ISLINGTON
For a more equal future

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

Contents

Foreword

Dear Pension Scheme Member

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

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

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

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

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

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

- Net zero emission target at 2050 including aligning with 1.5 degree Celsius scenario
- Investing at least 20% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2026
- Reduce carbon emissions of all listed portfolios that is equities and credit by 49% at 2026, and 60% by 2030 with a 2016 baseline (Reduce carbon emissions of all listed portfolio i.e. equities and credit by 60% by 2030
- **Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:**

  1)The Fund adopting TCFD supplemental guidance for asset owners where applicable.

  2) The Fund reviewing targets annually.

  3.) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2023 and will develop mechanisms to evaluate the progress.

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

The targets and metrics and progress made as at 31st March 2023 are below:

i) Net zero emission target in 2050 including aligning with the 1.5-degree Celsius scenario.

ii) Investing at least 20% of the fund in sustainability themed investments (such as low carbon technology or green infrastructure) by the end of April 2026.
(March'23 results- 16%)

iii) Reduce carbon Intensity of all listed portfolios i.e., equities and credit by 49% by 2026 and 60% by 2030 against a baseline in 2016. *(March'23 results- 40%)*

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

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

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

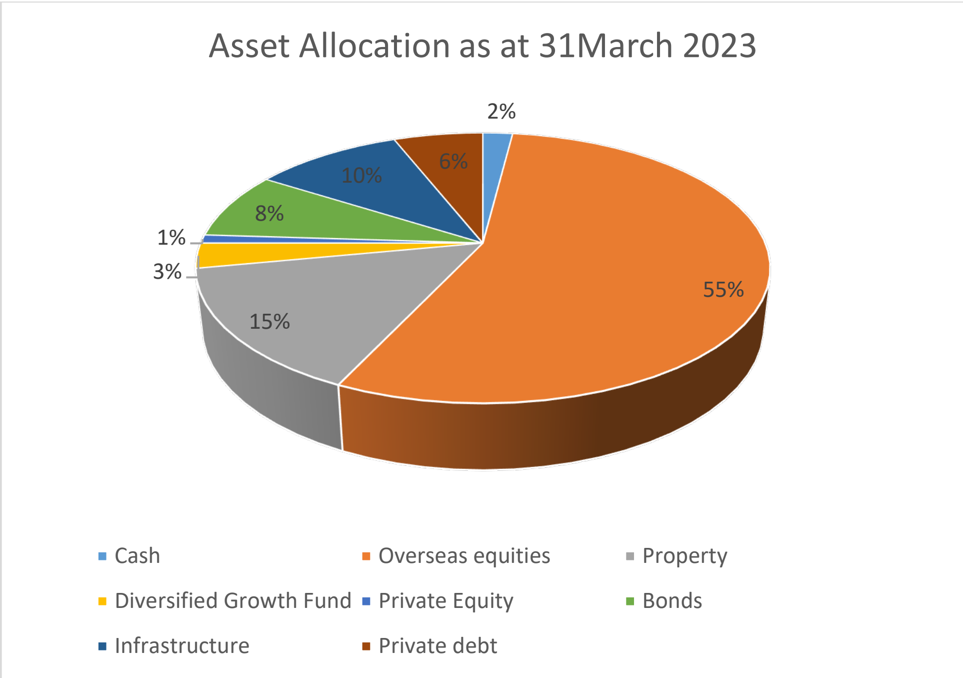
Cllr David Poyser

Chair of Pension Board

1: Investment report

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

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



The agreed strategic asset allocation is as follows;

