London Borough of Islington Pension Fund Summary Annual Report 2019/20

Contents

Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2019/20 financial year.

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

The beginning of 2020 saw the unpredicted event of COVID 19 pandemic that brought the world to a virtual standstill. The first quarter of 2020 saw global equity markets lose a quarter of their value while credit markets also fell, property funds were closed as managers struggled to value assets in these new times. The Fund returned -1.3% against a customised benchmark of -1.8% and a drop to its market value from £1.38billion to £1.36bn. The average Local Authority fund delivered an investment return of around -4.8%. Funds that had invested in alternative strategies particularly private equity performed better than those with high exposures to equities. Our equity protection hedge strategy expired in the last week in March 2020 and small portion in June and this provided a profit totalling £74.6m for the Fund and hence providing a better year end performance and a relative less drop in fund value.

The London CIV, our asset pooling organisation continues to grow its assets under management on Authorised Contractual Scheme (ACS). At the end of March 2020, London CIV had c.46% of potential assets, £16.7bn (active and passive) across the 32 London Local Authorities (LLAs). As at the end of March 2020, 16 funds had been launched and LCIV are also signatories to UNPRI and SAB Code of Transparency

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

The targets and metrics and progress made as at 31 March 2020 include:

- Reducing the equity allocation's current exposure to carbon (so reducing its carbon intensity) by more than 50%, by the end of April 2022, compared to when it was measured in June 2016.
  Progress: 36% reduction of carbon intensity achieved

- Reducing the equity allocation's future exposure to carbon (so reducing its investment in fossil fuel reserves) by more than 75%, by the end of April 2022, compared to when it was measured in June 2016.
  Progress: 55% reduction of its exposure to fossil fuel reserves

- Investing at least 15% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2022.
  Progress: 12% investment in sustainable –themed investments

- Aiming to decarbonise other asset classes, besides equities, where possible.

- Engaging with companies in which the fund invests (including collectively through the London CIV), to urge them to reduce their carbon footprint and their reliance on fossil fuels.
- The fund measures its carbon footprint and carbon emissions on an annual basis.
  Progress: Annual review was undertaken as at March 2020. Average whole Fund ESG rating by fund manager improved from 2.3 to 2.1

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

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

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

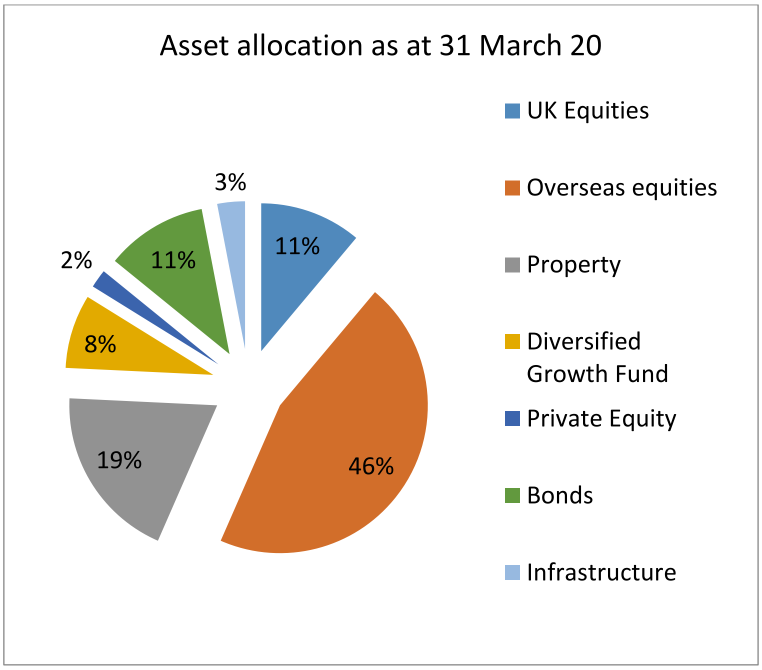
Cllr Paul Smith

Chair of Pension Board

1: Investment report

The 2019/20 year saw our fund return -1.3% compared to the average local authority fund return of -4.8%. Asset returns fell across most asset classes in the last quarter of the year with bonds, equities and alternatives returning -12.5%, 1.7%, and 7.4% respectively for the year. The best performing alternative asset class was private equity returning 12.1%. Despite the gradually reduction of equities for over a decade, most fund still held 55% of equities. The fund's equity protection had an impact on relative performance.

