Meeting: **Local Pension Board**

Date/Time: **Wednesday, 17 August 2022 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Miss C Tuohy (0116 305 5483).**

Email: **cat.tuohy@leics.gov.uk**

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 4 May 2022.		(Pages 3 - 8)
2.	Question Time.		
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
4.	Declarations of interest in respect of items on the agenda.		
5.	Pension Fund Administration Report April to June 2022 - Quarter One.	Director of Corporate Resources	(Pages 9 - 20)
6.	Pension Fund Valuation 2022.	Director of Corporate Resources	(Pages 21 - 76)
7.	Pension Fund Annual Report and Accounts 2021/22.	Director of Corporate Resources	(Pages 77 - 166)
8.	Local Pension Board Annual Report 2021/22.	Local Pension Board	(Pages 167 - 178)
9.	McCloud Remedy Report.	Director of Corporate Resources	(Pages 179 - 186)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
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10.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 187 - 208)
11.	Any other items which the Chairman has decided to take as urgent.		
12.	Date of next meeting – 26 October 2022		

TO:

Employer representatives

Mrs R. Page CC
Cllr D. Bajaj
Mr. R. Shepherd CC

Employee representatives

Ms. C. Fairchild
Ms. R. Gilbert
Mr. M. Saroya

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Wednesday, 4 May 2022.

PRESENT

Mrs. R. Page CC (in the Chair)

Cllr. D. Bajaj
Mr. R. Shepherd CC
Mr. M. Saroya
Ms. C. Fairchild
Ms. R. Gilbert

15. Minutes of the meeting held on 16 February 2022.

The minutes of the meeting held on 16 February 2022 were taken as read, confirmed and signed.

16. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

17. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no items for consideration.

18. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Mr. R. Shepherd CC declared an Other Registrable Interest in Agenda Item 5 ‘Pension Fund Administration Report January to March 2022 – Quarter Four’ as a member of Charnwood Borough Council that was referenced.

19. Pension Fund Administration Report January to March 2022 - Quarter Four.

The Board received a report from the Director of Corporate Resources on relevant issues in the administration of Fund benefits, including performance of the Pensions Section against its performance indicators. A copy of the report marked ‘Agenda Item 5’ is filed with these minutes.

Arising from the discussion the following points arose:-

i. Nine out of ten Key Performance Indicators (KPIs) were at, or above, target. It was noted an indicator needed to be at least 5% below target to be rated red.

ii. The Pension Manager set out the Fund's Value for Money Statement, which valued cost per scheme member at circa £24-25 a year. The Board noted that the cost was built into employer contribution rates and not paid by scheme members. The cost to employers was 0.3% of their contribution rate, which would rise to 0.4% in April 2023. The fee comprised administrative costs, not investment management fees.

iii. A Member queried if there was benchmarking data available to compare Leicestershire with other LGPS funds. The Pensions Manager informed the Board that there was of yet no agreed benchmarking method across funds, therefore it was difficult to compare with others. It was expected in future a standardised method would be developed compare funds in line with the Chartered Institute of Public Finance and Accountancy guidance.

iv. The Board were unsurprised that the cost of administration continued to grow given the increased complexity of the scheme, from issues such as McCloud. It was noted the issue was a national LGPS risk, and that the Pension Manager would continue to manage costs where possible.

v. The Fund's budget remained independent of the Council's budget and was managed separately. The Fund had a standard budget setting cycle that included expected staffing costs, where costs became volatile the officers would increase reporting analysis.

vi. The Fund had identified circa £10million of the Fund (0.15% of the total fund) had been invested with Russian companies. The Fund had instructed its managers to sell positions where possible, however timing would be dependant upon the restrictions on capital flow in and out of Russia. Furthermore, the Board noted that Russia's 'emerging market' designation had been stripped, so the Fund would not invest in the area in future.

vii. The Pensions Manager updated Members on the LGPS Scheme Advisory Board (SAB) taking further legal advice over sharia law compliance, following a recent legal opinion that a discrimination claim in an employment tribunal or a broader human rights-based challenge was possible. The Board noted that previous legal advice had advised LGPS funds that they were fully compliant and that the SAB would seek further expert advice and clarification on the matter.

viii. The Board highlighted their concern in relation to the unsigned admission agreements of LIFE MAT to Total Swim, despite the best efforts of the Pension Section and Legal Services. It was noted that the seven affected members had been written to.

