

# 2015/16 London Borough of Islington Pension Fund Annual Report

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# Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2015/16 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.

In the 2015/16 financial year all equity markets with the exception of North America produced negative returns while bonds were subdued with an aggregate return in single figures. Alternative investments enjoyed a better year with property and private equity returning double digit returns. The Fund's market value decreased by £4million to £1,083million on 31 March 2016 largely as a result of its heavy weighting to equities. Implementation of the strategy review continued during the year and Members agreed in November to amend its passive approach to emerging markets. A tender process to procure an active emerging /frontier equity manager will be concluded in Autumn 2016. The performance of our fund managers continues to be solid with absolute performance over 3 and 5 years at 6.1% and 7% respectively. We keep our strategy under review and challenge managers to outperform their targets.

The pension industry landscape continues to change. The Department of Communities and Local Government required local authorities to respond by 19th February 2016 demonstrating a commitment to asset pooling following up with a request for a description of the progress towards formalising pooling arrangements with other authorities by 15 July 2016. The Fund is a shareholder in the London Common Investment Vehicle (CIV) set up for London local authorities to collaborate on their investments with all 33 London Boroughs now signed up. It received its FCA approval and became operational in December 2015. Islington was one of three boroughs who transferred assets in phase 1 to the CIV Allianz Global Equity Fund. The Fund and the London CIV are ahead of the game regarding asset pooling.

The results of the referendum on 24 June to leave the EU initially provided volatility in the market and a drop in the value of the pound. Markets are now more settled but the full impact on pension investments will only become clear once the two year leave negotiations are completed and the UK is no longer part of the EU.

The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Fund's corporate governance service provider is Pension Investments Research Consultants (PIRC). Votes cast at UK, European and North American company AGMs follow PIRC recommendations and is aimed to challenge companies whose performance we believe needs to improve, for example on the living wage or climate change risks. This year we have attended some UK company AGM's for example Royal Dutch Shell and Rio Tinto and co-filed a resolution at Sports Direct's AGM. 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).

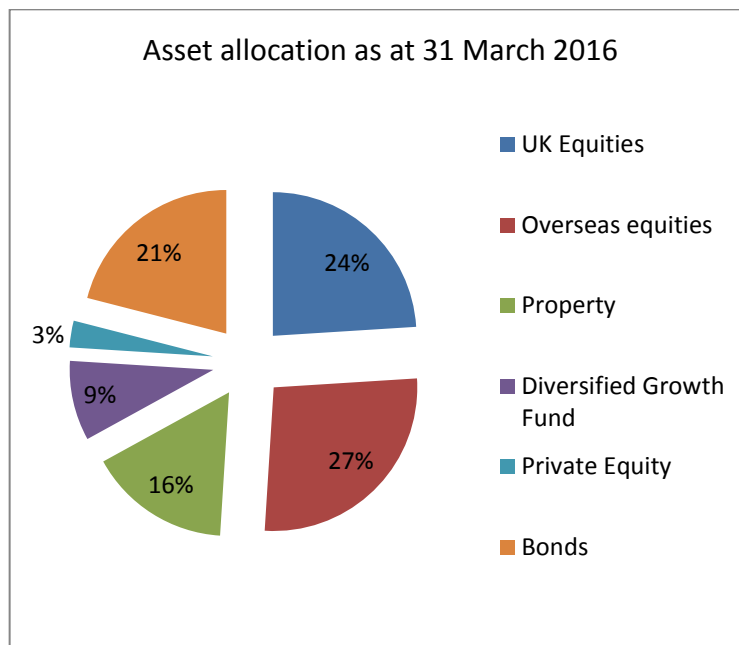
We would like to thank our in-house pension administration staff, advisors and service providers for their support during the year.

Vaughan West  
Chair of Islington Pension Board

Cllr Richard Greening  
Chair of Pensions Sub-Committee

# 1: Investment report

The 2015/16 year saw small positive total returns for the average local authority fund. Equity markets with the exception of North America produced negative returns. The weakness of sterling protected UK investors against much lower base currency returns. Bond performance was in low single figures but property continued its strong performance. During the year to 31 March 2016 the fund's asset allocation was as follows



The Fund's target strategic asset allocation is 60% equities, 25% bonds and 15% property. The annual performance of these assets over the last 3 years is shown in the table below.

Asset type	2016 market performance	2015 market performance	2014 market performance
Equities	-2.1%	13.7%	8.4%
Bonds	1.2%	13.0%	1.6%
Property	10.5%	15.8%	11.0%

## 1.1. Fund manager performance (WM Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12 month performance to 31 March 2016

Manager	Mandate	Market value	12-month return
---------	---------	--------------	-----------------

		<b>£'000</b>	<b>%</b>
Islington Council Treasury team	UK equities	257,500	-3.0
London LGPS CIV Allianz sub fund (RCM)	Global equities	75,600	-0.3
Newton	Global equities	152,700	2.9
Legal and General	Emerging equities	69,800	-7.9
Standard Life	Corporate bonds	220,800	0.2
Aviva	Property	55,800	6.9
Columbia Threadneedle	Property	74,200	11.9
Franklin Templeton	Property	19,700	25.3
Standard Life	Private equity	20,900	0.6
Pantheon	Private equity	16,400	6.0
BNY Mellon(1)	Cash deposits	(2,900)	n/a
Hearthstone	Property	25,800	12.8
Schroders (2)	Multi Asset	97,000	n/a
<b>Total Market Value</b>		<b>1,083,300</b>	

(1) BNY Mellon hedge overseas equities holdings

(2) Schroders were appointed in July 2015

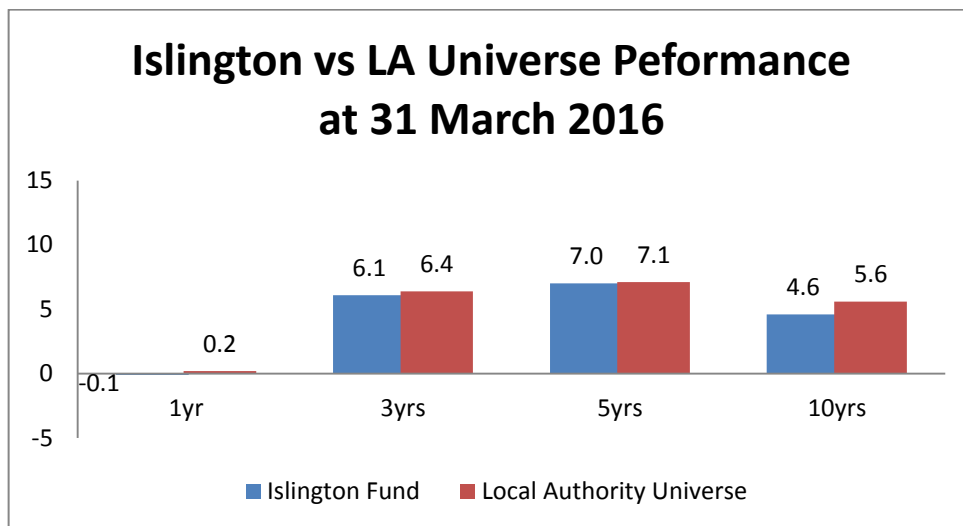
## 1.2. Long-term average returns

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, five, ten and twenty years compared to its customised benchmark.

<b>Period</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>	<b>20 year</b>
Fund return per annum %	0.1	6.1	7.0	4.6	6.5
Benchmark%	-0.4	6.1	7.2	5.6	6.6

Over the 20 year period the fund has returned 6.5% per annum in absolute terms.

The Islington Council pension fund also compares itself against its peers through the WM local authority universe. The graph below shows the pension fund compared to the average performance of the universe over the 1, 3, 5 and 10 year periods. The Fund has performed in line with the sector average over the longer term and returning 3.5% per annum ahead of inflation over 20 years.



## 2: Business plan

The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. The Pensions Sub Committee agreed a four-year business plan to March 2019 in compliance with Myners Principle 1, 'Effective decision-making through a forward looking business plan'.

2.1 The key objectives of the four year business plan, last reviewed in June 2016 are:

- ◆ 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
- ◆ To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members.
- ◆ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.
- ◆ To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- ◆ To develop collaboration opportunities with other funds for sharing of services

2.2 Actions taken over the year include:

- ◆ 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
  - Training sessions have been arranged in September to review assumptions and implications for 2016 Actuarial review

- Members agreed to allocate 10% to bonds and 15% to infrastructure and social housing in November 2015
  - A proposal for an Emerging and Frontier market manager is being sought through an open tender process with a deadline of 20 June 2016.
  - Currency hedging of overseas equities was reviewed in September 2015
  - Fee reductions were negotiated with our UK commercial property manager and our Global property manager
- ◆ To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members
    - Islington Pension Board I now scrutinises admin performance and receives a semi-annual monitoring report
    - Communication on changes to LGPS are highlighted in staff bulletins and the intranet.
    - Annual benefits statements were sent out by the end of 2015
- ◆ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.
    - Continue to work with LAPFF and IIGCC
    - Members have attended a number of AGMs of companies as shareholder to exercise our voting rights and speak to company directors
    - Members agreed to disinvest from SOCO International on the basis of its future returns, current human rights and environmental issues.
- ◆ To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
    - Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues
- ◆ To develop collaboration opportunities with other funds for sharing of services
    - The London CIV received its FCA approval in September 2015 and Islington moved its Allianz portfolio to the CIV platform on 2 December 2015
    - The government has now agreed that all England and Wales LGPS will now pool their assets into six funds. A pathway response on pooling timetable and cost is due in July 2016.



