NHS Foundation Trust	53	55	-		-	
Braithwaite	7	7	-		-	
Pleydell	30	33	-		-	
NCP Services (Islington South)	-		-		-	
SSE Contracting Ltd (Islington Lighting)	-		-		-	
Brunswick	30	30	-		-	
Caterlink	168	151	-		-	
Caterlink - Pooles Park		8	-		-	
Engie Services Ltd(Balfour Beatty)	92	92	-		-	
Greenwich Leisure Ltd	51	31	-		-	
Isledon Arts CIC	7	19	-		-	
Alliance In Partnership	4		-		-	
Bouygues ES FM UK Ltd.	3	7	-		-	
<b>Sub-total Admitted Bodies</b>	<b>545</b>	<b>533</b>	<b>-</b>		<b>-</b>	<b>13</b>
<b>Totals</b>	<b>31,124</b>	<b>52,918</b>	<b>0</b>	<b>0</b>	<b>1,577</b>	<b>705</b>

\*HRA deficit lumpsum contribution of £20.0m is included in Islington Council's 2022-23 normal contributions.

## 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)	
	2021/22	2022/23
	£'000	£'000
<b>Administering Authority</b>		
Islington Council	13,452	14,529
<b>Scheduled Bodies</b>		
St Mary Magdalene	102	122
City of London Academy	77	72
The New North Academy	27	29
William Tyndale School	36	41
The Courtyard School	24	29
Elliot Foundation	152	151
The Bridge School	153	176
The Bridge School Academy	37	37
Pears Family School Academy	11	10
City of London Academy Highbury Grove	78	87
City of London Academy, Highgate Hill	45	50
The Bridge Satellite Provision	18	18
City of London Primary Academy, Islington	10	16
Clerkenwell Parochial academy	1	-
Hungerford School	21	24
London Screen Academy	62	71
<b>Sub-Total Scheduled Bodies</b>	<b>854</b>	<b>933</b>
<b>Admitted bodies</b>		
Volunteering Matters (CSV)	-	-
Camden & Islington NHS Foundation Trust	7	8
Braithwaite	2	2
Pleydell	8	9
NCP Services (Islington South)	6	7
SSE Contracting Ltd (Islington Lighting)	5	5
Brunswick	7	7
Caterlink	50	46
Caterlink -Pooles Park	-	2
Engie Ltd (Balfour Beatty)	38	40
Greenwich Leisure Ltd	24	20
Isledon ArtsCIC	3	9
Bouygues ES FM UK Ltd.	1	1
<b>Sub-total Admitted Bodies</b>	<b>151</b>	<b>156</b>
<b>Totals</b>	<b>14,457</b>	<b>15,618</b>

## 10.8 Transfers in

2021/22 £'000	Transfers in	2022/23 £'000
-	Group transfers in from other schemes	-
2,667	Individual transfers in from other schemes	7,866
<b>2,667</b>	<b>Total transfers in</b>	<b>7,866</b>

## 10.9 Other Income

2021/22 £'000	Other Income	2022/23 £'000
2,321	Other	2,679
<b>2,321</b>	<b>Total other income</b>	<b>2,679</b>

*Other income are pension recharges and miscellaneous fees.*

## 10.10 Benefits

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

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Benefits Payable	Pensions		Lump sum benefits		Lump sum death	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Administering Authority</b>						
Islington Council	48,013	50,347	8,108	8,758	2,101	1,381
<b>Scheduled Bodies</b>						
St Mary Magdalene Academy	33	44	30	5	-	-
City of London Academy	63	76	7	8	-	-
The New North Academy	28	28	9	-	-	-
William Tyndale School	27	25	-	-	-	97
The Courtyard	5	5	-	-	-	-
Tech City (Stem 6th form Academy)	2	1	-	-	-	-
Elliott Foundation Academies	-	5	-	-	-	-
The Bridge Integrated Learning Space	10	9	-	-	-	-
Pears Family School Academy	1	1	-	-	-	-
City of London Academy Highbury Grove	21	32	-	-	-	-
City of London Highgate Hill	8	11	50	-	-	-
Clerkenwell	24	14	9	-	-	-
City of London Primary Academy, Islington	-	-	-	-	-	-
Hungerford School	7	7	-	-	-	-
<b>Sub-Total Scheduled Bodies</b>	<b>229</b>	<b>258</b>	<b>105</b>	<b>13</b>	<b>-</b>	<b>97</b>
<b>Admitted Bodies</b>						
Volunteering Matters (CSV)	1,297	1,306	55	-	133	-
Aquaterra	222	229	-	-	-	-
CEA	866	889	35	-	-	-
FSST	4	4	-	-	-	-
Kier Islington Ltd (Caxton)	599	608	-	9	-	-
St Lukes	2	2	-	-	-	-
Redbrick	2	2	-	-	-	-
Circle Anglia	73	78	-	-	-	-
ALA	21	23	-	-	-	-
Notting Hill Trust	15	16	-	-	-	-
Camden & Islington NHS Foundation Trust	88	104	-	38	-	-
Pleydell	13	14	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	57	58	-	-	-	-
Brunswick	10	10	-	-	-	-
Southern Housing Group	9	10	-	-	-	-
Cushman & Wakefield LLP (Dunlop Haywards)	8	8	-	-	-	-
Mouchel Parkman	33	34	-	-	-	-
Caterlink	44	49	-	11	74	48
Engie Ltd (Balfour Beatty)	29	37	-	78	-	84
Kier Support Services	21	21	-	-	-	-
Breyers	7	8	-	-	-	-
Mears	18	93	96	315	-	-
Greenwich Leisure Ltd	52	62	-	28	-	-
WJ Catering	10	-	-	-	-	-
Alliance In Partnership	4	5	-	-	-	-
<b>Sub-total Admitted Bodies</b>	<b>3,504</b>	<b>3,670</b>	<b>186</b>	<b>479</b>	<b>207</b>	<b>132</b>
<b>Totals</b>	<b>50,422</b>	<b>54,275</b>	<b>8,399</b>	<b>9,250</b>	<b>2,308</b>	<b>1,610</b>