The Chairman and the Board put forward their thanks for the service of two experienced Team Managers who would be leaving the Pensions Section with a combined experience of 60years.

RESOLVED:

a) That the report be noted.

b) That a letter expressing the Boards concern be sent to LIFE Mat and Total Swim, in relation to outstanding admission and bond agreements.

20. Continuous Improvements Report.

The Board considered a report of the Director of Corporate Resources providing an update on progress in respect of areas of identified improvement within the Pensions Section. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

Arising from the discussion the following points arose:-

i. Members were pleased to note that following a recent audit of the processes of payments for pensions, lump sums and death grants, substantial assurance had been achieved for the controls in place.

ii. Aquila Heywood, the Fund’s software suppliers, had indicated a new version of the member self-service portal would go live in 2023. The Fund would monitor its progress and look to go live on the new system at an appropriate time. The Board would be kept updated on the matter.

iii. The Board praised the ongoing work from the Continuous Improvement team and the efficiencies that had been pursued. It was noted the Improvements Team looked to monitor other schemes to follow best practice across the LGPS where possible.

RESOLVED:

That the report be noted.

21. Responsible Investing Update.

The Board considered a report of the Director of Corporate Resources providing an update on Responsible Investment. A copy of the report, marked ‘Agenda Item 7’ is filed with these minutes.

Arising from the discussion the following points were noted:-

i. Once the Net Zero Carbon Strategy had been developed, following an engagement exercise, the Fund would look to communicate the Strategy, and engage with its investment managers. The Board noted that most of the Fund’s managers already expected, and planned, to decarbonise to get to net zero by at least 2050.

ii. The Fund would look to deliver interim targets as part of the Strategy to ensure that the Fund started to progress towards the target while understanding that currently not all of the Fund’s portfolio could be easily measured as yet.

iii. In response to a question on how going green would affect the Fund, the Director assured the Board that the Fund would not write aspirations into the Strategy that would be at a cost to employers. It was noted that if the Fund were to divest its fossil fuel exposure immediately from the Fund that would be at a detriment to the Fund. Instead, the Fund aimed to pick a trajectory towards Net Zero, that while ahead of the curve allowed the Fund to go green without impinging on investment return.

iv. The Fund received various freedom of information and email correspondence from scheme members and other outside groups about what assets the Fund held and why certain assets had not been divested. The Board noted that the Fund's view was that a strategy of engagement with companies to improve their stewardship, was more compatible with its fiduciary duty. Furthermore, the Fund's view was that carbon heavy companies had a key role to play in the transition to a greener future, which the Fund would support and lobby for as a responsible owner.

RESOLVED:

That the report be noted.

22. LGPS Central Joint Committee and Annual General Meeting Update.

The Board considered a report of the Director of Corporate Resources providing an update on LGPS Central's Joint Committee and Annual General Meeting. A copy of the report, marked 'Agenda Item 8' is filed with these minutes.

RESOLVED:

That the report be noted.

23. Internal Audit Arrangements (Including Internal Audit Work conducted During 2021-22) and the Internal Audit Plan 2022-23.

The Board considered a report of the Director of Corporate Resources, the purpose of which was to detail the internal audit work completed and the Internal Audit Plan 2022-23. A copy of the report, marked 'Agenda Item 9' is filed with these minutes.

The Board welcomed the outcome of the 2021-22 audit report which had resulted in a positive assurance grading with no high importance recommendations.

The Board noted that arising from the biennial National Fraud Initiative counter fraud data matching exercise, four cases had been identified where pensions continued to be paid to deceased persons. Immediate action had been undertaken and repayment was being sought (just over £18,000 in total), however had been hindered by the complexity from deaths occurring overseas. The Board were assured that a range of process changes had been introduced to prevent any reoccurrence.