### 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. 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.

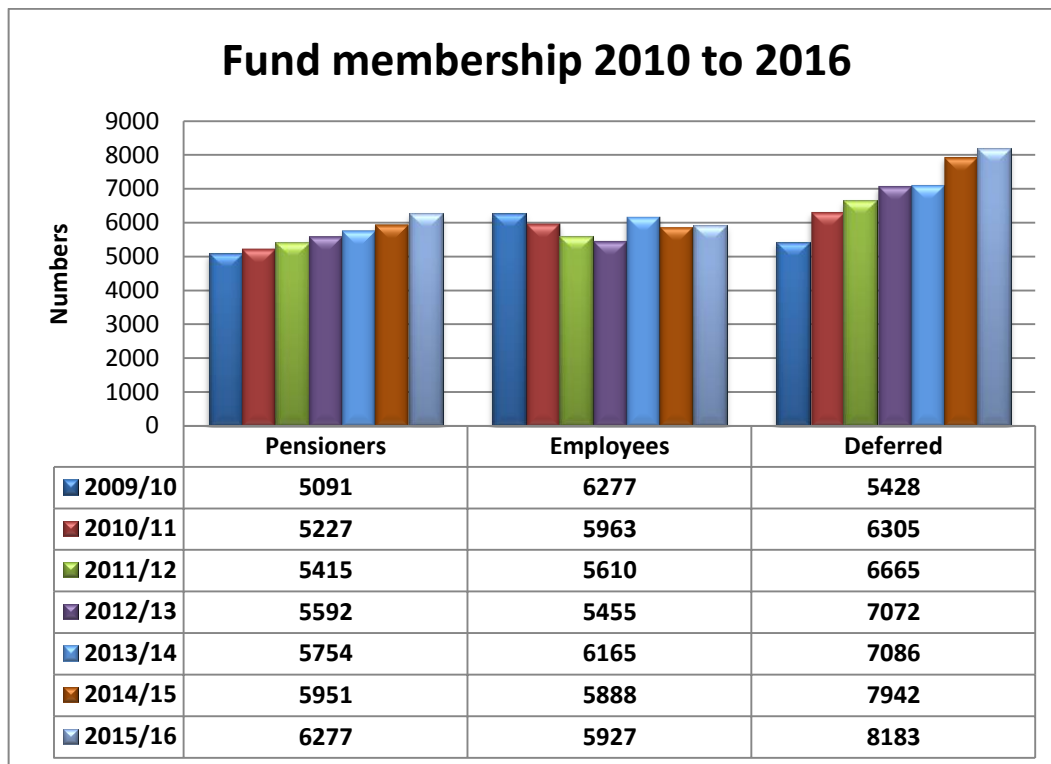
3.2 The table below lists the voting records by region at company annual meetings for the quarter ending 31 March 2016

<b>Region</b>	<b>For</b>	<b>Abstain</b>	<b>Oppose</b>	<b>Total</b>
UK & British Overseas	366	30	70	<b>466</b>
Europe & Global EU	97	8	8	<b>113</b>
USA & Canada	51	2	35	<b>88</b>
Asia	2	0	3	<b>5</b>
Japan	8	0	2	<b>10</b>
Australia & New Zealand	3	1	7	<b>11</b>
<b>Total</b>	<b>527</b>	<b>41</b>	<b>125</b>	<b>693</b>

# 4: The local government pension scheme

## 4.1. 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 2010 to 2016 is shown below.



The total membership over the same period is as follows:

March 2010	16,796
March 2011	17,495
March 2012	17,690
March 2013	18,119
March 2014	19,005
March 2015	19,781
March 2016	20,387

## 4.2 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', which means that the Council is required to maintain a separate pension fund comprising investments, from which benefits are paid. These investments provide the growth and income with which to pay the benefits.

The "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).

#### 4.2.1 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 £21,201.00 to £34,400.00 a year. A person on £30,000.00 a year (£2,500.00 a month) pays £162.50 a month in pension contributions, but income tax relief is given by deducting the contribution from taxable pay so £162.50 a month costs £130.00 net if the tax rate is 20%.

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

The contribution rates that currently apply, depending on the annual salary band, is shown below.

<b>Annual pay range</b>	<b>Employee contribution rate (%)</b>
Up to £13,600	5.5
£13,601 to £21,200	5.8
£21,201 to £34,400	6.5
£34,401 to £43,500	6.8
£43,501 to £60,700	8.5
£60,701 to £86,000	9.9
£86,001 to £101,200	10.5

£100,201 to £151,800	11.4
More than £151,800	12.5

#### 4.2.2 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 which is the date of entitlement to State Pension. The State Pension age is being changed for women so that before the end of the decade there will be a common age of 65 for both men and women, and rising thereafter to age 66 and beyond. To find out your own state pension age please see the following link:

[www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)

#### 4.3 Keeping up to date

Information regarding the LGPS provisions is provided on the Council's internal 'Izzi' site, and also on the external website [www.islington.gov.uk/pensions](http://www.islington.gov.uk/pensions) for those who do not have access to the intranet site.

There are full details on the website regarding the LGPS.

#### 4.3.1 Employees who are not members of the LGPS

There are many advantages in being a member of the LGPS and any person who has opted out of the scheme in the 3 year period from 1<sup>st</sup> April 2013 was re-enrolled' into the scheme on 1<sup>st</sup> April 2016'.

#### 4.4 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2016, in respect of the main procedures.

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	72	95%	90.28%	3.95
Retirement benefits	5	217	95%	83.87%	4.75
Pension estimates	10	529	95%	89.79%	7.42
Preserved benefit calculations	15	142	95%	85.92%	10.30
Transfer-in quotation	10	19	95%	78.95%	9.33
Transfer-in actual	10	54	95%	81.48%	5.13
Transfer out	15	36	95%	80.56%	10.98

quotation					
Transfer out actual	12.5	20	95%	85.00%	6.39

Over the period, 88.35% of the 1,858 processes undertaken by the Pensions Administration team were completed within the target days.

## 4.5 Contacts

### 4.5.1 Retired Members' Representative

Thelma Harvey and Marion Oliver have taken on the role, on a shared basis, as your Representative.

The representatives will not be able to settle any difficulty you may experience regarding matters such as benefits claims or income tax problems, but they may be able to give some guidance or suggest sources of help. Contact can be made with Thelma or Marion, between the hours of **10.00 a.m. to 4.00 p.m. Monday to Friday** as follows:

Thelma Harvey -. (Email contact [thelma8a@gmail.com](mailto:thelma8a@gmail.com))

Marion Oliver -. (Email contact [marionoliverislington@outlook.com](mailto:marionoliverislington@outlook.com))

### 4.5.2 Contacts - Pension benefits office

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

**Pensions section, Second floor, 7 Newington Barrow Way, London N7 7EP**

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

<b><u>Surname range</u></b>	<b><u>Telephone enquiries</u></b>	<b><u>Email enquiries</u></b>
A – CARS	020 7527 2993	sarah.watts@islington.gov.uk
CART – GOP	020 7527 2409	algie.theodoric@islington.gov.uk
GOR – MACH	020 7527 4492	deborah.patten@islington.gov.uk
MACK – Q	020 7527 2165	patricia.assam@islington.gov.uk
R – SO	020 7257 2167	kelly.thompson@islington.gov.uk
SP – Z	020 7527 2800	daljit.bhargal@islington.gov.uk

# 5: Democratic arrangements

## 5.1 Pension Sub-Committee

For 2015/16 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 Richard Greening (Chair)  
Cllr Andy Hull (Vice Chair)  
Cllr Paul Smith  
Cllr Michael O'Sullivan

### Substitutes

Cllr Satnam Gill OBE  
Cllr Mouna Hamitouche MBE  
Cllr Angela Picknell

### Other Representatives:

Four trade union observers  
Pensioner representative Marion Oliver / Thelma Harvey  
Observer from Volunteering Matters (An 'admitted body')

### Fund Investment Advisors:

Mercer  
Allenbridge Investment Advisers

### Fund Actuary:

Mercer

### Fund Custodian:

BNY Mellon

### Performance Monitoring:

WM Performance Services to 31 March 2016

### Corporate Governance Research and Voting Advice Service:

Pension Investments Research Consultants

## 5.2. Islington Council Local Pension Board

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

### 5.2.1 The membership of the board is as follows:

Vaughan West, GMB	Member representative -Chair
Councillor David Poyser	Employer representative- Vice - Chair
Mike Calvert, Unison	Member representative
Maggie Elliot - Chair of Governors at Montem Primary School	Employer representative
Marion Oliver(substitute is Thelma Harvey)	Retired members representative
David Bennett-	Independent member

5.2.2 The Board's terms of reference specify that the Board shall meet bi-annually and normally on the same date as the Pensions Sub-Committee, in order that its deliberations may be taken into account in relation to relevant items on the agenda of the Pensions Sub-Committee. For the municipal year 2015/16, the Board met on 14 September 2015 and 11 April 2016 and an additional training day on 9 November 2015. Members receive copies of agenda and reports of the pension sub- committee and vice versa

### 5.3 Activities of the Board

(i) The Board have agreed and adopted a knowledge and training policy and training register as well as a breaches procedure policy and guidance

(ii) The Board received training on the code of conduct/members declaration and conflict of interest on 9 November 2015

(iii) The Board agreed a work plan for 2016/17 to focus on

- Its own training, knowledge and understanding
- Reviewing fund risks and internal systems and controls
- Employer and member communications
- Reporting regulatory breaches
- Key performance indicators for administration of the Fund

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

<http://democracy.islington.gov.uk>

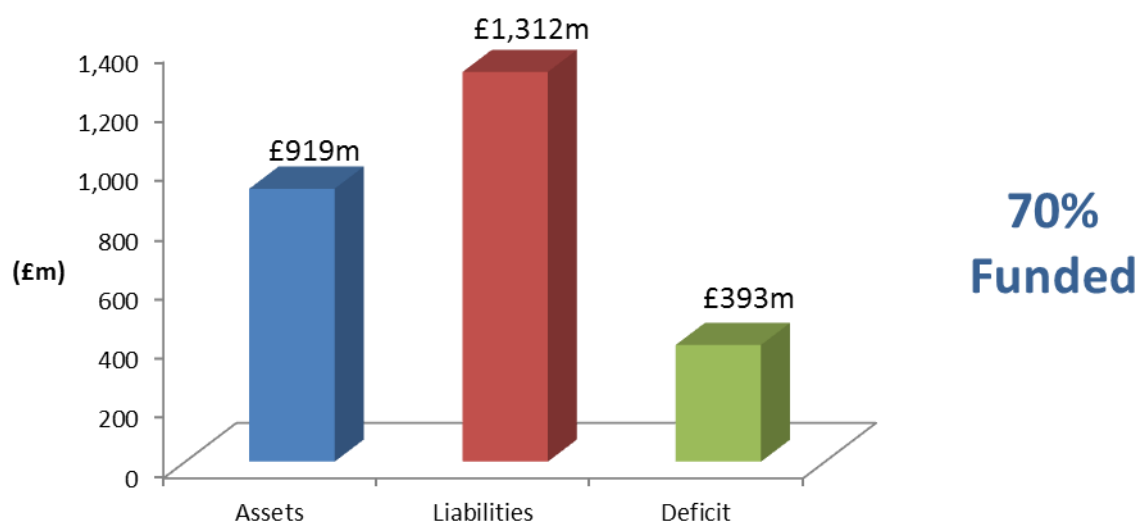
## 6. Funding of the pension scheme

### 6.1 Accounts for the year ended 31 March 2016 - 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 (Administration) Regulations 2013.