## 10.11 Payments to and on Account of Leavers

2021/22 £'000	Payment to and on Account of Leavers	2022/23 £'000
62	Refunds of Contributions	130
4,456	Individual Transfer	2,088
<b>4,518</b>	<b>Total payments to and on account of leavers</b>	<b>2,218</b>

## 10.12 Management Expenses

2021/22 £'000	Management Expenses	2022/23 £'000
1,464	Administrative Cost (12a)	1,509
1,173	Investment Management Expenses (12b)	10,238
477	Oversight and Governance Cost (12c)	490
<b>3,114</b>	<b>Total Management Expenses</b>	<b>12,237</b>

### 10.12(a) Administrative Expenses

2021/22 £'000	Administrative expenses	2022/23 £'000
1,354	Employee Cost	1,438
110	Support services	71
<b>1,464</b>	<b>Total administrative expenses</b>	<b>1,509</b>

All other costs of administration are borne by Islington Council.

### 10.12(b) Investment Expenses

2021/22 £'000	Investment Expenses	2022/23 £'000
1,134	Management Fees	10,200
39	Custody Fees	38
<b>1,173</b>	<b>Total investment management expenses</b>	<b>10,238</b>

### 10.12(c) Oversight and Governance Cost

2021/22 £'000	Oversight & Governance Cost	2022/23 £'000
14	Performance Management Services	30
284	Advisory Services Fees	268
99	Operation and Support	30
60	Actuarial Fees	99
20	Audit Fees	63
<b>477</b>	<b>Total Oversight &amp; Governance Cost</b>	<b>490</b>

## 10.13 Income from Investments

2021/22 £'000	Investment return gain/(loss)	2022/23 £'000
6,256	UK Equities	3,764
-	Bonds	7
5,208	Global active equities	6,406
(4)	Private equity	-
(139)	Private Debt	4,901
5,249	Property	5,266
-	Infrastructure	1,446
(3,932)	Derivatives	4,060
253	Other investments & Dividends	14
190	Cash	290
<b>13,081</b>	<b>Net returns on investment</b>	<b>26,154</b>

## 10.14 Reconciliation Of Movements in Investments and Derivatives

Investments	Value as at 31 Mar 22 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 23 £'000
UK Equities	169,440	3,114	(166,967)	(5,421)	166
Global active equities	573,340	6,353	(1,250)	(20,961)	557,482
Multi Asset	114,440	-	(60,000)	(8,680)	45,760
Global Passive Equities	236,108	333,808	(168,711)	(3,764)	397,442
Bonds	209,679	83	(50,747)	(13,203)	145,812
Property	282,459	4,582	(2,700)	(36,285)	248,057
Property - Private equities	18,037	9,809	(6,347)	3,562	25,060
Private equities	11,687	525	(3,042)	1,331	10,501
Private Debt	27,803	84,438	(9,324)	2,009	104,927
Infrastructure - PIV	124,585	63,590	(42,593)	22,832	168,414
	<b>1,767,578</b>	<b>506,303</b>	<b>(511,682)</b>	<b>(58,579)</b>	<b>1,703,621</b>
Derivatives - Forward FX (including spot FX)	(5,728)	39,978	(12,026)	(15,515)	6,709
	<b>1,761,850</b>	<b>546,281</b>	<b>(523,708)</b>	<b>(74,094)</b>	<b>1,710,330</b>
Other Investment & Cash	22,573	-	-	-	26,295
<b>Total Investments</b>	<b>1,784,423</b>	<b>546,281</b>	<b>(523,708)</b>	<b>(74,094)</b>	<b>1,736,625</b>

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.



## 10.14 (a) Investment Detail

Investment Assets by Type		2021/22	2022/23
		£'000	£'000
<b>Fixed interest securities (valued at Bid Price)</b>			
Fixed interest securities (valued at Bid Price)		67	62
<b>Total Fixed interest securities</b>		<b>67</b>	<b>62</b>
<b>Index -linked</b>			
UK public sector quoted		121	-
<b>Total Index -linked</b>		<b>121</b>	<b>0</b>
<b>Equities (valued at Bid Price)</b>			
UK quoted		142,307	166
Overseas quoted		27,133	-
<b>Total Equities</b>		<b>169,440</b>	<b>166</b>
<b>Pooled investment vehicles (valued at Bid Price)</b>			
UK Managed Funds	Property	282,459	248,057
	Multi Asset	114,440	45,760
	Bond	209,612	145,750
Overseas Managed Funds	Global active equities	573,340	557,482
	Global Passive equities	236,108	397,442
	Private equities	11,687	10,501
	Private equities -Property	18,037	25,060
	Private Debt	27,803	104,926
Infrastructure Investment		124,585	168,414
<b>Total Pooled investment vehicles</b>		<b>1,597,950</b>	<b>1,703,393</b>
<b>Other investment balances (valued at Amortised cost)</b>			
Outstanding dividends & RWT		1,542	265
Derivatives - Forward FX		(5,728)	6,709
Cash deposits : Sterling		20,402	647
Cash deposits : Other		629	25,383
<b>Total Other investment balances</b>		<b>16,845</b>	<b>33,004</b>
<b>Total Investment Assets</b>		<b>1,784,423</b>	<b>1,736,625</b>

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

## 10.14 (b) Analysis of derivatives

Derivatives are used to hedge liabilities or hedge exposures to reduce risk to the fund. They are also used to gain exposure to an asset more efficiently than holding the underlying asset.