The Internal Audit Service continued to work with LGPS Central partner authorities as part of the Internal Audit Working Group (IAWG). As part of the four-year rolling rota programme of audits, Leicestershire had undertook a review of LGPS Central Investments and reached an overall 'substantial' opinion.

RESOLVED:

That the report be noted.

24. Risk Management and Internal Controls.

The Board considered a report by the Director of Corporate Resources, the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

RESOLVED:

That the report be noted.

25. Date of Next Meeting - 17 August 2022.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 17 August.

CHAIRMAN

04 May 2022

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Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD – 17 AUGUST 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT
APRIL to JUNE 2022 - QUARTER ONE

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the main administrative actions in the quarter. The report covers governance areas including administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators. The Board is recommended to raise any areas of concern to be reported to the Local Pensions Committee.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 98,000 members.

Performance Indicators

3. Attached to this report are the performance indicators for the Pensions Section, which form part of the Section's Service Plan and have been agreed by the Director of Corporate Resources. These indicators are split into two broad categories – how quickly processes are carried out and how customers feel they have been kept informed and treated by staff.

Performance of Pensions Section

4. The results for the April to June 2022 quarter are included as Appendix A.

5. KPIs on customer feedback remain strong.

6. KPIs on business processes have fallen compared to the previous quarter. This is due to resource being required on other critical statutory areas of pensions administration, year-end, pensions increase, valuation and annual allowance.

Governance – Service Delivery

General Workloads

7. The tables show the position in the key work areas, April to June 2022.

April 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	138	1135	839	1000
Retirement Options	218	273	102	350
Retirements Paid	135	425	121	350
Deaths	78	194	78	200
Refunds	78	282	41	400
Pension Estimates	124	76	58	250
Transfers in	88	271	83	200
Transfers out (excluding interfunds out) *	27	43	29	100
Aggregations	139	873	663	1000
New starters set up on the pension system	512	n/a	n/a	n/a

May 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	258	1149	837	1000
Retirement Options	187	366	189	300
Retirements Paid	246	374	87	300
Deaths	77	201	85	200
Refunds	96	240	29	400
Pension Estimates	93	99	68	250

Transfers in	71	282	88	200
Transfers out (excluding interfunds out) *	49	39	28	100
Aggregations	66	1244	1043	1000
New starters set up on the pension system	624	n/a	n/a	n/a

June 2022

Area	Cases completed in the period	Remaining cases at the end of the period	Remaining cases in Pensions	Maximum Number of Cases at Month End
Preserved benefits	182	1108	798	1000
Retirement Options	253	331	117	300
Retirements Paid	140	435	79	300
Deaths	75	223	84	200
Refunds	58	276	109	400
Pension Estimates	33	136	113	250
Transfers in	47	286	112	200
Transfers out (excluding interfunds out)*	34	47	24	100
Aggregations	37	1269	1075	1000
New starters set up on the pension system	238	n/a	n/a	n/a

*Interfunds out are excluded from the figures as Regulations allow one year for members to decide whether to transfer.

New starters are set up from IConnect interfaces load files provided by the employers.

8. The main point to note.

- Work was concentrated on employers with the largest percentage of pending leavers for the valuation. Over 500 cases were cleared on these employers during May and June.

Governance – General

Complaints – Internal Disputes Resolution

9. The Pension Section deals with complaints through the Local Government Pension Scheme's formal Internal Dispute Resolution Procedure (IDRP). However, complaints are usually resolved informally, avoiding the need for the IDRP to commence. Initial complaints are often caused by misunderstandings or human error and can quickly be resolved.

10. In the period April to June 2022 there was one new IDRP Stage 2 appeal. The case relates to a member's historic transfer out. The complaint has been lodged by a Claims Management Company on the member's behalf. The case is now being considered at Stage 2 of the IDRP process. There were no changes in the other Stage 2 cases in the quarter.

Data Improvement

11. The Fund's data improvement plan has been driven by the move to monthly postings of employer data.

12. At the Board meeting in May 2022 the Pensions Manager confirmed that the phased implementation of monthly postings using i-Connect was almost complete. There are now only 6 employers out of 186 still to commence monthly postings. Officers continue to work with these six employers on their future implementation.