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £919 million represented 70% of the Fund's past service liabilities of £1,312 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £393 million.



The valuation also showed that a common rate of contribution of 12.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 75% with a resulting deficit of £309 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £18.4m per annum increasing at 2.6% per annum (equivalent to approximately 12.3% of projected Pensionable Pay at the valuation date) for 22 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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 for certain employers) will be made to the Fund by the employers.

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases	4.35% per annum*	4.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.75% per annum*	3.75% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year -end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year -end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £1,638 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£80 million. Adding interest over the year increases the liabilities by c£54 million. Benefits accrued/paid over the period (including any increase in liabilities arising as a result of early retirements/augmentations) were broadly equal and so had no material net impact on the liabilities.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £1,612 million.

Ian Kirk  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
**August 2016**

## 7: Summary of financial report

### 7.1 Income and expenditure

The net assets of the scheme were worth £1,083 million. This is a decrease of less than 1% compared to last year.

Employees' contributions totalled £11.1 million, increase of £0.2 million over 2014/15

Employers' contributions amounted to 34.9 million compared to the £33.9 million in the previous year. The 2.9% increase was mainly attributable to pension increase order and pay awards. Pensions paid totalled £40.5 million compared to £38.7million in 2014/15, a rise of 4.6%. Pensions paid were subject to an annual inflation rise of 2.5% in April 2015.

As at 31 March 2016 the total income into the fund was £63.2million against an expenditure of £57.1 million. This means that the fund was able to meet all its commitments from contributions.

The detailed reporting of the pension fund accounts for 2015/16 forms part of the council's annual statement of accounts which include the statement of responsibilities and covers all the council services. This can be found at [www.islington.gov.uk/accounts](http://www.islington.gov.uk/accounts).

## 8: Statement of responsibilities

The London Borough of Islington as Administering Authority of the London Borough of Islington Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

### Responsibilities of the Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Corporate Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice, except where otherwise stated.

The Corporate Director of Finance

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 22-45 have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Islington Pension Fund during the year ended 31 March 2015 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits accruing after the year end.



Mike Curtis  
Corporate Director of Finance

# 9: Statement of accounts 2015/16

## Pension Fund

### Explanatory Foreword

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

The Pension Fund is a defined benefit scheme built up from contributions paid by both employees and the Council, together with interest and dividends received from the Fund's investments; out of which pensions and other benefits are paid. Employees' contributions to the Fund and the extent of benefits paid out are fixed by Government Regulations. An independent actuary assesses the Council's contribution rate every three years. The Local Government Pension Scheme is operated under regulations made under Sections 7 and 12 of the Local Government Superannuation Act 1972. The Local Government Pension Scheme Regulations 2013 (as amended ("the 2013 Regulations")) and the Local Government Pension Scheme (Transitional Provisions, Saving and Amendment) Regulations 2014 ("2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the administering Authority is required to cover contributions, valuation of the Fund and benefits. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2015/16 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the provisions of Chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes.

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

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

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

<http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx>

Power is given in The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations” and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 to admit employees of other organisations to the London Borough of Islington Pension Fund. Lists of the scheduled and admitted bodies to the fund are detailed below:

Organisation	Employer
Islington Council	Administering Authority
St Mary Magdalene	Scheduled Body
City of London Academy	Scheduled Body
William Tyndale School	Scheduled Body
New North Community School	Scheduled Body
The Courtyard School	Scheduled Body
Stem 6 <sup>th</sup> Form Academy	Scheduled Body
Elliot Foundation Academy	Scheduled Body
Whitehall Park School	Scheduled Body
Family School Academy	Scheduled Body
The Bridge Free School	Scheduled Body
Volunteering Matters (formerly ( CSV	Admitted Body
Circle Anglia	Admitted Body
Camden & Islington NHS Foundation Trust	Admitted Body
SSE Contraction Ltd (Islington Lighting )	Admitted Body
Southern Housing Group	Admitted Body
Braithwaite	Admitted Body
Pleydell	Admitted Body
Kier Support Services	Admitted Body
Cofely Workplace Ltd (Balfour Beatty)	Admitted Body
Caterlink	Admitted Body
NCP Services (Islington South)	Admitted Body
RM Education	Admitted Body
Breyer Group	Admitted Body
Mears Ltd	Admitted Body
Greenwich Leisure Ltd	Admitted Body
W J Catering	Admitted Body
Isledon Arts CIC	Admitted Body

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

London Property Maintenance  
 FSST  
 St Lukes  
 Association of London Authorities (ALA)  
 Family Services Unit (FSU)  
 Redbrick  
 Brunswick  
 Cushman & Wakefield

Kier Islington  
Mouchel Parkman  
Cambridge Education Associates (CEA)  
Notting Hill Housing Trust  
Aquaterra

## **9.1 Accounting Policies**

The accounts have been prepared in accordance with the provisions of Chapter 2 of Recommended Accounting Practice of the Pension SORP May 2007 and the 201516 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is IFRS compliant. The financial statements have been prepared on an accruals basis except for transfers to and from the scheme which are accounted for on a cash basis.

The principal accounting policies of the scheme are as follows:

### **9.1.1. Investments**

Investment values are at bid price.

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

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

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

Index linked securities are valued at bid price.

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

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

Private equity is priced on the latest audited valuation plus any drawdowns and distributions to the 31 March 2016.

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

Derivatives are stated at market value.

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

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

### **9.1.2. Investment Income**

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

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

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

### **9.1.3. Foreign Currencies**

Foreign income has been translated into sterling at the date of the transaction. Foreign income due at the year-end has been translated into sterling at the rate ruling at 31 March 2016.

### **9.1.4. Contributions**

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

### **9.1.5. Benefits Payable**

Benefits payable and refund of contributions are brought into the accounts on the basis of valid claims approved during the year. Under the rules of the Fund, retirees receive a lump sum retirement grant in respect of any membership up to 31 March 2008, 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.

### **9.1.6. Transfers**

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

### **9.1.7. Expenses**

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

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

#### ***9.1.7.1 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.

#### *9.1.7.2 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.

#### *9.1.7.3 Investment management expenses*

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

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

#### **9.1.8. Stock Lending**

The fund does not participate in stock lending.

#### **9.1.9. Additional Voluntary Contributions**

Additional Voluntary Contributions (AVCs) paid by scheme members are not included within the accounts as these are managed independently of the fund by specialist AVC fund providers. This is in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. Total contribution paid by members during 2015/16 amounted to £1133,03 and the value of the fund as at 31 March 2016 was ££1.3m.

#### **9.1.10. Actuarial Position**

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



## 9.2 Income and Expenditure Account

2014/15 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2015/16 £'000	Note
<b>Income</b>			
33,902	Employer contributions	34,862	2a
10,917	Members contributions	11,159	2
1,696	Transfers in from other pension funds	1,917	3
2,670	Other Income	2,623	4
<b>49,185</b>	<b>Total Income</b>	<b>50,561</b>	
<b>Expenditure</b>			
(45,467)	Benefits payable	(52,014)	5
(3,363)	Payment to and on account of leavers	(1,653)	6
<b>(48,830)</b>	<b>Total Expenditure</b>	<b>(53,667)</b>	
<b>(2,544)</b>	<b>Management Expenses</b>	<b>(3,474)</b>	<b>7</b>
<b>(2,189)</b>	<b>Net additions/ (withdrawals) from dealing with members</b>	<b>(6,580)</b>	
<b>Returns on investments</b>			
12,334	Investment income	12,762	8
103,016	Change in market value (realised & unrealised)	(9,576)	
<b>115,350</b>	<b>Total Returns on investments</b>	<b>3,186</b>	
<b>Net return on investments</b>			
113,161	Net increase/decrease in fund in year	(3,394)	
<b>974,016</b>	<b>Opening net assets of the scheme</b>	<b>1,087,177</b>	
<b>1,087,177</b>	<b>Closing net assets of the scheme</b>	<b>1,083,783</b>	

### 9.3 Net Assets Statement

2014/15 £'000	<b>Net Assets Statement for the year ended 31 March 2015</b>	2015/16 £'000	Note
<b>Investments</b>			
1,067,966	Investment assets	1,068,813	9
19,089	Other Investment and Cash	14,492	9
<b>1,087,055</b>	<b>Total Investments</b>	<b>1,083,305</b>	
<b>Current Assets and Liabilities</b>			
4,885	Current assets	5,609	10
(4,763)	Current liabilities	(5,131)	11
<b>122</b>	<b>Net Current Assets</b>	<b>478</b>	
<b>1,087,177</b>	<b>Net assets of the scheme at 31 March</b>	<b>1,083,783</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.

## **9.4 Notes to the Pensions Account**

### **9.4.1. Basis of Preparation**

The statement of accounts summarises the fund's transactions for 2015/16 financial year and its positions as at 31<sup>st</sup> March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector

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

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 15 of these accounts.