Settlement	Currency Code Purchased	Asset Value	Liability Value
		£'000	£'000
3 Months	Euros		(47,717)
	Japanese Yen		(12,846)
	Pound Sterling	268,480	
	US Dollars		(201,209)
		<b>268,480</b>	<b>(261,772)</b>

Net Forward FX at 31 March 2023 6,709

Net Forward FX at 31 March 2022 (5,728)

### 10.15 Investments exceeding 5% of net assets

The table below shows the Fund's investments, which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent less than 5%.

Security	Market value	% of total	Market value	% of total
	31 March 2022	fund	31 March 2023	fund
	£'000		£'000	
LBI Self-Managed UK quoted	136,306	7.6%	-	-
London CIV Pooled - Newton MSCI All Country World	321,802	18.0%	322,581	18.5%
Standard Life Bonds Pooled Investment Vehicle iBoxx Sterling Non Gilt	133,687	7.5%	-	-
Aviva Lime Property UK Unit Trust	149,466	8.4%	129,779	7.5%
Threadneedle Pooled Investment Property AREF IPD All Balanced	104,274	5.8%	90,327	5.2%
Legal & General Pooled Investment Vehicle	236,108	13.2%	233,378	13.4%
Schroders Pooled Investment Multi Asset	114,440	6.4%	-	-
Quinbrook Infrastructure	-	-	98,656	5.7%
London CIV RBC EQ RBC Bmk	180,227	10.1%	166,436	9.6%
L&G Paris Align Global Passive Equities	-	-	164,064	9.4%

### 10.16 Current Assets

2021/22	Current Assets	2022/23
£'000		£'000
2,478	Contributions due from Employers & Employee	3,266
50	Sundry Debtors	27
3199	Cash Balances	2,128
<b>5,727</b>	<b>Total Current Assets</b>	<b>5,421</b>

### 10.17 Current Liabilities

2021/22	Current Liabilities	2022/23
£'000		£'000
(243)	Accrued Benefits	(169)
(839)	Sundry Creditors	(865)
(1,661)	Accrued Expenses	(1,646)
<b>(2,743)</b>	<b>Total Current liabilities</b>	<b>(2,680)</b>

## 10.18 Actuarial Position

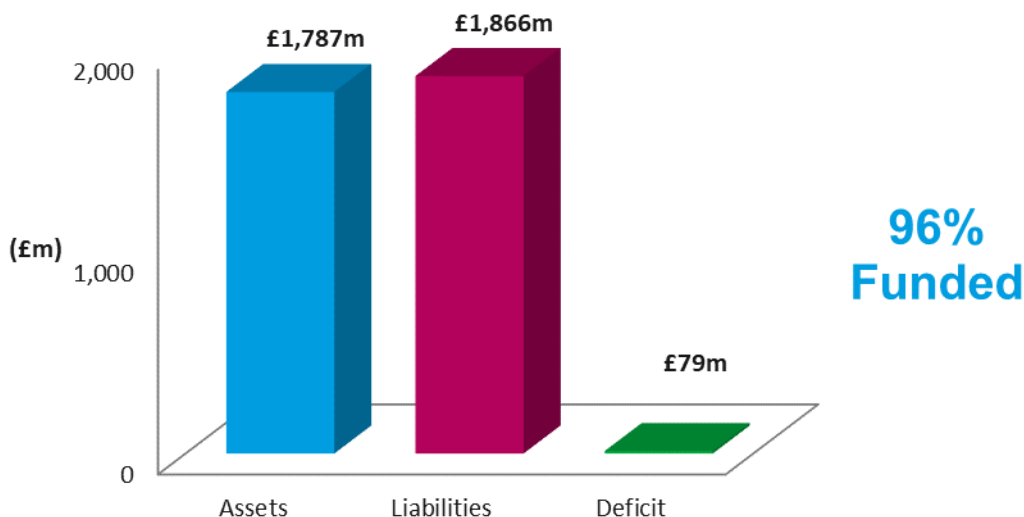
### ISLINGTON COUNCIL PENSION FUND

#### ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £1,787 million represented 96% of the Fund's past service liabilities of £1,866 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £79 million.



The valuation also showed that a Primary contribution rate of 18.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus, it may be appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the 2022 actuarial valuation the average recovery period adopted was 16 years. The total recovery payment (the "Secondary rate" for 2023/26) was, on average, an addition of approximately £5.1m per annum (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2023.

In practice, each individual employer’s position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

	<b>For past service liabilities (Solvency Funding Target)</b>	<b>For future service liabilities (Primary rate of contribution)</b>
Rate of return on investments (discount rate)	4.65% per annum	5.10% per annum
Rate of pay increases (long term)	4.60% per annum	4.60% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.10% per annum	3.10% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

## 10.19 Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS26

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 2023 (the 31 March 2022 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.8% per annum	4.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	3.4% per annum	2.7% per annum
Rate of pay increases*	4.9% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	3.5% per annum	2.8% per annum

\*This is the long-term assumption. An allowance corresponding to that made at the 2019 formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

<b>Start of period liabilities</b>	<b>£2,692m</b>
<b>Interest on liabilities</b>	£75m
<b>Net benefits accrued/paid over the period*</b>	£45m
<b>Actuarial (gains)/losses (see below)</b>	(£895m)
<b>End of period liabilities</b>	<b>£1,917m</b>

\*this includes any increase in liabilities arising as a result of early retirements

Key factors leading to the actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a.. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.4% p.a.. In combination, these factors lead to a significant reduction in liabilities
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities
- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities

- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

The “McCloud judgment”: The figures above allow for the impact of the judgment based on the proposed remedy.

**GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.**

**Covid 19 / Ukraine:** The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

**Current high inflation:** The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

Paul Middleman  
Fellow of the Institute and  
Faculty of Actuaries

Michelle Doman  
Fellow of the Institute and  
Faculty of Actuaries

Mercer Limited  
May 2023

## 10.20 Additional Voluntary Contributions

These amounts are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016. Total contribution paid by members during 2022/23 is £175,168 and the value of the fund as at 31 March 2023 is £1.926m.

2021/22 Market Value £'000	Additional Voluntary Contribution	2022/23 Market Value £'000
1,767	Prudential	1,685
170	Utmost (formerly Equitable life)	168
73	Phoenix Life (formerly NPI)	73
<b>2,010</b>	<b>Total Additional Voluntary Contributions</b>	<b>1,926</b>

## 10.21 Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 31/03/2023.

## 10.22 Contractual Commitments

The fund has outstanding commitments totalling £186.3 as at 31 March 2023 (£167.7m ~31 March 2022).

Two private equity fund managers Pantheon Ventures £4.5m and Standard Life £4.0m.

One fund of funds private global property manager, Franklin Templeton Fund 1, II and III £37.5m.

The two Infrastructure managers, Quinbrook Infrastructure Partners and Pantheon Access, £38.8m and £8.4m respectively.

Three Private debt managers Churchill Middle Market £20.7m, Permira Credit Solutions £35m and Crescent Credit Solutions £37.4m.

## 10.23 Related Parties

Islington Pension Fund is administered by Islington Council. As at 31 March 2023, the Pension Fund is due from the Islington Council £0.862m (£0.372m~31 March 2022). Full contributions from the council for the year are disclosed in Note 7.

One member of the pension board is in receipt of pensions benefits from Islington Council (Valerie Easmon George) and two who are active members of the fund Mike Calvert and George Shakey. 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.

## 10.24 Key Management Personnel

The key management personnel of the fund are the members of the Pension Fund Committee, the Corporate Director of Resources, Director of Finance, and the Head of Pensions.

2021/22 £'000		2022/23 £'000
(65)	Short-term benefits	(168)
(55)	Post-employment benefits	(24)
(20)	Termination benefits	-
<b>(141)</b>		<b>(192)</b>

\*Post-employment benefits are at the state retirement age

## 10.25 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 its 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.

### 10.26 Market Risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sector and individual securities. To mitigate market risk, the Council and the Fund's investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

#### 10.26a. Price and Currency Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices other than those arising from interest rate risk or foreign exchange risk, whether those changes are caused by factors specific to the individual instrument or its issuer or by factors affecting all similar instruments in the market.

The fund is exposed to share and derivative price risk. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

#### Price risk

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2022/23, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Price Risk 22/23	Final Market Value as at 31/03/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	49,120	13.26%	55,631	42,609
Overseas Equities	905,078	10.74%	1,002,312	807,843
Total Bonds	145,750	5.71%	154,076	137,424
Pooled Multi Asset	45,760	7.43%	49,160	42,361
Cash	33,959	1.32%	34,406	33,511
Property	273,118	4.83%	286,300	259,935
Infrastructure	168,413	10.45%	186,007	150,820
Private Debt	104,927	11.92%	117,433	92,421
Private Equity	10,501	9.32%	11,479	9,522
<b>Total Assets</b>	<b>1,736,626</b>	<b>7.81%</b>	<b>1,872,256</b>	<b>1,600,996</b>

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



Price Risk 21/22	Final Market Value as at 31/03/22 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	196,902	15.82%	228,052	165,752
Overseas Equities	782,787	14.05%	892,769	672,806
Total Bonds	237,482	5.78%	251,208	223,755
Pooled Multi Asset	114,440	2.56%	123,183	105,697
Cash	16,043	1.12%	16,223	15,863
Property	300,497	7.64%	308,190	292,804
Infrastructure	124,585	9.08%	136,545	112,625
Private Equity	11,687	9.60%	12,748	10,626
<b>Total Assets</b>	<b>1,784,423</b>	<b>7.18%</b>	<b>1,912,544</b>	<b>1,656,301</b>

### 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) 22/23	Final Market Value as at 31/03/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	905,078	7.30%	971,106	839,049
Overseas Private Equity	10,501	7.30%	11,267	9,735
Overseas Infrastructure	168,413	7.30%	180,700	156,127
Overseas Private Debt	104,927	7.30%	112,582	97,272
Overseas property	25,060	7.30%	26,889	23,232
<b>Total Assets</b>	<b>1,213,979</b>	<b>7.30%</b>	<b>1,302,544</b>	<b>1,125,415</b>

Currency Risk (By Asset Class) 21/22	Final Market Value as at 31/03/22 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	782,787	6.60%	834,473	731,101
Overseas Private Equity	11,687	6.60%	12,458	10,915
Overseas Infrastructure	124,585	6.60%	132,811	116,359
Overseas Private Debt	27,803	6.60%	29,639	25,967
Overseas property	18,037	6.60%	19,228	16,846
<b>Total Assets</b>	<b>964,899</b>	<b>6.60%</b>	<b>1,028,609</b>	<b>901,188</b>

### 10.26b. Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. The fund's corporate bond securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year via its fund managers and asset allocation.