During the year to 31 March 2020 the fund's asset allocation was as follows



The agreed strategic asset allocation is as follows;

Equites	Property	Diversified growth fund	Corporate bond	Infrastructure
50%	20%	10%	10%	10%

1.1. Fund manager performance (BNY Mellon Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12-month performance to 31 March 2020

Manager	Mandate	Market value £'000	12-month return %
Islington Council Treasury team	UK equities	133,500	-17.7

Manager	Mandate	Market value £'000	12-month return %
London LGPS CIV RBC sub fund(1)	Global equities	112,800	n/a
London LGPS CIV Newton sub fud	Global equities	212,300	-2.8
Legal and General	Global/Emerging equities	150,000	-17.2
BMO(1)	Emerging/ Frontier equities	59,900	-21.4
Standard Life	Corporate bonds	155,000	2.5
Aviva	Property	124,800	6.0
Columbia Threadneedle	Property	82,700	-6.8
Franklin Templeton	Property	20,100	21.2
Standard Life	Private equity	16,300	23.5
Pantheon	Private equity	7,000	8.7
Hearthstone	Property	29,100	1.7
Schroders	Multi Asset	106,500	-6.3
Pantheon	Infrastructure	21,700	5.5
Quinbrook	Infrastructure	41,800	9.1
BNY Mellon(2) LGIM	Cash deposits Investment Fund	6,900 75,800	n/a n/a
Total Market Value		**1,356,200**	

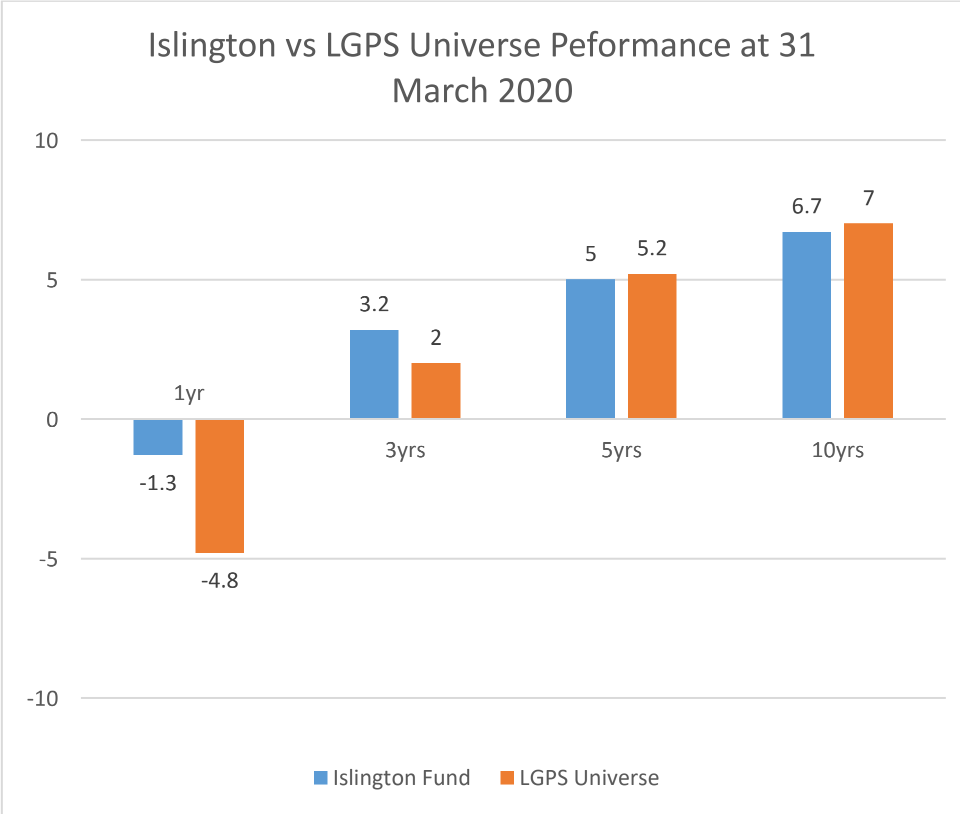
(1) LCIV RBC commenced in July 2019.
(2) BNY Mellon hedge overseas equities holdings/LGIM equity investment fund

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

Period	1 year	3 year	5 year
Fund return per annum %	-1.3	3.2	5.0
Benchmark%	-1.8	2.5	4.5

Over the 10- year period the fund has returned 6.7% per annum in absolute terms.