#### **9.4.2. Contributions Receivable**

##### *a) Employers' Contributions*

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

Contributions receivable - Employers' contributions	Normal Contributions		Special Contributions		Strain Recovery*	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Administering Authority</b>						
Islington Council	29,796	30,769	-	-	1,426	2,267
<b>Scheduled Bodies</b>						
St Mary Magdalene	254	244	-	-	-	-
City of London Academy	112	110	-	-	-	-
New North Community School	58	90	-	-	-	-
William Tyndale School	69	67	-	-	-	-
The Courtyard School	18	20	-	-	-	-
Stem 6th form Academy	5	5	-	-	-	-
Elliot Foundation	16	13	-	-	-	-
The Bridge School Academy	-	23	-	-	-	-
Family School Academy	-	1	-	-	-	-
Whitehall Park School	5	4	-	-	-	-
<b>Admitted bodies</b>						
CSV	902	626	700	-	106	-
Aquaterra	0	-	-	-	27	-
Circle Anglia	21	18	-	-	-	-
Camden & Islington NHS Foundation Trust	65	135	-	-	-	-
Notting Hill Trust	-	-	-	-	-	-
NCP Services (Islington South)	21	22	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	22	20	-	-	58	-
Southern Housing Group	6	6	-	-	-	-
Braithwaite	4	4	-	-	-	-
Pleydell	16	16	-	-	-	-
Caterlink	143	144	-	-	-	-
Mouchel Parkman	-	-	-	-	-	-
Cofely Workplace Ltd (Balfour Beatty)	111	97	-	-	-	-
R M Education	12	9	-	-	-	-
**Kier support Services	141	-	(356)	-	-	-
Breyer Group	18	18	-	-	-	-
Mears Ltd	35	35	-	-	-	-
WJ Catering	-	5	-	-	-	-
Isledon Arts CIC	-	11	-	-	-	-
Greenwich Leisure Ltd	91	83	-	-	-	-
<b>Totals</b>	<b>31,941</b>	<b>32,595</b>	<b>344</b>	<b>0</b>	<b>1,617</b>	<b>2,267</b>

\*Note 15 provides further information regarding "Strain Recovery"

\* \*One off payment owed to Kier as per 2013 valuation

## 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)	
	2014/15	2015/16
	£'000	£'000
<b>Administering Authority</b>		
Islington Council	10,283	10,675
<b>Scheduled Bodies</b>		
St Mary Magdalene	134	130
City of London Academy	54	53
New North Community School	20	26
William Tyndale School	15	16
The Courtyard School	10	11
Stem 6th form Academy	5	5
Elliot Foundation	17	12
Bridge School Academy	-	8
Family School Academy	-	-
Whitehall Park School	2	2
<b>Admitted bodies</b>		
CSV	115	21
Aquaterra	-	-
Circle Anglia	2	1
Camden & Islington NHS Foundation Trust	7	18
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	6	5
Southern Housing Group	1	2
Braithwaite	2	2
Pleydell	6	6
Caterlink	54	54
Cofely Workplace Ltd (Balfour Beatty)	40	36
R M Education	7	5
Kier Support Services	69	-
Breyer Group	7	8
Mears Ltd	12	12
WJ Catering	-	1
Isledon ArtsCIC		5
Greenwich Leisure Ltd	40	36
<b>Totals</b>	<b>10,917</b>	<b>11,159</b>

### 9.4. 3. Transfers in

2014/15 £'000	Transfers in	2015/16 £'000
-	Group transfers in from other schemes	-
1,696	Individual transfers in from other schemes	1,917
<b>1,696</b>	<b>Total transfers in</b>	<b>1,917</b>

### 9.4.4. Other Income

2014/15 £'000	Other Income	2015/16 £'000
0	Income from Other Investments	0
0	Interest	0
2,670	Other	2,623
<b>2,670</b>	<b>Total other income</b>	<b>2,623</b>

### 9.4.5. Benefits

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

Benefits Payable	Pensions		Lump sum benefits		Lump sum death	
	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000
<b>Administering Authority</b>						
Islington Council	35,887	37,537	5,603	9,728	648	1,317
<b>Scheduled Bodies</b>						
St Mary Magdalene	7	12	-	80	-	-
City of London Academy	7	28	32	49	-	24
William Tyndale School	-	5	-	-	-	-
New North Community School	9	9	-	-	-	-
<b>Admitted bodies</b>						
Volunteering Matters (CSV)	951	1,017	162	184	21	-
Aquaterra	213	223	-	27	-	-
Circle Anglia	53	58	51	-	-	-
Camden & Islington NHS Foundation Trust	51	51	-	-	-	-
CEA	812	807	-	4	-	-
FSST	6	5	-	-	-	-
Kier Islington Ltd (Caxton)	581	587	-	-	-	-
NCP Services (Islington South)	30	33	15	-	-	-
SSE Contracting Ltd (Islington Lighting)	33	36	34	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	31	31	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	15	17	22	-	-	-
Brunswick	9	9	-	-	-	-
Cushman & Wakefield LLP	7	7	-	-	-	-
London Property Maintenance	0	-	-	-	-	-
Caterlink	11	12	33	9	2	22
Notting Hill Trust	12	9	-	-	-	-
Kier Support Services	18	20	91	-	-	-
Cofely Workplace Ltd (Balfour Beatty)	2	9	-	-	-	-
Greenwich Leisure Ltd	4	16	-	27	-	-
<b>Totals</b>	<b>38,753</b>	<b>40,542</b>	<b>6,043</b>	<b>10,108</b>	<b>671</b>	<b>1,363</b>



#### 9.4.6. Payments to and on Account of Leavers

2014/15 £'000	Payment to and on Account of Leavers	2015/16 £'000
37	Refunds of Contributions	95
3,326	Individual Transfer	1,558
<b>3,363</b>	<b>Total payments to and on account of leavers</b>	<b>1,653</b>

#### 9.4.7. Management Expenses

2014/15 £'000	Management Expenses	2015/16 £'000
1,172	Administrative Cost (7a)	1,219
1155	Investment Management Expenses (7b)	1,898
217	Oversight and Governance Cost (7c)	357
<b>2,544</b>	<b>Total Management Expenses</b>	<b>3,474</b>

#### 9.4.7(a) Administrative Expenses

2014/15 £'000	Administrative expenses	2015/16 £'000
727	Employee Cost	895
445	Support services	320
0	Other expenses	4
<b>1,172</b>	<b>Total administrative expenses</b>	<b>1,219</b>

All other costs of administration are borne by Islington Council.

#### 9.4.7(b) Investment Expenses

2014/15 £'000	Investment Expenses	2015/16 £'000
1,094	Management Fees	1,852
61	Custody Fees	46
<b>1,155</b>	<b>Total investment management expenses</b>	<b>1,898</b>

### 9.4.7(c) Oversight and Governance Cost

2014/15 £'000	Oversight & Governance Cost	2015/16 £'000
29	Performance Management Services	32
123	Advisory Services Fees	77
44	Operation and Support	224
0	Actuarial Fees	3
21	Audit Fees	21
-	Legal Fees	-
<b>217</b>	<b>Total Oversight &amp; Governance Cost</b>	<b>357</b>

### 9.4.8. Income from Investments

2014/15 £'000	Investment Income	2015/16 £'000
16,973	Dividends from equities	15,480
(6,929)	Income from other investments vehicles	(5,062)
2,290	Net rents from pooled investment properties	2,357
-	Interest on cash deposits	-13
<b>12,334</b>	<b>Total Investment income</b>	<b>12,762</b>
-	Irrecoverable withholding tax	-
<b>12,334</b>	<b>Total Investment income</b>	<b>12,762</b>

### 9.4.9. Investments

Investments	Market value 01 Apr 15 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 16 £'000
Fixed interest securities	85	-	-	(3)	82
Indexed linked securities	121	-	-	(1)	120
Equities	565,199	124,089	211,477	(91,872)	385,939
Pooled investment vehicles (P.I.V)	307,594	101,123	1,079	62,172	469,810
Other Investment - P.I.V	-	-	-	-	-
Properties - P.I.V	152,050	12,624	5,405	16,282	175,551
Private Equity - P.I.V	42,917	2,825	12,276	3,845	37,311
Venture Capital	-	-	-	-	-
<b>Total</b>	<b>1,067,966</b>	<b>240,661</b>	<b>230,237</b>	<b>(9,577)</b>	<b>1,068,813</b>
Other Investment & Cash	19,089				14,492
<b>Total Investments</b>	<b>1,087,055</b>				<b>1,083,305</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.*

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

<b>Investment Assets by Type</b>		<b>2014/15</b>	<b>2015/16</b>
		<i>£'000</i>	<i>£'000</i>
<b>Fixed interest securities (valued at Bid Price)</b>			
Fixed interest securities (valued at Bid Price)		85	82
<b>Total Fixed interest securities</b>		<b>85</b>	<b>82</b>
<b>Index -linked</b>			
UK public sector quoted		121	120
<b>Total Index -linked</b>		<b>121</b>	<b>120</b>
<b>Equities (valued at Bid Price)</b>			
UK quoted		283,548	216,072
Overseas quoted		281,651	169,867
<b>Total Equities</b>		<b>565,199</b>	<b>385,939</b>
<b>Pooled investment vehicles (valued at Bid Price)</b>			
UK Managed Funds	Property	89,008	100,053
	Other : Bond	221,099	220,821
Overseas Managed Funds	Other : Equity	75,882	69,784
	Property	15,780	19,747
	Other : Private Equity	42,917	37,311
UK Unit trusts (valued at Bid Price)	Property	47,262	55,751
	Other	10,613	179,205
<b>Total Pooled investment vehicles</b>		<b>502,561</b>	<b>682,672</b>
<b>Insurance policies</b>			
Insurance policies		-	-
<b>Other investment balances (valued at Amortised cost)</b>			
Outstanding trades		2,621	(2,251)
Outstanding dividends & RWT		(2,096)	2,638
Cash deposits : Sterling		18,564	14,105
<b>Total Other investment balances</b>		<b>19,089</b>	<b>14,492</b>
<b>Total Investment Assets</b>		<b>1,087,055</b>	<b>1,083,305</b>

<b>Type of future</b>	<b>Expiration</b>	<b>Economic Exposure value</b>	<b>Market Value</b>
UK FTSE exchange traded	Less than 1 year	-	-
UK gilt exchange traded	Less than 1 year	-	-
<b>Total</b>		<b>0</b>	<b>0</b>

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

#### 9.4.10. Current Assets

2014/15 £'000	Current Assets	2015/16 £'000
4,416	Contributions due from Employers & Employee	1,911
76	Sundry Debtors	101
393	Cash Balances	3,597
<b>4,885</b>	<b>Total</b>	<b>5,609</b>

#### 9.4.11. Current Liabilities

2014/15 £'000	Current Liabilities	2015/16 £'000
(576)	Accrued Benefits	(2,206)
(2,520)	**Sundry Creditors	(1,956)
(1,230)	*Receipt in Advance	(615)
(437)	Accrued Expenses	(354)
<b>(4,763)</b>	<b>Total</b>	<b>(5,131)</b>

\* CSV Advance lump sum payment for 2015-17

\*\* Central Recharges & One off IT Cost

#### 9.4.12. Expenditure

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age.