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

1.1. Fund manager performance (BNY Mellon Performance Services)

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

Manager	Mandate	Market value £'000	12-month return %
Islington Council Treasury team	Cash	27,212	n/a
London LGPS CIV RBC sub fund	Global equities	166,436	-7.6
London LGPS CIV Newton sub fud	Global equities	322,860	0.2
Legal and General	Global/Emerging equities	233,378	-1.1
Legal and General-Paris Aligned(1)	Global equities	164,064	n/a
Polen Capital (BMO)	Emerging equities	67,461	-4.0
Standard Life	Corporate bonds	68,167	-10.9
M&G	Multi asset credit	77,583	2.3
Aviva	Property	129,779	-13.2
Columbia Threadneedle	Property	90,327	-13.4
Franklin Templeton	Property	25,060	23.3
Hearthstone	Property	27,951	3.2
Standard Life	Private equity	8,526	14.4
Pantheon	Private equity	1,975	0.2
Schroders	Diversified growth fund	45,760	-6.5
Pantheon	Infrastructure	69,757	22.1
Quinbrook	Infrastructure	98,656	15.6
Churchill	Private debt	54,805	9.9
Crescent	Private debt	34,641	7.5
Permira(3)	Private debt	15,481	n/a
BNY Mellon(2)	Cash deposits	6,746	n/a
Total Market Value		**1,736,625**	-3.3

(1) L&G Pars Aligned commenced in Aug'2022
(2) BNY Mellon hedge overseas equities holdings
(3) Permira capital drawdown in December 2022

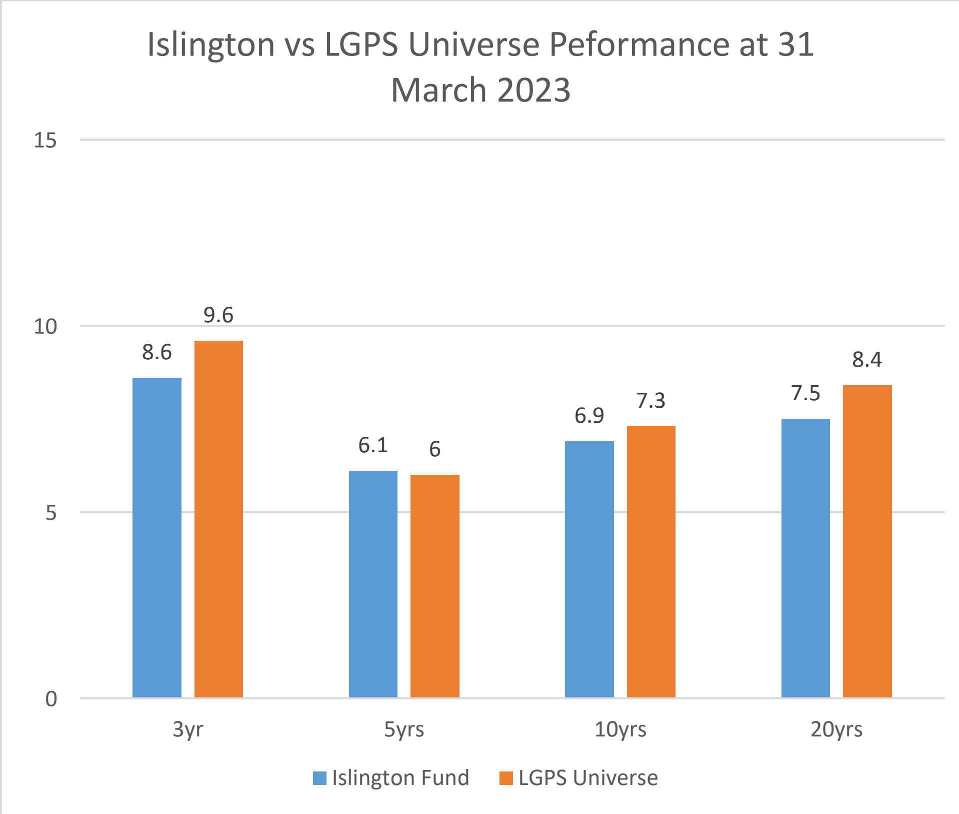
All the Council's funds are in pooled vehicles.

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

Period	1year	3 years	5years
Fund return per annum %	-3.3%	8.6%	**6.1%**
Benchmark%	**-2.6%**	**8.0%**	**5.7%**

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

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



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

2: Pooling

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

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

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

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

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

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

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

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

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

3. Exercise of shareholder rights -voting

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

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

	For	Abstain	Oppose	Non-Voting	Total
UK & British Overseas	27	3	11	0	41

4: Business plan

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

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

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

Actions:

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

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

Actions:

- Pension board review draft statement of accounts before auditing and monitor pension's administration cashflow
- A revamped risk register is now reviewed at each pension board meeting.
- Board monitors performance and resources to achieve benchmark targets and monitor complaints and feedback.
- Though deferred and Councillors ABS was on time the delay to corporate and school members has been communicated via izzi and other bulletins with a new target date.