13. Given that 99.7% of active members data is posted monthly the Pensions Manager has now moved i-Connect from the implementation stage to business as usual.

2021/22 Year-End and Annual Benefit Statements

14. Officers started preparing for 2021/2022 year-end in February 2022 and sent a bulletin to all the employers using i-Connect detailing the data that needs to be submitted.

15. A separate correspondence was sent to 10 employers not using i-Connect in March 2022 explaining what information is required and how to submit the data.

16. The deadline for employers to submit all the year-end data was the 30 April and any queries that are generated needed to be resolved by 31 July, allowing the Pension Section sufficient time to prepare the Annual Benefit Statements before 31 August deadline. A control sheet has been setup to monitor the progress of each employer to ensure that all the deadlines are met.

17. As at the 1 August 2022 114 employers have uploaded their March 2022 data and the data queries are resolved.

18. 74 employers still have data queries and Officers are chasing these cases. 62 of these employers are paid via East Midlands Shared Services (EMSS) and the delays have been caused by the new Fusion payroll system. EMSS and Pension Officers are working hard to resolve these queries and are confident these will be completed in time for annual benefit statements.

19. 114 employers are complete and annual benefit statements are ready to be produced.

20. Officers expect that only seven scheme members will not receive their annual benefit statement by the 31 August 2022 due to the legal admission agreement not being completed in time to complete year-end. These seven staff work for Total Swim, and they have been written to by Officers explaining the situation.

21. Officers are pleased with the current year-end position and will continue to monitor this closely throughout August.

Breaches Log

22. The Pension Manager retains the Fund’s breaches log. Each breach is reviewed to decide if the breach is material or not. Only material breaches are reported to the Pensions Regulator.

23. There were no new or open breaches in the quarter (April to June), however the Pensions Manager will continue to review progress on year-end for annual benefit statements for Total Swim. Whilst these will not be completed by the 31 August 2022 deadline, it is expected they will be completed shortly afterwards, mitigating any materiality.

Dashboards

24. There is a new national exercise to set up pension Dashboards. It is expected the Leicestershire Fund will need to submit data by September 2024.

25. The new pensions Dashboards will enable UK residents opportunity to register on the national dashboard, to view all their pensions “in one place”.

26. Pension Funds are required to submit their pension data to the national dashboard via a secure link to enable UK residents to view elements of their personal, public and occupational pension schemes, in one place.

27. The Pensions Dashboard Programme (PDP) launched consultations on dashboard standards and guidance and a call for input on the design stage. Both consultations close on the 30 August 2022.

28. Standards detail how the pension schemes and dashboard providers operationally, technically or in practice, meet their dashboard duties covering seven standards;

    a. Operational
    b. Security
    c. Service
    d. Data
    e. Reporting
    f. Application programming interface
    g. Technical (other)

29. Guidance provides further requirements to which pension scheme must have regard when complying with their dashboard duties covering four areas;

    a. Connection
    b. Data usage
    c. Overview technical
    d. Early connection

30. Given the size, complexity and technical nature of the national exercise, the Pensions Manager is working closely with Heywood, the Fund's pension system provider, and the Local Government Association (LGA) on pension dashboards. Both Heywood and the LGA are expected to provide a response to the consultation on behalf of the LGPS nationally. Because of this, and the technical nature of the consultation, the Pensions Manager does not intend to reply directly.

31. Officers will provide further updates to the Board on the Dashboard programme as this develops over the coming months and years.

Governance – Audit

32. During the quarter April to June 2022, there were three Internal Audit report received.
    a. Pension Creation. To review the validity and accuracy of payment for new pensions, lump sums and death grants. There were no recommendations in the Audit report.

    b. McCloud (Data Collection and Input). To review progress on the McCloud exercise. A separate report to the Board details the Fund's current position on McCloud.

    c. Good Governance Project. To provide assurance to management that the recommendations from the Good Governance Project have been adequately addressed and implemented. There were two recommendations that Officers have agreed. Once final guidance from the Department for Levelling Up, Housing and Communities is received this exercise will be reviewed again.