The Islington Council pension fund also compares itself against its peers through the league table compiled by the Local Authority Pension Performance Analytics. The graph below shows the pension fund compared to the average performance of the universe over the 1, 3, 5 and 10 year periods.



The Fund is top quartile over the latest three year period and has improved over the last five years. The Fund has reduced its overall level of volatility whilst managing to deliver a return in line with the median, hence more efficient than most peers. The medium term performance has been due to the high level of property held and the positive impact of the equity protection strategy employed.

The 10 Top Holdings in our segregated equity account are listed in the table below as at 31 March 2020

INSTITUTION	MARKET VALUE (£'000s)
ASTRAZENECA PLC	6,263
HSBC HOLDINGS PLC	6,222
GLAXOSMITH PLC	5,045
BP	4,545
DIAGEO PLC	4,484
ROYAL MAIL PLC	3,980
ROYAL DUTCH SHELL PLC	3,659
BRITISH AMERICA PLC	3,450
UNILEVER PLC	3,418
RIT CAPITAL PARTNERS	3,386

It is worth noting that due to the Fund's low carbon strategy and restructuring our total fund carbon footprint and emissions continues to decrease and holdings in carbon intensive companies have fallen by 36%.

2: Pooling

Islington is one of 33 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund a limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The London CIV received its ACS authorisation in November 2015.

Since then it has secured regulatory approval, established a team of 27 staff and by the end of March 2020, £17bn of LLAs assets were under LCIVs oversight.

Islington has three funds managed on the LCIV platform; two global active equities valued at £324m and global passive equities of £150m. The estimated fees saving for the year for pooling these three funds is £241,000. As more funds and asset classes become available and meet our needs, we will look to transfer more assets.

2.1 Key highlights for the Pool in 2019/20 year included the following:

- London CIV finally had their business purpose changes approved by all shareholders to enable them take on additional activities such as management and oversight of passive fund.

- The LCIV Infrastructure Fund launched had its first close on 31 October 2019 with committed Funds of £399m and 6 investors. The LCIV Sustainable Equity Exclusion Fund launched on 11 March 2020 with £200m. Approval for the LCIV Global Equity Core Fund was achieved and is open for investment. In June, the LCIV Inflation Plus Fund with commitments of £107m was launched.
.
- In March 2019 the current CEO was appointed and by July 2020 a permanent CIO and Head of Responsible Investment were in place

- Key changes to the responsible investment and stewardship governance and organisational framework in 2019/20 include:

- Agreement to establish a Responsible Investment Reference Group which will provide a focused forum for client assurance and engagement, collaboration and drive for best practice to ensure that London CIV is effective in serving the best interests of beneficiaries.
- Appointment of a Non-Executive Director (NED) champion, Chris Bilsland
- Changes to the Investment Oversight Committee (IOC) Terms of Reference to include Responsible Investment (The Shareholder Committee ToR already explicitly refer to Responsible Investment policy)
- Recruitment of a Head of Responsible Investment who starts in mid-June 2020

3. Exercise of shareholder rights -voting

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

3.2 The table below lists the voting record by region at company annual meetings for the quarter ending 31 March 2020

	UK & British Overseas	Europe & Global EU	Rest of the World	Total
For	310	67	1	378
Abstain	24	2	0	26
Oppose	104	9	0	113
Non -Voting	0	1	0	1
Total	438	79	1	518

4: 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'.

4.1 The key objectives of the four- year business plan, last reviewed in September 2020 are listed below along with actions taken to June 2020

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

  Actions:
  - Actuary valuation was signed off on March 2020
  - As part of actuarial valuation members agreed a new investment target return from amended strategic asset allocation within a risk budget
  - Members agreed to tender for a new Multi asset credit mandate
  - Members complied with TPR directives of agreeing objectives with investment consultancy service providers by December 2019

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

Actions:

- Pension board review draft statement of accounts before auditing and monitor pension's admin cashflow
  - The board challenged officers on targets and benchmarking and recommended more resource that is now in place.
  - As part of the workplan the board requested more scrutinise of COVID 19 checklist and impact on service.
  - Board have also implemented regular reviews of new members through auto enrolment and opt-out numbers and commented on new website layout and contents.

- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund, addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members

Actions:
- Work with LAPFF and IIGCC, and the LCIV continues
- Carbon policy is published and Members have shared their story with other LAs
- Members continue to encourage and support the LCIV on engagement on ESG factors.
- Voting records are published
- Climate scenario analysis was undertaken for the whole fund in December 2019

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

Actions:
- Commissioned a deep dive in our residential property manager for governance assurances
- 1>1 meetings with managers have been held with officers and advisors to report to members
- Recap of multi – asset credit briefing before agreeing to procure
- Joint briefing on Actuarial valuations were held for Members to understand assumption and take funding decisions
- New Members have been enrolled to attend LGA trustee pension course.
- Training sessions before and during committee meetings continue.
- Members attend seminars and LCIV AGMs as shareholder

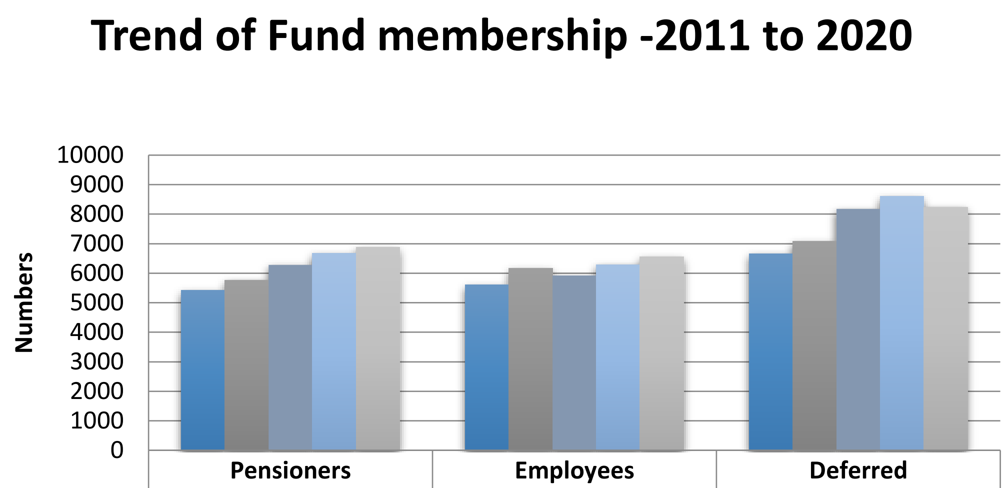
♦ To develop collaboration opportunities with other funds for sharing of services and pooling

Actions:
- Officers are collaborating with another LA to procure a MAC mandate after LCIV's review of current manager on LCIV platform
- Members and officers worked with the LCIV on the initial workshops on ESG
- Pension Chair Members' collaboration of a North London LA group meet regularly to share ideas

5: The local government pension scheme

5.1. Membership

The scheme membership continues to grow year on year. Deferred members and pensioners are increasing at the expense of active employees. The profile from 2011 to 2020 is shown below.



	Pensioners	Employees	Deferred
2011/12	5415	5610	6665
2013/14	5754	6165	7086
2015/16	6277	5927	8183
2017/18	6669	6291	8606
2019/20	6874	6552	8241

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
March 2017	20,939
March 2018	21,566
March 2019	21,690
March 2020	21,667

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

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

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

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

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

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

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

The core benefits of the scheme are:

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

5.2.1 Pension contributions

The employee pension contribution percentage is according to the pay band applicable. For example a pension contribution of 6.5% of pay applies where annual salary is in the range £22,501.00 to £36,500.00 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 (2020/21), depending on the annual salary band, is shown below.