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

Actions:

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

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

Actions:

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

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

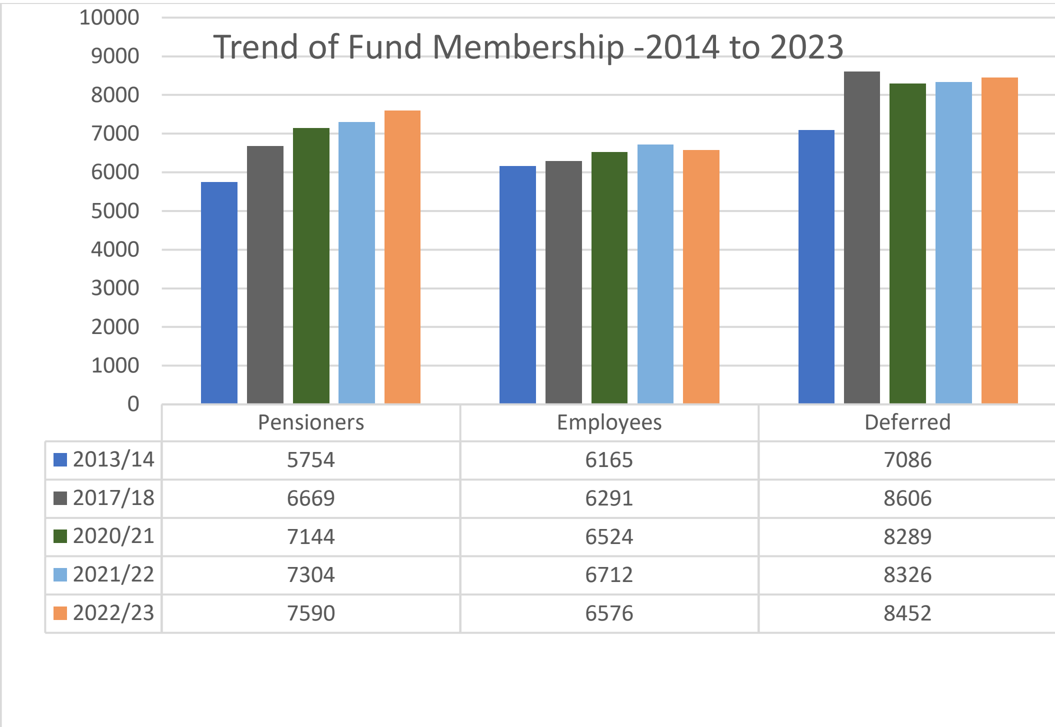
Actions:

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

5: The local government pension scheme

5.1. Membership

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



The total membership over the period is as follows:

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

5.2 Benefits

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

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

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

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

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

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

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

The core benefits of the scheme are:

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

5.2.1 Pension contributions

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

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

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

Contribution Rate and banding 2023/2024

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

5.2.2 Retirement age

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

5.3 Keeping up to date

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

https://islington.gov.uk/IslingtonCouncilLGPS
https://www.lgpsmember.org/

Employees who are not members of the LGPS
There are many advantages in being a member of the LGPS. 'Auto-enrolment' rules mean that employees who opt-out of the scheme are 're-enrolled' every three years. The next re-enrolment date for those who have opted-out is 1st April 2025.

5.4 Pension administration performance

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

Process	Total Cases Processed	Target days to complete	% Achieved within target days	Actual average days
Deaths	209	5	90.0%	7.0
Retirement Benefits	371	5	81.0%	8.5
Pension Estimates	488	10	68.0%	16.0
Preserved benfit calculations	163	15	70.0%	18.0
Transfer-in quotation	67	10	85.0%	11.0
Transfer-in actual	176	10	82.0%	14.0
Transfer out quotation	81	15	89.0%	17.0
Transfer out actual	49	12.5	83.0%	13.0
Payroll Adj.	205	10	100.0%	9.0
Refunds	68	10	98.0%	12.0
Starters	427	30	75.0%	32.0