#### Interest rate – risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Assets Exposed to interest rate risk	Value at 31 March 2023 £'000	Impact of 1% decrease £'000	Impact of 1% increase £'000
Cash and cash equivalent	35,132	34,781	35,483
Fixed interest securities	62	61	63
<b>Total</b>	<b>35,194</b>	<b>34,842</b>	<b>35,546</b>

Assets Exposed to interest rate risk	Value at 31 March 2022 £'000	Impact of 1% decrease £'000	Impact of 1% increase £'000
Cash and cash equivalent	20,044	19,844	20,244
Fixed interest securities	67	66	68
<b>Total</b>	<b>20,111</b>	<b>19,910</b>	<b>20,312</b>

### 10.26c. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors receipt of contributions and the state of its admitted bodies.

### 10.26d. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Committee monitors cash flows and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions.

As at 31 March 2023, liquid assets were £1,420m representing 82% of total fund assets (£1,620m at 31 March 2022 representing 91% of the Fund at that date).

The majority of these investments can in fact be liquidated within a matter of days at a cost.

## 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 2023	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>Financial Assets</b>				
<b>Financial assets at fair value through profit and loss</b>				
Equities	166			166
Global Active equities	557,482			557,482
Multi Asset	45,760			45,760
Global Passive Equities		397,443		397,443
Bonds	77,646	68,167		145,813
Property		248,056		248,056
Property - Private equities			25,060	25,060
Infrastructure			168,413	168,413
Private equities			10,501	10,501
Private Debt			104,927	104,927
Derivatives		6,709		6,709
Cash	26,030			26,030
Other investments / Dividends	265			265
Loans and Receivables	2,128	-	-	2,128
<b>Total Financial Assets</b>	<b>709,477</b>	<b>720,375</b>	<b>308,901</b>	<b>1,738,753</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(168)	-	(168)
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(168)</b>	<b>-</b>	<b>(168)</b>
<b>Net Financial Assets</b>	<b>709,477</b>	<b>720,207</b>	<b>308,901</b>	<b>1,738,585</b>

Values at 31 March 2022	Restated Quoted Market Price	Resated Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss				
Equities	169,440			169,440
Global Active equities	573,340			573,340
Multi Asset	114,440			114,440
Global Passive Equities		236,108		236,108
Bonds	75,992	133,687		209,679
Property		282,459		282,459
Property - Private equities			18,037	18,037
Private equities			11,687	11,687
Private Debt			27,802	27,802
Infrastructue			124,585	124,585
Derivaties		(5,728)		(5,728)
Cash	21,031			21,031
Other investments / Dividends	1,543			1,543
Loans and Receivables	3,199	-	-	3,199
<b>Total Financial Assets</b>	<b>958,985</b>	<b>646,526</b>	<b>182,111</b>	<b>1,787,622</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(249)	-	(249)
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(249)</b>	<b>-</b>	<b>(249)</b>
<b>Net Financial Assets</b>	<b>958,985</b>	<b>646,277</b>	<b>182,111</b>	<b>1,787,373</b>

### 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. Pooled funds are pooled fund with other institutions and hold individual securities, buildings or bonds and can be priced daily as such they are classified as level I.

#### 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.

#### 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, 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.

The valuation basis for each category of investment is set out below.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Level 1</b>			
<b>Equities</b>	The published bid market price on the final day of the accounting period.	Not required	Not required
<b>Multi Asset</b>	Quoted market value based on current yields.	Not required	Not required
<b>Global active equities</b>	Quoted market value based on current yields.	Not required	Not required
<b>Bonds</b>	Published exchange price at year end.	Not required	Not required
<b>Cash Deposits</b>	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	Not required	Not required

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Level 2</b>			
<b>Global passive equities</b>	Closing bid price where bid and offer prices are published	Evaluated price feeds	Not required
<b>Property</b>	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
<b>Bonds</b>	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
<b>Derivatives</b>	Market Forward exchange rates at the year end	Exchange rate risk	Not required

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Level 3</b>			
<b>Private equities &amp; Infrastructure</b>	Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
<b>Private equities: (Property)</b>	Closing bid price where bid and offer prices are published Closing single price where single price published.	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
<b>Private Debt</b>	Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts

## 10.27a. Reconciliation of Fair Value Measurements within Level 3

Reconciliation of assets within level 3	Value at 31 March 2022	Purchases during the year	Sales during the year	Change in market value during the year	Value at 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Private Equity	29,724	10,333	(9,390)	4,893	35,561
Infrastructure - PIV	124,584	63,590	(42,593)	22,832	168,413
Private Debt	27,803	84,438	(9,324)	2,009	104,927
<b>Total Level 3 Assets</b>	<b>182,111</b>	<b>158,361</b>	<b>(61,306)</b>	<b>29,735</b>	<b>308,901</b>

In measuring the level 3 investments it is possible that one or more of the inputs could change, by the valuing manager, to acceptable alternative assumptions and is disclosed in note 5. Different earnings multiple could be used for a comparable company or industry sector for example. Whilst these changes could have a significant change in valuation, that individual change will not necessarily apply to other investments.

A sensitivity analysis on the whole portfolio or class will be inappropriate. Islington does not have a large portfolio of alternatives classed under level 3 and a change in valuation of the level 3 underlying investments will not have a significant impact on the whole portfolio.