Governance - Regulations

33. In June 2022 new legislation came into force on “Nudge”. This requires Officers to inform members with Additional Voluntary Contributions (AVCs), about their AVC retirement options and offers them the chance to make an appointment with Pensions Wise.

34. Officers have amended the retirement letters to account for Nudge and refers to Pensions Wise. At this early stage the impact on administration seems to be minor. Most people with AVCs continue to use them to increase their LGPS lump sum at retirement.

Governance – National Update

35. Following the Hutton review, the Cost Cap was introduced as part of the 2014 reforms as a “safety value” mechanism for public sector pension costs. This set a 2% baseline target cost.

36. The first national Cost Cap for the LGPS was as the 31 March 2016. The 2% baseline was breached on the “low side”, prompting suggested improvements to members benefits or contributions. However, McCloud costs were pending so the process paused.

37. Following the McCloud consultation, and Government’s confirmation of their preferred approach for remedying McCloud, the Cost Cap work was un-paused.

38. In early July 2022, the result of the 2016 Cost Cap valuation was published. The result now suggests no changes to member benefits or contribution rates in the LGPS.

39. The 2016 Cost Cap results are still subject to legal challenge, so the final outcome still remains pending. The Pensions Manager will provide a further update once the legal challenge is concluded.

Governance – The Pensions Regulator Code of Practise

40. In 2021 The Pensions Regulator (TPR) completed a consultation on amalgamating their current codes into one single code.

41. The new code is expected to be published shortly and is likely to include some changes and additions that Funds will need to comply with.

42. Officers and The Fund’s Actuary will compare the current codes and the new single code via a “gap” analysis.

Governance – Employer Risk

43. Fund Officers continue to regularly review employer risk. Where there are outstanding admission agreements or bonds, these are reported to the Board each quarter.

44. There are currently several outstanding cases that Pension Officers and internal Legal colleagues continue to try and resolve.

45. In the table below, the outstanding cases are listed in risk order, highest to lowest. The highest risk cases are the longest unsigned admission agreements. Unsigned admission agreements mean, the staff that have transferred to the new employer are currently not active LGPS members. Once the admission agreement is legally signed, the pension start date for the staff will be backdated to the date of transfer, so the staff do not lose any scheme membership.

46. Medium or lower risk cases tend be where bonds are outstanding. The risk level is assessed by either bond value or the type of employer that provided the outsourcing and their ability to act as guarantor to the Fund.

47. When scheme members reach age 55 the risk increases because if those members are made redundant or retire on interests of efficiency, they qualify for unreduced pension benefits. A strain cost is generated that must be paid in full by the employer.

48. At the time of writing the report, 1 August 2022, there are several cases outstanding.

Letting employer and Contractor	Outstanding Issue	Type of admission agreement and start date if outstanding	Full or Capital Cost Bond / Value and End Date	Comments	Fund Risk Level
LIFE MAT to Total Swim	Admission agreement and bond	Pass through 7 June 2021 7 members affected – they have been written to. Members have also been written	Capital Cost Bond of £4,000	Legal colleagues have discovered two separate admissions are required for this transfer, due to the contractual arrangement between the Academy and contractor. Officers have been informed the Academy has signed one of these, but the contractor has not signed either.	High

Letting employer and Contractor	Outstanding Issue	Type of admission agreement and start date if outstanding	Full or Capital Cost Bond / Value and End Date	Comments	Fund Risk Level
		to about the delay in receiving their annual benefit statement		Officers continue to chase all parties.	
Leicestershire County Council to Turning Point (2022 contract)	Admission agreement and bond	Pass-through 1 April 2022 9 members - not written to at this stage (being reviewed)	Capital Costs of £110,000 4 years	Admission agreement is still being finalised. All parties are actively engaged in completing this	High
Leicester City Council to Turning Point (2022 contract)	Admission agreement and bond	Pass-through 1 April 2022 17 members – not written to at this stage (being reviewed)	Capital Cost of £110,000 4 years	Admission agreement is still being finalised. All parties are actively engaged in completing this	High
Leicestershire County Council and City Council to Ingeus	Admission Agreement	Pass-through 9 April 2022 1 member (split role covers City and County) – not written to at this stage (being reviewed)	n/a	Joint tender by County and City. Draft admission agreement circulated, and Officers are chasing.	High
Lutterworth AT to Cucina	Admission Agreement	Pass-through 9 April 2022 8 members – not written to at this stage (being reviewed)	n/a	Admission agreement has been agreed by all parties. Awaiting signature	High
Odyssey Education	Bond	Pass-through 1 January	Capital Cost bond of	Officers continue to chase completion	Low