Other Types of Retirement Pension:

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

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

	Service Pre 1 April 2008	Services Post 31 March 2008	Service Post 31 March 2014
<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.

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

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

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

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

#### **9.4.13. Income**

Income is credited to the Pension Fund consisting mainly of:

- a) Employees' contributions ranging between 5.25% and 12.5% according to the annual earnings band an employee falls in.
- b) Employers' contributions determined by the triennial actuarial review. The last review as at 31 March 2013, effective from 1 April 2014 fixed at 12.5% of pensionable payroll costs. In common with many other local authorities, the Pension Fund has a deficit. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over twenty two years. A lump sum contribution of £x10.137m was made in 2015/16.
- c) Upgraded Pensions relate to compensation payments (added years) made on redundancy or efficiency grounds, the index-linked increases thereon, and certain non-contributing service which the Council has treated as counting at full length in the payment of benefits. Income is transferred to the Pension Fund from the General Fund to offset these payments.
- d) Contributions are invested and used for the benefit of the Pension Fund. The investment income in the form of dividends, interest and capital realisation is paid into the Fund.

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

f) The Pension Fund is Tax Exempt

#### **9.4.14. Actuarial Position**

Mercer, an independent actuary, values the Fund every three years. The actuary's job is to decide whether present contribution rates are sufficient for funding purposes. They may, if the situation demands, recommend an increase in contributions to ensure the solvency of the Fund. The latest actuarial valuation, including calculated changes to the ongoing employer contribution rate to meet current service accrual, and to the lump sums needed to meet past service deficit, was carried out as at 31 March 2013.

##### *Pension Fund Triennial Revaluation*

The Pension Fund Triennial revaluation carried out as at 31 March 2013 came into effect in terms of altered employer contributions from 1 April 2014 to 31 March 2017. Under this revaluation the Fund assets were valued at £919m and liabilities at £1,312m, a deficit of £393m. The funding level had declined from 72% to 70%. The funding target to recover the deficit was however, mitigated by improvements in financial factors as at 31 August 2013 in particular the increase in gilts yields. In agreement with employers, and the administering authority the actuary built into the recovery plan this improvement to stabilise contributions requirement if appropriate.

The actuary has defined a common employer contribution rate of 12.8% of pensionable pay per annum, and an average additional contribution of 7.3% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.1% of pensionable pay in total.

Additional monetary amounts are paid each year and inflated by the amount specified in the annual Pensions Increase Order of 2.6% to complete a 22 year programme of payments to bring the Fund back to 100% funding.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions (2013 valuation) were as follows for future service:

- Rate of return on investments 6.35% per annum
- Rate of general pay increases 4.35% per annum
- Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.6% per annum

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

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

Following the Council's consideration of this report, a system of controls was put in place to protect the Pension Fund from the unfunded costs or "strain" placed on the Fund to finance early retirements due to redundancy, and also high levels of medical retirements. As a result all medical retirements must be

considered and approved by the Council's Occupational Health Adviser based on practice guidelines issued by the adviser's professional body.

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

#### 9.4.15. Fund Membership

Membership of the Fund	Administering Body		Admitted Bodies		Scheduled Bodies		Totals	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	No's	No's	No's	No's	No's	No's	No's	No's
Employees Contributing into the Fund	5,500	5,454	187	146	201	327	5,888	5,927
Pensioners	4,654	4,906	360	377	9	14	5,023	5,297
Widow s/ Children's Pensions	885	929	43	46	-	5	928	980
Deferred Benefits	7,104	7,272	752	775	86	136	7,942	8,183
<b>Totals</b>	<b>18,143</b>	<b>18,561</b>	<b>1,342</b>	<b>1,344</b>	<b>296</b>	<b>482</b>	<b>19,781</b>	<b>20,387</b>

#### 9.4.16. Additional Voluntary Contributions

2014/15	Additional Voluntary Contribution	2015/16
Market Value		Market Value
£'000		£'000
1,072	Prudential	1,014
237	Equitable life	206
98	NPI	84
<b>1,407</b>	<b>Total Additional Voluntary Contributions</b>	<b>1,304</b>

#### 9.4.17. Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2015/16

#### 9.4.18. Contractual Commitments.

There were no contractual commitments at the period end.



#### **9.4.19. Related Parties**

Islington Pension Fund is administered by Islington Council.

Members of the Pensions Sub-committee are related parties of the fund and four of them are deferred members of the LGPS.

As at 31 March 2016, Islington Council owed the Pension fund £1.59m (£4.1m 2014-15). Full contributions from the Council for the year are disclosed in table 2a.

#### **9.4.20. Post Balance Sheet Events**

Stock market initial fall on 24 June, the day after referendum result, have now generally recovered. However, uncertainties will persist until negotiations are completed and its final impact realised. It is therefore impossible to quantify any effect but the fund is diversified to mitigate risk and take advantage of any opportunities.

#### **9.4.21. 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.

## 9.4.22. Price and currency risk

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

### Price risk

Price Risk	Final Market Value as at 31/03/16 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	261,946	10.60%	289,712	234,180
Overseas Equities	276,193	10.60%	306,188	246,198
Total Bonds	223,047	6.04%	236,519	209,575
Pooled Multi Asset	96,983	4.37%	101,221	92,745
Cash	11,964	0.01%	11,965	11,963
Property	175,680	2.12%	179,404	171,956
Private Equity	37,691	5.39%	39,723	35,659
<b>Total Assets</b>	<b>1,083,504</b>	<b>6.51%</b>	<b>1,154,040</b>	<b>1,012,968</b>

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

### Currency risk

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

Currency Risk	Final Market Value as at 31/03/16 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities-Euro	34,818	3.44%	36,015	33,621
Overseas Equities- Yen	11,603	3.44%	12,002	11,204
Overseas Equities-US Dollar	85,930	3.44%	88,885	82,975
Overseas Equities -global basket	75,279	3.44%	77,867	72,691
Overseas Equities - Emerging Market	68,562	3.44%	70,919	66,204
<b>Total Assets</b>	<b>276,192</b>	<b>3.44%</b>	<b>285,688</b>	<b>266,695</b>

### 9.4.23. 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 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
<b>Financial Aests</b>				
Financial assets at fair value through profit and loss	1,031,502	51,803	-	1,083,305
Loans and Receivables	-	5,609	-	5,609
<b>Total Financial Assets</b>	<b>1,031,502</b>	<b>57,412</b>	<b>0</b>	<b>1,088,914</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(5,131)	-	(5,131)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>(5,131)</b>	<b>0</b>	<b>(5,131)</b>
<b>Net Financial Assets</b>	<b>1,031,502</b>	<b>52,281</b>	<b>0</b>	<b>1,083,783</b>

Values at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
<b>Financial Aests</b>				
Financial assets at fair value through profit and loss	1,025,049	62,006	-	1,087,055
Loans and Receivables	-	4,885	-	4,885
<b>Total Financial Assets</b>	<b>1,025,049</b>	<b>66,891</b>	<b>0</b>	<b>1,091,940</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(4,763)	-	(4,763)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>(4,763)</b>	<b>0</b>	<b>(4,763)</b>
<b>Net Financial Assets</b>	<b>1,025,049</b>	<b>62,128</b>	<b>0</b>	<b>1,087,177</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

### *Level 2*

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

### *Level 3*

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

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

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

## 9.4.24. Investment Assets by Fund Manager

Investment Assets by Fund Manager	2014/15 £'000	2015/16 £'000
<b>LBI In House Fund</b>		
<b>EQUITIES</b>		
UK quoted - LBI self managed	268,456	198,162
Overseas quoted - LBI self managed	60,679	41,447
<b>CASH DEPOSITS</b>		
Sterling	5,626	9,102
Other	0	0
<b>OTHER INVESTMENT BALANCES</b>		
Outstanding Dividends/Tax	1,923	1,626
Outstanding trades	0	0
<b>FIXED INTEREST</b>		
UK	85	82
<b>INDEX-LINKED</b>		
UK	121	120
<b>POOLED FUNDS</b>		
UK	7,637	6,932
<b>Total LBI In House Fund</b>	<b>344,527</b>	<b>257,471</b>
<b>Newton</b>		
<b>EQUITIES</b>		
Overseas quoted - NEWTON	130,152	128,420
UK quoted - NEWTON	11,808	17,910
<b>CASH DEPOSITS</b>		
Sterling	4,384	7,812
Other	0	0
<b>OTHER INVESTMENT BALANCES</b>		
Outstanding Dividends	478	767
Outstanding trades	239	-2,251
<b>Total Newton</b>	<b>147,061</b>	<b>152,658</b>
<b>RCM / LONDON CIV</b>		
<b>EQUITIES</b>		
Overseas quoted - RCM	90,820	0
UK quoted - RCM	3,284	0
<b>POOLED FUNDS</b>		
Other	2,968	75,279
<b>CASH DEPOSITS</b>		
Sterling	4,068	116
Other	0	0
<b>OTHER INVESTMENT BALANCES</b>		
Outstanding Dividends	220	245
Outstanding trades	0	0
<b>Total RCM</b>	<b>101,360</b>	<b>75,640</b>