Investment Assets by Fund Manager	2021/22 £'000	2022/23 £'000
<b>LBI In House Fund</b>		
<b>EQUITIES</b>		
UK quoted - LBI self-managed	136,306	166
Overseas quoted - LBI self-managed	27,133	0
<b>CASH DEPOSITS</b>		
Sterling	15,349	610
Other	1,371	26,109
<b>OTHER INVESTMENT BALANCES</b>		
Outstanding Dividends/Tax	1,515	265
<b>FIXED INTEREST</b>		
UK	67	62
INDEX-LINKED		
UK	121	0
<b>POOLED FUNDS</b>		
UK	6,000	0
<b>Total LBI In House Fund</b>	<b>187,862</b>	<b>27,212</b>
<b>Newton - London CIV</b>		
<b>POOLED FUNDS</b>		
Private equities	321,802	322,581
<b>CASH DEPOSITS</b>		
Sterling	1	0
Other	264	279
<b>OTHER INVESTMENT BALANCES</b>		
Outstanding Dividends	27	0
<b>Total Newton</b>	<b>322,094</b>	<b>322,860</b>
<b>Standard Life Bonds</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Bonds	133,687	68,167
<b>Pantheon</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Private equity	2,503	1,975
<b>Standard Life</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Private equity	9,184	8,526
<b>Aviva Lime Property</b>		
<b>UK UNIT TRUSTS</b>		
Property	149,466	129,779
<b>Threadneedle Pensions</b>		
POOLED INVESTMENT: Property	104,274	90,327
<b>Thesis</b>		
POOLED INVESTMENT: Property	28,719	27,951
<b>BNY Mellon</b>		
CASH DEPOSITS : Sterling	5,052	37
outstanding fx trades	-5,728	6,709
<b>Total BNY Mellon</b>	<b>(676)</b>	<b>6,746</b>
<b>Legal &amp; General</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Equities (Global & Emerging)	236,108	233,378
<b>Franklin Templeton</b>		
Private equity - Pooled Investment Global Property	18,037	25,060
<b>Schroders</b>		
Pooled Investment Multi Asset	114,440	45,760
<b>BMO</b>		
Pooled Investment Managed Funds - Equities	71,312	68,466
Cash - other	-1,005	-1,005
	<b>70,307</b>	<b>67,461</b>
<b>Pantheon Infrastructure</b>		
Infrastructure	53,779	69,757
<b>Quinbrook Infrastructure</b>		
Infrastructure	70,805	98,656
<b>RBC/ LONDON CIV</b>		
POOLED FUNDS - Private Equities	180,227	166,436
<b>M&amp;G AOF</b>		
Pooled Investment Managed Funds - Bonds	75,804	77,583
<b>CHURCHILL</b>		
Private debt	27,803	54,805
<b>Permira CS</b>		
Private debt	0	15,481
<b>I&amp;G Paris Align</b>		
Private Equities - Global	0	164,064
<b>Crescent</b>		
Private debt	0	34,641
<b>Total Investment Assets</b>	<b>1,784,423</b>	<b>1,736,625</b>

# 11: Glossary of terms

## **Actuary**

An independent consultant who advises the fund and reviews the financial position of the fund every three years. The actuary then produces a report, known as the actuarial valuation report, which compares the fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

## **Added years**

Additional service that a member of the fund can buy by paying extra contributions to the fund providing that Inland Revenue limits on pension and contributions are not exceeded.

## **Additional Voluntary Contributions (AVCs)**

An option available to individual members to secure additional pension benefits by making regular payments to the pension fund's AVC provider up to a maximum of 15% of total earnings.

## **Asset allocation**

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

## **Asset class**

A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

## **Basis point**

One hundredth of 1% (i.e. 0.01%).

## **Benchmark**

A yardstick against which the investment policy of performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group (e.g. the average fund as measured by one of the performance surveys) to customized benchmarks tailored to a particular fund's requirements.

## **Cash transfer values**

The capital value of a benefit entitlement paid into or withdrawn from the fund when an employee joins or leaves the scheme with a pension transfer.

## **Corporate bond**

Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments in their own currencies. Therefore, the 'credit' sector, as it is often known, includes issues by companies, supranational organizations and government agencies.

## **Custody**



Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide other services, according to client instructions. The custodian physically holds the securities for safe-keeping

### **Deferred pension**

The pension benefit payable from Normal Retirement Age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

### **Defined benefit scheme**

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

### **Diversification**

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce risk.

### **Emerging markets**

Stock Markets in developing countries (as defined by the World Bank).

### **Equities**

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

### **Final pensionable pay**

Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

### **Final salary scheme**

A pension scheme that provides a pension and a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

### **Fixed interest**

An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

### **Fixed interest securities**

Investments, mainly in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'bans' to Government which are repayable on a stated future date.

### **Index**

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

### **IAS 19**

The objective of IAS 19 (1998) is **to prescribe the accounting and disclosure for employee benefits**

### **IAS 26**

Accounting and Reporting by Retirement Benefit Plans outlines the requirements for the preparation of financial statements of retirement benefit plans

### **Mandate**

The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

### **Market value**

The price at which an investment can be bought or sold at a given date.

### **Normal retirement age**

Age 65 for both men and women but members whose age and membership, when combined, total 85 or more can retire at any time from age 60 without actuarial reduction.

### **Pensionable pay**

Basic pay excluding non-contractual overtime, bonus and shift payments.

### **Pooled funds**

Pooled funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

### **Return**

The value received (income plus capital) annually from an investment, usually expressed as a percentage.

### **Unconstrained equity investing**

Mandates where the investment manager is expected to construct and manage their portfolio of stocks in a way that reflects their judgment, without being hindered by limits sets relative to a benchmark index. The manager may also be free to invest a high proportion in cash if they have a negative view on equity markets. Generally, there would be few investment restrictions, although a mandate would rarely be totally unconstrained.

### **Unlisted securities**

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

### **Valuation**

A summary of an investment portfolio showing the holdings and their value as at a certain date.