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

Contacts

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

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

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

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

6: Democratic arrangements

6.1 Pensions Sub-Committee

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

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

Substitutes
Cllr Jenny Kay
Cllr Ben Mackmurdie

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

Fund Investment Advisors:
Mercer
MJ Hudson Allenbridge

Fund Actuary:
Mercer

Fund Legal Advisor
Internal Legal Department

Fund Custodian:
BNY Mellon

Performance Monitoring:
BNY Mellon

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

Fund AVC Providers
Equitable Life, Prudential, Phoenix Life

Fund Auditors
Grant Thornton UK LLP

Bankers
Barclays Bank

6.2. Islington Council Local Pension Board

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

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

The membership of the board is as follows:

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

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

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

6.3 Activities of the Board

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

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

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

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

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

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

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

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

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

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

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

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

Islington Council - Democracy

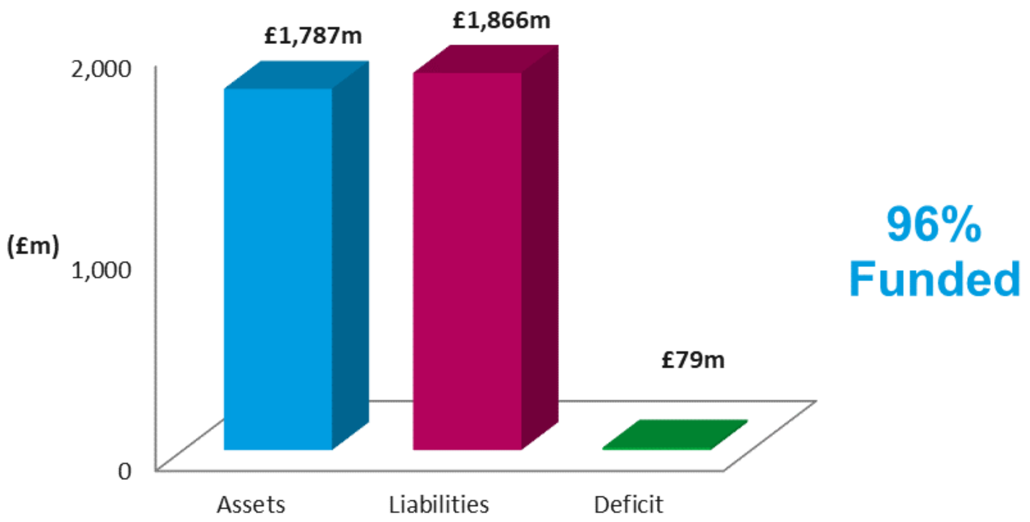
7. Funding of the pension scheme

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

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

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

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



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

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

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

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

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

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

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

Rate of pay increases (long term)	4.60% per annum	4.60% per annum

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2023 (the 31 March 2022 assumptions are included for comparison):

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

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

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

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

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

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

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

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

Key factors leading to the actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a.. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.4% p.a.. In combination, these factors lead to a significant reduction in liabilities

- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities

- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities

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

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

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

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

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

Paul Middleman
Fellow of the Institute and
Faculty of Actuaries

Michelle Doman
Fellow of the Institute and
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Mercer Limited

8: Summary of financial report

8.1 Income and expenditure for 2022/23

- A minor decrease in net assets of £48million (2.3%) to £1,739million due to volatility in the market, primarily due to high inflation and interest rates and Ukraine war impact.

- Employees' contributions totalled £15.6million compared to £14.4million in 2021/22

- Employers' contributions including deficit contributions amounted to £53.6million compared to the £32.7million in the previous year this was mainly because the Council made a one -off lump sum £20m contribution to pay off the accrued deficit to March 2019, funded from Housing Revenue Account.

- Pensions paid totalled £54.3 million compared to £51.7million in 21/22. The increase was mainly due to the annual pension increase of 3.1%.

- Investment management fees in previous years have not included charges on pooled funds where fees are deducted at source, however for 2022/23 the full fees on both private and public portfolio are shown in the accounts as £12m to give transparency on cost.

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

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

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

9: Statement of Responsibilities

(To follow after audit)

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

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Telephone: 020 7527 2382

By post: Head of treasury and pension

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