Contribution table 2020/21			
		main scheme	50/50 section
up to	£ 14,600.00	5.50%	2.75%
£ 14,601.00	£ 22,800.00	5.80%	2.90%
£ 22,801.00	£ 37,100.00	6.50%	3.25%
£ 37,101.00	£ 46,900.00	6.80%	3.40%
£ 46,901.00	£ 65,600.00	8.50%	4.25%
£ 65,601.00	£ 93,000.00	9.90%	4.95%
£ 93,001.00	£ 109,500.00	10.50%	5.25%

£ 109,501.00	£ 164,200.00	11.40%	5.70%
£ 164,201.00	or more	12.50%	6.25%

5.2.2 Retirement age

Since April 2014 there has no longer been a standard scheme retirement age in the LGPS; instead each person has an individual normal pension age 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

5.3 Keeping up to date

Information regarding the LGPS provisions is provided on the Council's internal 'Izzi' site, and also on the external website for those who do not have access to the intranet site.

There are full details on the website regarding the LGPS.

Employees who are not members of the LGPS

There are many advantages in being a member of the LGPS. 'Auto-enrolment' rules mean that employees who opt-out of the scheme are 're-enrolled' every three years. The next re-enrolment date for those who have opted-out is 1st April 2022.

5.4 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2020, in respect of the main procedures/processes.

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	154	95%	96.0%	5.5
Retirement benefits	5	414	95%	90.0%	7.0
Pension estimates	10	380	95%	82.0%	12.5
Preserved benefit calculations	15	224	95%	80.0%	18.0
Transfer-in quotation	10	98	95%	94.0%	12.0
Transfer-in actual	10	95	95%	100.0%	9.0
Transfer out quotation	15	125	95%	88.0%	17.0
Transfer out actual	12.5	116	95%	93.0%	14.0

Over the period, 85% of the 1,792 processes undertaken by the Pensions Administration team were completed within the target days.

Contacts

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

The Pension's Office, Third 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:

Surname range	Telephone enquiries	Email enquiries
A – DA	020 7527 2028	shahid.daudi@islington.gov.uk
DB – J	020 7527 2170	ali.sari@islington.gov.uk
K – Q	020 7527 6733	romel.senior-walcott@islington.gov.uk
R – Z	020 7527 2320	yonatan.worku@islington.gov.uk

6: Democratic arrangements

6.1 Pensions Sub-Committee

In 2019/20 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	Substitutes
Cllr Paul Convery) Chair	Cllr Mouna Hamitouche MBE
Cllr Andy Hull (Vice Chair)	Cllr David Poyser
Cllr Sue Lukes	Cllr Roulin Khondoker
Cllr Mick O'Sullivan	

Ps: Audit Committee made some new appointments to Pension Sub- Committee in July 2020 Cllr Poyser is now a member, Cllr Satnam Gill OBE is now the vice-chair

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

Fund Investment Advisors:
Mercer
MJ Hudson Allenbridge

Fund Actuary:
Mercer

Fund Custodian:
BNY Mellon

Performance Monitoring:
BNY Mellon

Corporate Governance Research and Voting Advice Service:
Pension Investments Research Consultants

Fund AVC Providers
Equitable Life, Prudential, Phoenix Life

Fund Auditors
Grant Thornton UK LLP

Bankers
Barclays Bank

6.2. Islington Council Local Pension Board

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

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

The membership of the board is as follows:

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

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. Board members agreed to meet quarterly in 2019.

For the municipal year 2019/20, the Board met on 17th June 2019, 10th September 2019, 3rd December 2019. The scheduled meeting 24th March 2020 was postponed due to COVID 19 pandemic. Members receive copies of agenda and reports of the pension sub-committee and vice versa.

6.3 Activities of the Board

(i) Members reviewed their agreed a work programme at the March 2019 meeting for progress and amendments where required. The objectives are as follows:

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

(i) Auto enrolment data is reviewed quarterly and have worked with officers to encourage opt ins and highlight scheme benefits

(ii) AVC provision for employees were reviewed

(iii) Pension board have an agreed work plan and forward plan to decide committee agenda

(iv)They reviewed the pensions risk register and requested COVID-19 impact be included and reviewed six monthly

(iv)They also considered consultation on McCloud and valuation cycle and employer risk

(v) Attended joint training with Pension Subs-Committee members on Actuarial valuation update