# 12: Audit opinion

To follow after audit

DRAFT

# 13: The fund's statutory statements

## 13.1 Investment strategy statement

### Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This investment strategy statement (ISS) has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Sub-Committee ('the Committee') at least triennially or more frequently should any significant change occur.

The link to the full document is [Investment Strategy Statement London Borough of Islington Pension Fund – December 2020](#)

## 13.2 The Funding strategy statement

This Funding Strategy Statement has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The link to the full document is [Funding Strategy Statement Islington Council Pension Fund March 2020](#)

## 13.3 Governance policy statement

This statement is prepared for the purposes of The Local Government Pension Scheme Regulations 2013. It sets out the policy of Islington Council as the administering authority in relation to its governance responsibilities for the local government pension scheme.

This governance policy statement ultimately sets out to be a comprehensive summary of all aspects of pension scheme governance, communication and risk management.

### 13.3.1. Overall governance framework

The council as administering authority, with its advisers has identified the following key areas (the "five principles") to support its overall governance framework.

- Effective board delegation
- Written plan policies
- Appropriate accountability
- Effective information flow
- Rigorous supervision and monitoring

The governance framework focuses on:

- The effectiveness of the pensions sub-committee and officers to which delegated function has been passed. This will include areas such as decision making processes, knowledge and competencies.

- Whether policies are established and to what degree they are recorded.
- Clarity of areas of responsibility between officers and pensions sub-committee members.
- The ability of the pensions sub-committee and officers to communicate clearly and regularly with all stakeholders.
- The ability of the pensions sub-committee or officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local government pension scheme and for this document resides with the corporate services committee.

### **13.3.2. Delegation of functions**

Governance principles: Effective board delegation; appropriate accountability

The following functions are delegated by the pensions sub-committee:

#### **13.3.2.1 Scheme administration**

Including, but not exclusively, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

Delegated to the Corporate Director of Resources.

#### **13.3.2.2 Funding**

Including, but not exclusively, setting of the appropriate funding target for the local government pension scheme. The council's constitution records that the allocation of resources to the pension fund is a function of the executive.

The Corporate Director of Resources shall be responsible for maintaining the Funding Strategy Statement (please see 9.3.4.5. Relevant documents).

#### **13.3.2.3 Investment**

The council constitution records that the following issues are delegated to the pensions sub-committee in relation to investment:

- To administer all matters concerning the council's pension investments in accordance with the law and council policy.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the delegation of powers of management of the fund and to set boundaries for the manager's discretion.
- 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.

The Corporate Director of Resources shall work with the fund's advisors and service providers to bring to the attention of the pensions sub-committee any issues of concern which may require decision by the sub-committee in these areas of policy. This will include but not be limited to, setting of an appropriate investment strategy, selection of investment managers, setting of performance benchmarks and monitoring of performance.

The pensions sub-committee will make the final decision on appointment of new managers, and termination of contracts for existing managers.

The Corporate Director of Resources shall be responsible for maintaining the Investment Strategy Statement of (please see 9.3.4.5. Relevant documents).

#### **13.3.2.4 Communications**

Governance principle: Effective information flow

Including setting of communication strategy, issuing, or arranging to be issued, benefit statements, annual newsletters, shortened annual report.

The Corporate Director of Resources shall be responsible for making all arrangements for the Annual General Meeting.

The Corporate Director of Resources shall be responsible for making all arrangements for an Annual Employers' Consultation meeting where admitted/scheduled employers may be informed of current developments and be offered the opportunity to feedback views. The outcome of this meeting shall be reported to the next available pensions sub-committee meeting.

The Corporate Director of Resources shall be responsible for maintaining the Communications Policy Statement (This is published as part of this statement and is attached as Appendix 2).

#### **13.3.2.5. Risk management**

Including the identification, evaluation and monitoring of risks inherent within the local government pension scheme. The Corporate Director of Resources shall be responsible for compiling and maintaining a risk register.

Delegated to the Corporate Director of Resources

#### **13.3.3. Terms of reference and decision making**

Governance principle: Effective board / delegation; written plan policies

The council constitution records the responsibilities within the committee structure as follows:

Corporate services committee: matters delegated to the pensions sub-committee:

- To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements
- To administer all matters concerning the council's pension investments in accordance with the law and council policy.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the delegation of powers of management of the fund and to set boundaries for the manager's discretion.
- 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)."

The rules for conduct of pensions sub-committee are those laid out in the procedure rules stated in the council's constitution and published on the council's website under **[www.islington.gov.uk/council](http://www.islington.gov.uk/council)**.

The constitution also defines that day to day management of the pension fund is delegated to the Corporate Director of Resources

#### **13.3.3.1. Structure of pensions sub-committee and representation**

Governance principle: Effective boards / delegation

The pensions sub-committee shall be made up of the following:

- Four councillors with nominated substitutes, with voting rights
- Observers as follows:
  - Elected pensioner representative
  - Representative from an Admitted Employer
  - Two trade union observers

Observers are encouraged to take a full part in the meeting, but do not have voting rights.

The pensioner representative shall be elected by ballot of all pensioner members

The pensions sub-committee also receives advice from Mercer and from MJ Hudsons

### **13.3.4 Operational procedures**

#### **13.3.4.1 Frequency of meetings**

Governance principle: Effective board / delegation

The pensions sub-committee shall convene no less frequently than 4 times per year.

An Annual General Meeting will also be held where all scheme members will be entitled to attend, including admitted bodies and scheduled bodies.

#### **13.3.4.2 Competencies, knowledge and understanding**

Governance principle: Effective board / delegation

Members of pensions sub-committee shall undertake to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge etc is evaluated on an annual basis to identify any training or educational needs of the sub-committee.