Investment Assets by Fund Manager (contd.)	2014/15 £'000	2015/16 £'000
<b>Standard Life Bonds</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Managed funds	221,099	220,821
<b>Pantheon</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Private equity - overseas	20,067	16,405
<b>Standard Life</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Private equity - overseas	22,850	20,906
<b>Aviva Lime Property</b>		
<b>UK UNIT TRUSTS</b>		
Property	47,262	55,751
<b>Threadneedle Pensions</b>		
POOLED INVESTMENT: Property	66,085	74,205
<b>Baring English Growth Fund</b>		
UK UNIT TRUSTS	8	11
<b>Thesis</b>		
POOLED INVESTMENT: Property	22,923	25,847
<b>BNY Mellon</b>		
CASH DEPOSITS : Sterling	2,151	-2,924
<b>Legal &amp; General</b>		
<b>POOLED INVESTMENT VEHICLES</b>		
Managed funds	75,882	69,784
<b>Franklin Templeton</b>		
Pooled Investment Global Property	15,780	19,747
<b>Schroders</b>		
Pooled Investment Multi Asset		96,983
<b>Total Investment Assets</b>	<b>1,087,055</b>	<b>1,083,305</b>

# 10: Auditors opinion

Independent auditor's report to the members of London Borough of Islington on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 20 to 46.

## **Respective responsibilities of the Corporate Director of Finance and the auditor**

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Islington, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

## **Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Islington for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Philip Johnstone

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, London E14 5GL

28 September 2016

# 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 'loans' 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.

**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: The fund's statutory statements

## 12.1 Statement of Investment Principles

### 12.1.1 Legal background

This Statement sets out the policy of the Council towards investment and management of the Pension Fund assets, as required by regulation 9A (1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. This Statement will be updated regularly and when material changes are made to the strategic asset allocation.

Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, as amended, requires the Council to publish a written Statement of Investment Principles governing its decisions about the investment of fund money. This will include the extent to which it complies with the six principles of investment practice (as revised by the Government in October 2008) in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners.

The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the framework set down in the Local Government Pension Scheme (Administration) Regulations 2008, as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Corporate Services Committee.

### 12.1.2 Supplementary Information available in other Published Statements

Details of **governance policy** for the Fund are contained in a published statement. This covers, for example, policy on delegation within the Council's committee structure, frequency of meetings, terms of reference, and representation and voting rights of committee members. This statement is available on the Council's website at <http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx>

The Council must publish a statement of policy concerning **communications with members and employing authorities**. This covers, amongst other issues, the manner of publicising the Scheme to members, and employing authorities, and how the Scheme will be promoted to prospective members and their employing authorities. This statement is available on the Council's website at <http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx>

Finally, the Council also publishes a **Funding Strategy Statement (FSS)**. The FSS recognises that benefits payable under the pension scheme are guaranteed by statute and that thereby the pensions promise is secure. The FSS, however, addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure. The FSS establishes a clear strategy identifying how employers' pension liabilities are best met going forward, taking into account the regulatory requirement to maintain as nearly constant employer contribution rates as possible, whilst taking a prudent longer-term view of funding the liabilities.

### **12.1.3 Pension Fund Liabilities**

The LGPS is a defined benefit scheme based on the average salary of scheme members from 1 April 2014. Pension benefits are defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2013 (as amended), and are linked to a formula involving years of service and pensionable pay (the formula being different for pensionable service accrued pre and post 1 April 2008). Scheme members building up their pension benefits are required to make contributions based on annual salary bands between 5.5% and 12.5% of pensionable pay. The rate paid depends on which pay band is applicable. Pension benefits are not linked to the investment performance of the Pension Fund.

8 The Council appoints an independent actuary who values the liabilities of the Fund and determines the level of employer contributions which must be made by the Council and other employers admitted to the Fund, to ensure that the investment assets of the Fund achieve 100% of the value placed on the liabilities. Where there is a shortfall in the value of the assets, the Council must comply with contribution rates determined by the actuary to recover full funding, and in setting these rates (expressed in a rates and adjustments certificate), section 36 of The Local Government Pension Scheme (Administration) Regulations 2008 (as amended states:

“The actuary must have regard-

- (a) to the existing and prospective liabilities of the fund arising from circumstances common to all those bodies, and
- (b) to the desirability of maintaining as nearly constant a rate as possible.
- (c) the current version of the administering authority’s Funding Strategy Statement as mentioned in Regulation 35.. “

9 As referred to above, further detail on policy towards funding the liabilities is now contained in the Funding Strategy Statement dated 31st March 2013.

### **12.1.4 Investment Policy / Attitude to Risk**

The Pensions Sub-Committee has adopted policies with the objective of achieving maximum growth of Pension Fund investments, to reduce the burden of employer contributions on the General Fund. This is, however, tempered by the objective of reducing extreme variations of employer contribution that could occur at any triennial revaluation of the Fund by the Fund actuary.

At the last triennial valuation as at 31st March 2013, the funding level or ratio of asset value to the discounted value of the liabilities was 70%.

The Council has agreed a strategy with the Fund actuary to return the funding level from the 31 March 2013 level of 70%, to 100% through making additional employer contributions over a period of 22 years from 31 March 2014. The balance between major asset classes in the strategic asset allocation, and particularly the weighting to equities, is expected to contribute significantly, over the longer term, to the achievement of this objective. Further detail may be found in the Funding Strategy Statement.

The risk profile adopted by the Pensions Sub-Committee has been established following detailed asset/liability studies of the Fund and this was most recently reviewed in 2013. These studies examined the balance of active contributing scheme members to pensioner members and deferred members (no longer employed by the Council but not yet drawing benefits), and related this “scheme maturity” to asset allocation strategies for Fund investment. The risk of significant variation in future employer contribution outcomes could then be modelled on a variety of economic and market assumptions.

A strategy of limiting risk by matching to a degree the types of assets invested in, to the obligations or liabilities of the Fund has been adopted. The balance between investing for growth and investing in assets with the best fit or match to liabilities is a judgment requiring regular reappraisal.

Policy is determined in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended. As required by these Regulations the suitability of various types of investments has been considered, as also has the need to diversify investments to reduce the risk of being invested in too narrow a range of assets. In addition, this process has benefited from the provision of independent, professional investment advice.

The most significant asset allocation strategy decision for the Pension Fund has been to split assets as follows:

- 9 60% company shares or equities, (private and publicly quoted)
- 10 25% corporate bonds
- 11 15% property

The full asset allocation is set out in Appendix A, showing the various asset classes, the target for each asset class at the level of the total Fund, and the permitted ranges within which this may vary due to the relative movements in asset values over time.

Appendix B shows how this is reflected across individual portfolios, the current managers of those portfolios, and the benchmarks against which the individual manager's performance is measured. These portfolios have been established to ensure diversification, and take into account the suitability of the type of investment for the Fund, and are managed as follows:

### **12.1.5 Equities**

The Fund has made allocations to UK and overseas equities, both publicly and privately quoted, with the regional split broadly 50% UK and 50% overseas. The intention is for the allocation to UK equities to be reduced from 50% to 30% over time. The equity portfolio is split between a core index-tracking allocation and actively managed portfolios that target returns in excess of the relevant market index.

#### **12.1.5.1 UK Equity Index Fund**

Aims to track the FTSE All Share Index which currently comprises c.98-99% of the total UK equity market capitalisation and is an aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices. This portfolio is passively managed to track the index within a variation of plus or minus 0.5% per annum. This portfolio is the only portfolio managed in-house. External managers manage the other specialist portfolios.

#### **12.1.5.2 Overseas equities**

Legal and General Investment Management (LGIM) manage an index-tracking overseas equity portfolio with allocations to North America, Europe (ex UK), Japan, Asia-Pacific (ex Japan) and Emerging Markets. LGIM's mandate requires them to maintain the Fund's overall allocations to each region within specific tolerance bands around a central asset allocation. Performance will be assessed for each of the regional allocations against the relevant FTSE regional index as detailed in Appendix B.

### **12.1.5.3 Global equities**

Newton and RCM manage global equity portfolios benchmarked against the FTSE All World index. The managers' targets are to achieve at least 2.0% p.a. and 3.0% p.a. outperformance respectively over their benchmarks measured on rolling three year periods net of fees.

### **12.1.5.4 Global Private Equity investments.**

An allocation of up to 10% of the Pension Fund may be invested in such arrangements. The benchmark is currently a composite derived from the FTSE US and FTSE Europe (including UK) indices. However, the weighting in the overall customised benchmark set for the whole fund is adjusted quarter by quarter to reflect the amounts actually invested in private equity. This reflects the long term nature of the investment process in this asset class. Assets notionally allocated to private equity but not yet invested will be held in the in-house UK Equity Index Fund.

### **12.1.6 Bonds**

Standard Life has been appointed to manage a corporate bond portfolio for the Fund. The benchmark for the bond portfolio is the Merrill Lynch Sterling Non Gilt All Stocks Index. The performance target is set at 0.8% p.a. outperformance of the benchmark, measured over rolling three year periods gross of fees.

A pooled bond fund has been selected as the most appropriate investment vehicle for the Fund's investment in this asset class. Constraints apply to the types of bonds the assets can be invested in; however the Fund does not have control over these constraints.

### **12.1.7 Property**

A strategic allocation to property assets has been made of up to 15% of the total Fund value. This allocation is split between four mandates.

**12.1.7.1** 5% is invested in a defensive pooled property fund managed by Aviva Investors with a "high lease to value" approach. To reflect the low-risk characteristics of this fund, a tailored benchmark has been applied based on government bond indices. The benchmark is a composite of 50% FTSE Over 15 Year Gilts Index and 50% FTSE 5-15 Year Gilts Index.