(vi)They also reviewed the draft pension statement of accounts for 2019/20

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

http://democracy.islington.gov.uk

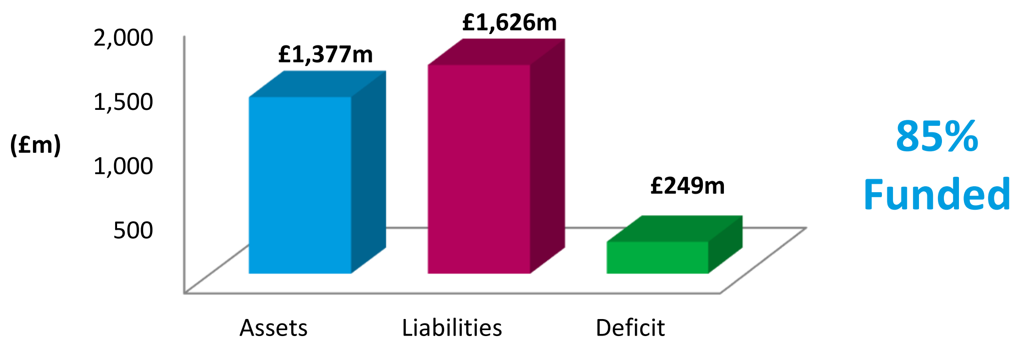
7. Funding of the pension scheme

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund’s assets of £1,377 million represented 85% of the Fund’s past service liabilities of £1,626 million (the “Solvency Funding Target”) at the valuation date. The deficit at the valuation was therefore £249 million.



The valuation also showed that a Primary contribution rate of 16.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 19 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) is an addition of approximately £5.5m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this is predominantly paid in year one with surplus off-sets applying in the subsequent two years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.2% per annum	4.65% per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £6 million and an increase in the Primary Contribution rate of 0.6% of Pensionable Pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate of £5.5 million per annum shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum

	31 March 2019	31 March 2020
Rate of pay increases*	3.7% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

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

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £2,295 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£55 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£24 million (this includes any increase in liabilities arising as a result of early retirements and and GMP indexation – see comments elsewhere in this statement).

There was also a decrease in liabilities of £133 million due to "actuarial gains" (i.e the effects of the *changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £2,241 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £10 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2020

Michelle Doman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2020

8: Summary of financial report

8.1 Income and expenditure for 2019/20

- A reduction in net assets of 1.3% to £1,359million. The reduction was due to a fall in the valuation of financial assets during the month of March 2020, which is because of the Covid-19 pandemic.
- Employees' contributions totalled £12.97 million compared to £12.1 million in 2018/19
- Employers' contributions amounted to £37.7 million compared to the £34.8 million in the previous year.
- Other Income comprised of transfers from other pension fund and recharges amounted to £8.1 million compared to £6.2 million in 2018/19
- Pensions paid totalled £50.2 million compared to £47.3 million in 2018/19, a rise of 6.1%. The increase was driven by annual pension increase of 3%

As at 31 March 2020, the total loss into the fund was £17.9 million and investment income £17.9 million against an expenditure of £70.2 million. The other drivers apart from pension payments were retirement lump sums and transfer outs. This means that the fund was however, able to meet all its commitments from contributions and investment income.

The detailed reporting of the pension fund accounts for 2019/20 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.

9: Statement of Responsibilities

Statement of Responsibilities for the Statement of Accounts

The Statement of Responsibilities for the Statement of Accounts is prepared in accordance with the requirements of the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code)*. The council's designated Chief Finance Officer (as defined by Section 151 of the Local Government Act 1972 and Section 112 of the Local Government Finance Act 1988) is the person responsible for the proper administration of the Council's financial affairs.

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). In preparing this Statement of Accounts, the Chief Financial Officer has:
 selected suitable accounting policies and then applied them consistently; made judgements and estimates that were reasonable and prudent; complied with the Code; kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2020 and of its income and expenditure for the year then ended.

David Hodgkinson
Corporate Director of Resources
30 November 2020

Approval of the accounts

I certify that the audited Statement of Accounts has been approved by resolution of the Audit Committee of the London Borough of Islington in accordance with the Accounts and Audit Regulations 2015.

Councillor Nick Wayne, Chair of the Audit Committee
30 November 2020

10: 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

Email: pensions@islington.gov.uk

Telephone: 020 7527 2382

By post: Head of treasury and pension fund management
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