#### **13.3.4.3 Reporting and monitoring**

Governance principle: Rigorous supervision and monitoring

The pension's sub-committee shall receive detailed performance reports relating to the investment of the fund assets, on a quarterly basis. An annual review of performance of the whole fund to 31 March of each year will also be considered by the pension's sub-committee as soon as possible after the end of the financial year.

Fund managers will be called to make presentations on their performance to the pensions sub-committee, as a minimum, annually if required. Managers will be seen regularly by the Corporate Director of Resources between these presentations in line with requirements of the regulations.

Pension's sub-committee shall also receive reports prepared by the fund actuary after the triennial revaluation has been carried out, and shall seek further advice on the investment policy and goals of the fund and whether policy changes are required to ensure the funding strategy is fulfilled.

#### **13.3.4.4 Review of this policy statement**

Responsibility for this document resides with the pensions sub-committee. It will be reviewed no less frequently than annually and where changes are necessary they will be agreed at a meeting of pensions sub-committee. This document will be reviewed if there are any material changes in the administering authority's governance policy.

### **13.3.4.5. Relevant documents**

#### **Funding Strategy Statement**

The current published Funding Strategy Statement is online at [Funding Strategy Statement Islington Council Pension Fund March 2020](#)

#### **Investment Strategy Statement**

The current published Investment Strategy Statement is online at [Investment Strategy Statement London Borough of Islington Pension Fund – December 2020](#)

### 13.4 Communication policy

The Local Government Pension Scheme Regulations 2013 require each administering authority to prepare, maintain and publish a policy statement setting out its policy on communicating with members, their representatives, prospective members and their employing authorities.

Any change in policy would require the policy statement to be revised and re-published.

The methods of communication will be as follows:

- Access to the Pension pages on IZZI and the external website, with updates as required and links to the LGE Pension website.
- An Annual General Meeting.
- Briefing notes to employers participating in the Pension Fund, on an as and when required basis.
- Annual Benefits Statements to current scheme members and those with deferred pensions.
- Annual Monitoring of HM Revenues & Customs maxima in respect of the annual growth of individuals LGPS benefits; and notification to those individuals where the limit may be breached.
- Every three years from April 2013 the current employees who have opted out of the LGPS are re-enrolled into the scheme, and prior notification is provided to each individual affected.
- Notification to be provided to employees who opted out of the LGPS before April 2013 that they will become members of the scheme from October 2017.
- Departmental 'roadshows' will be provided on the LGPS, as required.
- Pre-Retirement Courses – a session on the LGPS is delivered at these regular events.
- Individual counselling: Scheme members, persons in receipt of a Local Government Pension, and former employees with deferred pensions will, on request, be given a private appointment to discuss their pension rights.
- Persons in receipt of an LGPS Pension will be notified each April of any inflation proofed increase being applied, together with the payment dates for the next 12 months.
- Payment advices will be sent to each pension recipient every March and April, plus in May if an index linked increase occurs. In other months a payment advice will be sent if the net pay differs by more than £2.00 compared to the previous period.
- Pension recipients will be sent a P60 statement of earnings by the end of May each year, relating to payments made for the year to 5<sup>th</sup> April.

### **13.5 Governance compliance statement**

#### **13.5.1. Structure**



- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council `;`
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee`:'
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels `:'
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

### **Compliance**

- a) The council constitution clearly sets out that responsibility for the management of the pension fund resides with pension sub-committee.
- b) The pensions-sub committee comprises of three trade union observer, an admitted body observer and a pensioner representative.
- c) There is no secondary committee.
- d) There is no secondary committee and therefore no allocation for a member.

### **13.5.2. Representation**

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:
  - employing authorities (including non-scheme employers, e.g, admitted bodies`:'
  - scheme members (including deferred and pensioner scheme members`:'
  - independent professional observer and
  - expert advisors (on an ad-hoc basis)
- b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

### **Compliance**

- a) The pensions-sub committee comprises of three trade union observers, an admitted body observer and a pensioner representative. The sub-committee has also appointed in independent adviser who attends all the quarterly meetings.
- b) All the members of the pension sub-committee are distributed papers and reports seven working days before the meetings are held.

### **13.5.3. Selection and role of lay members**

That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

### **Compliance**

Members of the pensions sub-committee are aware of their roles and responsibilities

### **13.5.4. Voting**

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committee.

## **Compliance**

No clear justification for not extending voting rights but all members are allowed to express their opinion during meetings.

### **13.5.5. Training, facility time and expenses**

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
- b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

## **Compliance**

- a) Training is made available to members of the pension sub-committee to assist them in the decision making process. Expenses are reimbursed for activities undertaken to perform their role.
- b) Whenever possible training is arranged to accommodate all members.

### **13.5.6. Meetings frequency and quorum**

- a) That an administering authority's main committee or committees meet at least quarterly.
- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

## **Compliance**

- a) The pensions sub-committee meets at least 4 times a year.
- b) No secondary committee.
- c) Not required since there is representation of stakeholders.

### **13.5.7. Access**

That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

## **Compliance**

The pensions sub-committee papers are sent to members at least 5 working days prior to the meeting.

### **13.5.8. Scope**

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

## **Compliance**

The pensions sub-committee already considers a wider range of pension fund issues outside of investment.

### **13.5.9. Publicity**

That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

### **Compliance**

The council's governance policy statement was consulted upon prior to publication. The council also holds pension AGMs for all its members to highlight performance and activities undertaken during the year and publishes a separate pension fund annual report. All quarterly meetings are open to the public.

This governance policy statement ultimately sets out to be a comprehensive summary of all aspects of pension scheme governance, communication and risk management.

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# 14: More information and comments

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

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

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