**12.1.7.2** 6% is invested in a conventional (or "core") pooled property fund managed by Threadneedle which invests in UK offices, industrial and retail properties. The fund aims to outperform the CAPS UK Pooled Property benchmark by 1.0% (net of fees) over rolling three year periods.

**12.1.7.3** Up to 4% is committed to be invested in a closed ended Private Equity Real Estate fund of funds managed by Franklin Templeton and which will be invested in equity or debt-related real estate investments around the globe. The fund's investment objective is to achieve an internal rate of return of 15% over the term of the fund (net of all management fees and carried interest).

**12.1.7.4** Up to 2% is invested in residential housing in a pooled open ended Fund managed by Hearthstone. The fund aims to outperform the UK House Price Index+ 3.75% net income.

### **12.1.8 Other Investments**

The risk exposure from currency fluctuations associated with the overseas equity portfolios is managed through a passive hedging programme, targeted on the major currencies. The passive

hedging is implemented by BNY Mellon at a level of 50% of the overseas developed market currency exposure arising from equity holdings outside the UK.

Managers are currently remunerated through fee scales based on percentage rates applied to the market value of funds under management. In most cases the rate reduces for funds under management above threshold values. Performance-related fee structures have been taken into account on retendering of fund manager contracts.

#### **12.1.9 Exercise of Shareholder Rights (Including Voting Rights)**

The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. 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.

### **12.1.10 Social, Environmental or Ethical Considerations**

The Pensions Sub-Committee, as the administering authority, is aware of its fiduciary responsibility to obtain the best possible financial return on investments over appropriate investment periods, within acceptable levels of risk and will apply this principle when making investment decisions on behalf of the Islington pension fund.

The Pensions Sub-Committee takes the view that well-managed companies that evaluate and assess their social and environmental impacts are likely to add shareholder value in the long term more successfully than companies that do not manage these impacts. In considering its choice of investments in segregated funds, priority will be given to achieving a wide variety of suitable investments that is best for the financial position of the Fund. It will encourage its Fund managers to work positively with companies to promote forward- looking social, environmental and ethical standards and integrate **Environmental, Social and Governance** (ESG) into their investment decisions.

The Fund will use its position as shareholder to actively engage with companies by appropriate means collectively or individually, to ensure best practice in the management of these impacts and in line with the Council's 'Fairer Islington' corporate approach, and in particular the key policy objectives of promoting fairness and sustainability.

The Pensions Sub-Committee has also decided to join with other local authorities to use its shareholder rights in a responsible manner to influence company behaviour, through membership of the Local Authority Pension Fund Forum (LAPFF), and supports the mission statement of the LAPFF:

“The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations”

The Pension Sub-Committee is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC seeks to promote better understanding of the implications of climate change amongst its members and other institutional investors. It also aims to promote a lower carbon economy by encouraging the companies and markets in which IIGCC members invest to address their approach to climate change issues.

Islington Council as an investor has joined up with other investors to support the wage investors' coalition to lobby top companies relationships with their employees, suppliers and service providers to pay the living wage so as to meet their basic needs.



### **12.1.11 Myners Investment Principles - Compliance Statement**

In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended the Council is required to state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)"; and give the reasons for not complying where they do not do so. This CIPFA publication is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and adopted by the Government as a model for best practice in 2001.

The Myners Principles were reviewed by the NAPF during 2008 and a revised set of six principles were issued in October 2008. CIPFA expect to issue a new publication based on the revised six principles in the near future.

#### **12.1.11.1 Principle 1 - Effective decision-making**

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### ***Comment***

The Fund is generally compliant with the requirements of this Principle. The Pensions Sub-Committee requires new members serving on the Sub-Committee to source appropriate training within six months of joining the Sub-Committee. The three-day course run by the Local Government Pensions Committee of the Employers Organisation is recognised as particularly relevant training for new Members, but other routes and courses, and requisite experience are also recognised as appropriate. Where several new Members are appointed together, tailor-made training will be considered.

#### **12.1.11.2 Principle 2 - Clear Objectives**

Trustees should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

#### ***Comment***

The Council seeks to undertake regular reviews of investment strategy, most recently in 2014, which take into account the scheme's liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

#### **12.1.11.3 Principle 3 - Risk and Liabilities**

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

#### ***Comment***

In setting the investment strategy, the Trustees have considered the form and structure of liabilities, along with the strength of the sponsor covenant, risk of sponsor default and longevity risk, taking advice from independent professional advisors where appropriate.

#### **12.1.11.4 Principle 4 - Performance Assessment**

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### ***Comment***

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists (WM Company). Performance is also monitored against the local authority peer group of pension funds, also based on WM Company data (for the local authority universe), although in line with the Myners Principles the peer group is no longer considered the benchmark for overall fund performance. The overall benchmark is specific and customised to the Fund's objectives based on the outcome of the successive asset/liability studies.

Performance of the Fund is also subject to annual review by external auditors (the District Audit service) and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Sub-Committee.

#### **12.1.11.5 Principle 5 - Responsible Ownership**

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

#### ***Comment***

The Fund uses the proxy voting service, PIRC, to vote for the shares held within FTSE All Share and FTSE World indices.

RCM, who manage a global equity mandate, use the proxy voting service Shareholder Services (ISS) to vote on all other shares held on behalf of the Fund.

Newton, who manage a global equity mandate, vote in all other indices at their discretion.

The Fund encourages each active investment manager to take account of social, environmental and ethical considerations insofar as the manager believes such considerations will benefit performance and/or reduce risk.

For those assets of the Scheme managed in pooled funds, the Trustees accept that the assets are subject to the investment manager's own policy on socially responsible investment. The Trustees are satisfied that this corresponds with its responsibilities to the beneficiaries. The Fund's attitude to and policies regarding responsible ownership are set out within the body of the Fund's Statement of Investment Principles.

The Trustees issue member newsletters in which this discharge of responsibilities is noted.

Mercer has adopted the Institutional Shareholders' Committee Statement of Practice relating to investment consultants.

#### **12.1.11.6 Principle 6 - Transparency and Reporting**

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

#### **Compliance**

The Council's SIP is currently published and available to scheme members on the Council website. Summaries of performance and monitoring of managers are reported in the Pension Fund Annual Report and distributed to employees each year with payslips. Further performance reporting is provided to contributors and pensioners at the AGM. The full Pension Fund Report and Accounts are published as part of the Council's overall Annual Report and Accounts and available to all members of the public.

Overall communication and publicity strategy for the Fund is set out in the Communications Policy Statement which is available on the Council's website

[.http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx](http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx)

## APPENDIX A

**From November 2011**

STRATEGIC ASSET ALLOCATION	Target	i.e Permitted Range +/- %
UK Equities	25.0%	3.0%
Overseas Equities (50% currency hedged)	25.0%	3.0%
Global Private Equity	10.0%	2.0%
<b>Total Equity</b>	<b>60.0%</b>	<b>6.0%</b>
Corporate Bonds	25.0%	2.5%
Property	15.0%	2.0%
Cash	0.0%	0.0%
<b>Total bonds/property/cash</b>	<b>40.0%</b>	<b>4.0%</b>
<b>Total</b>	<b>100.0%</b>	

NB i) Both the private equity and property allocations are target allocations and are expected to be reached once committed assets are called and invested by the relevant investment managers. In the interim, the assets will be held in the UK Equity Index Fund.

ii) Over time the listed equity allocation will be adjusted from 25% UK and 25% overseas to 15% UK and 35% overseas.

## APPENDIX B

Portfolio	Manager(s)	Sector/Market	Target Weight Within Portfolio at 11/2011	Permitted Range	Index
UK Index Fund	In-house	UK Equity	100%		FTSE All Share
Overseas Equity	LGIM	Regional oversea equity *: i) North America	40%	+/- 4.0	FTSE AW Development North America
		ii) Europe (ex UK)	16%	+/- 1.5	FTSE AW Development Europe (ex UK)
		iii) Japan	7%	+/- 1.0	FTSE AW Japan
		iv) Asia Pacific (ex Japan)	7%	+/- 1.0	FTSE AW Development Asia Pacific (ex Japan)
		v) Emerging Market	30%	+/- 3.0	FTSE AW All Emerging
Global Equity	i) RCM	Global	40%	+/- 10.0	FTSE All World Index
	ii) Newton	Global	60%	+/- 10.0	
Global Private Equity	i) Standard Life (private equity) Ltd	Europe	50%	+/- 10.0	FTSE US
	ii) Pantheon	US	50%	+/- 10.0	FTSE Europe inc UK
Bond Portfolio	Standard Life	UK Non-Government	100%		Merrill Lynch Sterling Non Gilt All Stocks
Property Portfolio	i) Aviva Investors	HLV Property (Lime Property Fund)	33%		Composite Gilt index: 50% FTSE Over 15 yr Gilts 50% FTSE 5-15 yr Gilts
	ii) Threadneedle	Core UK Property	40%		CAPS Pooled Property
	iii) Franklin Templeton	Global real estate fund of funds	27%		n/a
	iv) Hearthstone	UK residential Property	13%		LAL Acadometrics UK HPI

\* LGIM manages their own regional allocations so as to maintain the overall Fund allocation to be in line with the stated target weights. In order to do this they take into account the value of RCM and Newton's portfolios and the regional allocations of the FTSE All World index.

## **12.2. Funding Strategy Statement**

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

### **12.2.1. Introduction**

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to :-
- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the ICPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published before 31 March 2015, and whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the ICPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the ICPF are specified in the governing legislation contained in the 2013 Regulations and the 2014 Transitional Regulations. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the 2013 Regulations which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate. Contributions to the ICPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

## **12.2.2. Purpose of the FSS in policy terms**

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the ICPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## **12.2.3 Aims and Purpose of the ICPF**

### **12.2.3.1 The aims of the fund are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

### **12.2.3.2 The purpose of the Fund is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the, the 2013 Regulations, the 2014 Transitional Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## **12.2.4 Responsibilities of the key parties**

### **12.2.4.1. The Administering Authority** should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the ICPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties,
- monitor all aspects of the ICPF's performance and funding and amend FSS/SIP, and
- with effect from 1 April 2015, establish, support and monitor a Local Pension Pension Board ("LPB") in accordance with the requirements set down in the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

### **12.2.4.2. The Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

### **12.2.4.3 The Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS.
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.