Letting employer and Contractor	Outstanding Issue	Type of admission agreement and start date if outstanding	Full or Capital Cost Bond / Value and End Date	Comments	Fund Risk Level
Trust (Humberstone Primary School) to Caterlink		2022	£27,000 3 years		
City Council to East West Community Centre Ltd	Bond (previously not required but member aged 55)	Pre April 2019	Capital Cost bond of £16,000 3 years	East West are arranging a Committee Meeting to consider this	Low
MET to Taylor Shaw (Elior)	Bond	Passthrough 1 August 2021	Capital Costs of £12,000 3 years	Officers continue to chase for completion of the bond	Low

50. The cases completed in the quarter are listed below.

- Odyssey (Humberstone Primary School) to Caterlink – admission agreement backdated to 1 January 2022
- South Charnwood High School to MCS Cleaning (2021 contract) – admission agreement backdated to 1 September 2021
- Leicestershire County Council to Rushcliffe Care – bond only

<u>Governance – Knowledge and Understanding</u>

51. Board and Committee Members have access to the Fund Actuaries online LGPS training. The training is in manageable sections and covers a wide range of topics. The Pensions Manager receives a monthly update, detailing which areas of the training Members have completed.

52. Officers believe this is a valuable tool, individually detailing which topics will be useful to assist Member's knowledge and understanding.

53. The Fund's 2021-22 Annual Report includes details on Member training.

<u>Recommendation</u>

54. It is recommended the Board considers the report and raises any areas of concern with the Local Pension Committee.

Equality and Human Rights Implications

None specific

Appendix

Appendix A – Key Performance Indicators April to June 2022

Officers to Contact

Ian Howe
Pensions Manager
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Declan Keegan
Assistant Director of Strategic Finance and Property
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APPENDIX A

Quarter - April to June 2022

Business Process Perspective	Target	This Quarter		Previous quarter	Customer Perspective - Feedback	Target	This Quarter		Previous Quarter
Retirement Benefits notified to members within 10 working days of paperwork received	92%	91%	►	93%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	96%	▲	99%
Pension payments made within 10 working days of receiving election	95%	93%	►	95%	Experience of dealing with Section - rated at least good or excellent	95%	94%	►	93%
Death benefits/payments sent to dependant within 10 working days of notification	90%	76%	▼	90%	Establish members thoughts on the amount of info provided - rated as about right	92%	94%	▲	93%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	98%
Good or better than target	▲				Email response - understandable	95%	100%	▲	100%
Close to target	►				Email response - content detail	92%	99%	▲	99%
Below target	▼				Email response - timeliness	92%	93%	▲	98%

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LOCAL PENSION BOARD - 17 AUGUST 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION 2022

Purpose of the Report

1. The purpose of this report is to inform the Board about the assumptions in the Leicestershire Local Government Pension Scheme (LGPS) 2022 Valuation.

Background

2. Every three years each LGPS administering authority has a statutory obligation to have an actuarial valuation (Valuation) of the pension scheme. The Leicestershire Pension Fund's (Fund) assets and liabilities are assessed on the 31 March 2022 and the overall funding position calculated.

3. The main aim of the Valuation is to set contribution rates for each employer for a three-year period that commences one year after the valuation date (i.e. for the period 1 April 2023 to 31 March 2026). In order to set the contribution rates, the Fund Actuary Hymans Robertson, must take account of a number of factors, most of which are the assumptions, on what is likely to happen in the future. These assumptions do not impact onto the ultimate cost of paying benefits they simply calculate the liability derived from these benefits, which in turn impacts the level of contributions set.

