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Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26th September 2024

Ward(s): n/a

SUBJECT: FUNDING REVIEW UPDATE

1. Synopsis

1.1 This is an update report on the estimated funding level of the Fund since the 2022 triennial actuarial valuation to June 2024. It sets out some commentary on related funding matters, which the Actuary will consider and a snapshot of the whole fund position as at 30 June 2024 (including a sensitivity to illustrate the impact of a change in discount rate/life expectancy) and the next steps for the 2025 Actuarial valuation.

2. Recommendations

2.1 To note the report prepared by the Fund Actuary, Mercer attached as Appendix1.

2.2 To note the summary headlines in paragraph 3.5

2.3 To note the timeline and activities for the March 2025 triennial valuation in paragraph 3.6

3. Background

3.1 The last triennial valuation was completed in March 2023 and is undertaken every 3 years to determine the funding position and investment strategy that can support sustainable contributions from employers. The next triennial valuation will take place as at 31 March 2025 (and will be completed by 31 March 2026).

3.2 The actuarial review covers three main elements: processing and validation of data, funding strategy review and assessment of contribution outcomes for employers (including any necessary covenant assessments).

3.3 The period since the 31 March 2022 valuation has seen market volatility, the Russian invasion of Ukraine, higher inflation and resulting higher interest rates as well as conflict in the Middle East. These factors will have had a significant impact on liabilities and it is prudent for Members to review any risk mitigation factors they may consider relevant.

3.4 Members should note that an 18-month interim valuation will be undertaken by the Actuary at 30 September 2024 and reported to members thereafter. A full reassessment of the expected return outlook / investment strategy changes and stochastic modelling of discount rates will be undertaken as part of the interim review (including consideration of the impact on the balance sheet) and updated mortality trends. Discussions with officers will also take place in relation to the underlying funding strategy and affordability.

3.5 The position as at 30 June 2024 is shown in table 1 below. It can be seen that whilst, on a like for like assumptions as the 2022 triennial valuation, the funding position has fallen, making prudent allowance for changes in the expected return outlook (and mortality) serves to increase the funding position relative to that as at 31 March 2022.

Table1 - Headline position as at June 2024

	31 March 2022 Valuation	30 June 2024 Update (Like for Like)	30 June 2024 Update (Discount rate sensitivity / Mortality)
Assets	£1,787m	£1,993m	£1,993m
Liabilities	£1,866m	£2,182m	£2,010m
Funding Level	96%	91%	99%
Surplus / Deficit	-£79m	-£189m	-£17m
Primary Contribution Rate	18.4%	18.4%	18.2%
Real Discount Rate - Past Service	CPI+1.55%	CPI+1.55%	CPI+2.00%
Real Discount Rate - Future Service	CPI+2.00%	CPI+2.00%	CPI+2.00%
Life Expectancy Assumption	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75	2022 val baseline CMI 2022 1.75%

3.5.1 **Notes to the calculations**

Like for like" figures – means no allowance for the material change in yields since the valuation date.

- "Updated discount rate sensitivity/mortality" figures - allow for some but not all of the upward movement in yields and other factors that have led to changes in expected returns. Broad allowance has also been made for the impact on life expectancy of the CMI 2023 outcomes (leading to a small reduction in liabilities).
- The 30 June 2024 liability figures are based on an approximate roll-forward of the 31 March 2022 valuation position. They do not reflect the impact of membership experience over the period. They allow for the estimated impact of inflation, interest, benefit accrual, changes in assumptions and benefit cashflow (actual to 31 March 2024 as provided by the Fund and then estimated thereafter)

3.6 **Next steps and activities to 31 March 2026**

Timeline	**Activities**
Autumn discussions and report to committee in December	Interim Review as at 30 September 2024 to further consider potential discount rate scenarios, life expectancy changes and membership data
November 2024 to March 2025	Actuary undertakes full review of life expectancy and other demographic assumptions to reflect both national trends and Fund's experience
31 March –June'25	Initial discussions on strategy
July to September'25	Provision of member data and processing towards initial Whole Fund results
October to December'25	Agree funding strategy parameters and begin consultation exercise with employers on strategy and contribution outcomes
January to March' 26	Consultation with employers conclude and formal results certified.

3.7 Members are asked to note initial the summary findings for the whole fund and note the next steps and activities.

4. Implications

4.1 Financial implications

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

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

4.2 **Legal Implications**

No legal implications.

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

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

4.4 **Equalities Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

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

5. Conclusion and reasons for recommendation

5.1 Members are asked to note the initial whole Fund results and next steps and activities and presentation prepared by Mercer, the Fund Actuary attached as Appendix1.

Appendices : Appendix1- Mercer funding update to June 2024

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 17 September 2024

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Legal implications –