## 12.2.5. Solvency Issue and Target Funding Levels

### 12.2.5.1. Funding Objective

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities, (the funding target) assessed on an ongoing basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate

### 12.2.5.2. Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following previous consultations with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where deficits remain.
- In addition, a maximum deficit recovery period of 22 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- For any employers assessed to be in surplus at the valuation date, their individual contribution requirements may be adjusted to such an extent that any surplus is used (i.e. run-off) over a period to be determined by the administering authority (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount).

- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.
  
- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, at the discretion of the Administering Authority, over a maximum period of 3 years.
  
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In determining the above objectives the Administering Authority will have regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

### **12.2.5.3 Deficit Recovery Plan**

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
  
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

For all employers, any additional annual monetary lump sums in respect of any deficit (or surplus adjustments) identified by the Actuary at the valuation will be subject to annual increases in line with expected increase in the Consumer Prices Index (CPI). In order to assist with budgeting requirements for employers in the Fund, the annual increases will be set in line with the assumption for CPI inflation adopted at the valuation, as set out in Appendix 1 (paragraph 2.1.5).

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the funding target. It is envisaged that this option will only be afforded to eligible employers where an increase in contributions is required (compared to the projected 2014/15 level of contribution) when adopting the maximum 22 year recovery period. This higher level of return assumed will, in particular reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, **after specific agreement has been obtained by Fund Officers from the Islington Council Pension Fund Panel**, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

#### **12.2.5.4 The Normal Cost of the Scheme (Future Service Contribution Rate)**

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

With regard to costs for ill-health or voluntary early retirement, for certain employers in the Fund, allowance will be included within the certified future service contribution rate. Additionally, any “strain” costs generated on redundancy, efficiency, or flexible retirements are collected by additional capital payments in the year.

For those employers for whom the certified future service contribution rate excludes an allowance for ill-health or voluntary early retirement costs, the Administering Authority will require the costs of all early retirements to be paid in full by the employer by additional capital payments

#### **12.2.6. Link to investment policy set out in the statement of investment principles (See Appendix 3)**

The results of the 2013 valuation show the liabilities to be 70% covered by the current assets, with the funding deficit of 30% being covered by future deficit contributions.

In assessing the value of the ICPF’s liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the ICPF, as set out in the SIP. <http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx>

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio

would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the ICPF's assets in line with the least risk portfolio would minimise fluctuations in the ICPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy has been reviewed alongside the 2013 actuarial valuation and investment strategy is to maintain a 75% /25% growth and matching split. At November 2014 the agreed target asset allocation is summarised as :

<b>Asset Class (Summary)</b>		<b>%</b>
	Equities	56.0
	Fixed Income/infrastructure and Social Housing Matching assets	25.0
	Property	15.0
	Private Equity	4.0
	<b>TOTAL</b>	<b>100.0</b>

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum when setting the funding target.

During the recovery period, an overall asset out-performance assumption of up to 2.75% per annum will be allowed for in the calculation of the required deficit recovery contributions for certain employers in the ICPF. The Administering Authority believes that this is a reasonable "best estimate" allowance for asset out-performance during the recovery period based on the investment strategy as set out in the SIP and following analysis undertaken by the Actuary and the Fund's investment advisors.

### **12.2.7. Identification of risks and counter measures**

The funding of defined benefits is by its nature uncertain. Funding of the ICPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the ICPF's funding is the investment risk inherent in the predominantly equity (or return seeking) strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out-performance assumed in the long term.

#### **12.2.7.1 What are the Risks?**

##### **12.2.7.1.1 Financial**

- Investment markets fail to perform in line with expectations

- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

#### **12.2.7.1.2 Demographic**

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 options at a higher or lower level than built into the actuarial assumptions.

#### **Insurance of certain benefits**

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

#### **12.2.7.1.3 Regulatory**

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

#### **12.2.7.1.4 Governance**

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Panel membership

### **12.2.8. MONITORING AND REVIEW**

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the ICPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the ICPF.

## **ACTUARIAL VALUATION AS AT 31 MARCH 2013**

### **1. Method and assumptions used in calculating the funding target**

#### 1.1.1 Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

#### 1.1.2 Financial assumptions

##### 1.1.2.1 Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

##### 1.1.2.2 Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

##### 1.1.2.3 Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption, at the discretion of the administering authority and based on evidence provided by employers, allowance has been made for short term pay restraint for certain employers of 1% per annum for 3 years. For other employers in the Fund, were warranted and at the agreement of the administering authority, allowance will be made for short-term pay restraint of 1% p.a. for 3 years followed by Inflation (CPI) for 3 years before reverting to the long-term assumption.

##### 1.1.2.4 Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

### 1.1.3 Demographic assumptions

#### 1.1.3.1 Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting ICPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

#### **Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

#### 1.1.3.2 Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

#### 1.1.3.3 Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

#### 1.1.3.4 Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation



#### 1.1.4 Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a. (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common/Primary Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

### 1.1.5 Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

<b>Long-term gilt yields</b>	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
<b>Past service Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases*	4.35% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

\* a short/medium pay adjustment will also be made if appropriate

#### 1.1.5.1 Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	177% / 120%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	105% / 101%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	105% / 101%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.

## **2. Assumptions used in calculating contributions payable under the recovery plan**

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to 2014/15 levels), an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. Therefore the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

### **2.1.1 Investment returns on existing assets and future contributions**

A maximum overall return effective as at the valuation date of 5.95% p.a. (i.e. a return of 2.75% p.a. in excess of gilts) reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the valuation will be no less than the current level of contributions payable by the employer or the Future Service Contribution Rate.

### **12.3. Governance policy statement**

This statement is prepared for the purposes of the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005. 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.

#### **12.3.1. 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.

### **12.3.2. Delegation of functions**

Governance principles: Effective board delegation; appropriate accountability

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

#### **12.3.2.1 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 Director of Finance.

#### **12.3.2.2 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 Director of Finance shall be responsible for maintaining the Funding Strategy Statement (please see 9.3.4.5. Relevant documents).

#### **12.3.2.3 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 Director of Finance 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 Director of Finance shall be responsible for maintaining the Statement of Investment Principles (please see 9.3.4.5. Relevant documents).

#### **12.3.2.4 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 Director of Finance shall be responsible for making all arrangements for the Annual General Meeting.

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

#### **12.3.2.5. Risk management**

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

Delegated to the Director of Finance.

#### **12.3.3. 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 Director of Finance.

#### **12.3.3.1. 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 Community Service Volunteers (CSV)
  - 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 AllenbridgeEpic Investment Advisers.

#### **12.3.4 Operational procedures**

##### **12.3.4.1 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.

##### **12.3.4.2 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.

##### **12.3.4.3 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. Managers will be seen regularly by the Director of Finance 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.

#### **12.3.4.4 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.

#### **12.3.4.5. Relevant documents**

##### **Funding Strategy Statement**

The current published Funding Strategy Statement is online at [www.islington.gov.uk/advice/council\\_pension\\_scheme](http://www.islington.gov.uk/advice/council_pension_scheme).

##### **Statement of Investment Principles**

The current published Statement of Investment Principles is online at [www.islington.gov.uk/advice/council\\_pension\\_scheme](http://www.islington.gov.uk/advice/council_pension_scheme).

#### **12.4 Communication policy statement**

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 require each administering authority to prepare, maintain and publish a statement by 1 April 2006 setting out its policy on communicating with members, their representatives, prospective members and employers participating in the pension fund.

The statement must set out the policy on:

- the provision of information and publicity about the scheme to active members, deferred and pensioner members.
- the format, frequency and method of distributing information and publicity.
- the promotion of the scheme to prospective members and to other participating employers.

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

For a number of years the council has adopted a variety of types of communication, and the requirements of the new regulations are a platform upon which communications can be expanded. However the requirement to produce a formal policy does constitute a major change in practice.

The methods of communication will be as follows:

##### **12.4.1. Active Members**

A pension's newsletter given to employers for distribution to employees. To be produced periodically. Annual benefit statements sent to home addresses.

Alerts on the council intranet and internet regarding changes to the local government pension scheme regulations.

An Annual General Meeting. These meetings have been an annual event since the mid 1990's.

An annual meeting with admitted body employers. Such meetings have been held since 2000.

Briefing notes to employers participating in the pension fund when necessary.

Publicity and option to join forms on a periodic basis to non scheme member employees who are eligible to be members of the LGPS.

#### **12.4.2. Deferred Members**

Annual benefits statement sent to home addresses.

Information regarding the local government pension scheme (LGPS) and Islington Council policies will be provided on the council's website.

#### **12.4.3. Pensioner Members**

A pensioner's newsletter sent to home addresses. To be produced periodically.

Information regarding the local government pension scheme (LGPS) and council policies will be provided on Islington Council's website.

#### **12.4.4. Employers**

Updates on changes and proposed changes to the LGPS to be provided by letter or email.

Information on decisions that employers need to make in respect of the LGPS to be issued as necessary.

Pension fund accounts to be posted or emailed each year. Additional newsletters will be provided if necessary.

### **12.5 Governance compliance statement**

#### **12.5.1. 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 pension-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.

### **12.5.2. 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, eg, 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 pension-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 five working days before the meetings are held.

### **12.5.3. 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 pension sub-committee are aware of their roles and responsibilities

### **12.5.4. 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.

### **12.5.5. 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.

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

### **12.5.7. 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 pension sub-committee papers are sent to members at least 5 working days prior to the meeting.

### **12.5.8. 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.

### **12.5.9. 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.

# 13: 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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