4. There is a requirement within the LGPS Regulations that there is an element of prudence built into the actuarial assumptions and that the actuary sets contributions in line with these prudent assumptions while maintaining contribution stability for employers, where possible.

5. The assumptions in this report were taken to Pensions Committee on the 10 June 2022 and were approved for the 2022 Fund Valuation, subject to any final amendments that may be necessary.

Assumptions

6. The assumptions required for the valuation are grouped by;
   1. Longevity
   2. Investment return and discount rate

3. Benefit revaluation and pensions increases
4. Salary increases
5. Others

Further details on slide 10 of Hymans' report Appendix A

7. Longevity, the investment return (and discount rate) and benefit revaluation (and pension increases) generally have the greatest influence on employer contribution rates.

<u>Longevity</u>

8. The data used by Club Vita is Leicestershire Fund specific, using Fund members' individual data points, including postcode analysis. This allows Hymans Robertson to calculate the longevity likelihoods by member (and employer) area within the Leicestershire Fund and benchmark this to the national average.

9. Longevity assumptions are based upon modelling performed by Club Vita. The assumption is broken into two components:

   1. Baseline
   2. Future improvements.

   Further details on slide 23 of Hymans' report Appendix A

10. Baseline longevity reflects current observed mortality (nationally, within the LGPS and within the Leicestershire Fund) and is informed by Club Vita analytics on the Leicestershire Fund members.

    Further details on slide 24 of Hymans' report Appendix A

11. Future improvements reflect the expected improvement in life expectancy into the future. The Actuary uses an industry wide longevity CMI (continuous mortality investigation) model and uses Club Vita analysis to help to set the parameters of the model.

12. Given that both 2020 and 2021 experience has been affected by Covid 19 no weight is placed on data from these years. There remains uncertainty on the long-term impact of Covid 19 so the position will continue to be monitored closely for future valuations.

13. However, after excluding uncertainty for Covid 19, Club Vita analysis suggests a reasonable long-term trend of 1.5% annual improvements in longevity. The strength of this recommendation has increased since the previous valuation, where the annual improvement in longevity was 1.25% p.a.. Hymans have suggested the Fund increase this for the 2022 valuation to 1.5%.

14. In isolation, the proposed changes to the longevity (future improvements) assumption will increase assumed life expectancy by around 0.5 years for females currently aged 45 (and around +0.2 years for males).

Further details on slide 27 of Hymans' report Appendix A

15. Longevity results in the Leicestershire Fund are slightly higher than the national average.

Investment return and discount rate

16. Investment returns are based on two separate assumptions. The first assumption is the Fund's future investment returns for the next 20 years. This is derived in a similar way to the comPASS modelling with multiple economic projections being created. These projections are used to calculate the expected performance of each of the asset classes the Fund holds. This range of expected returns over the 20-year period is applied to the holdings in the Fund's asset allocation strategy.

Further details on slide 15 of Hymans' report Appendix A

17. At the November 2021 Pensions Committee Meeting, Committee approved a 75% prudence level on the likelihood of the Fund's investment strategy achieving returns over a given period. Using the Hymans economic scenario model, and aiming to meet a 75% success rate, produces a 4.4% p.a. assumed investment return (over years 0-20).

Further details on slide 16 of Hymans' report Appendix A

18. In isolation, adopting a 4.4% p.a. future investment return assumption for calculating funding levels will improve past service funding positions which will lead to lower Secondary rates for employers. This should help to offset the increased cost of future accrual (largely driven by higher inflation).

19. Beyond a 20-year time horizon uncertainty increases greatly, hence a different approach is taken. A single assumption about future investment returns is set, known as the discount rate. The resulting discount rate is based on the underlying economic conditions in year 20 of each scenario modelled, allowing for the Fund's agreed level of prudence (75%).

Further details on slide 15 & 17 of Hymans' report Appendix A

Benefit revaluation and pension increases

20. Hymans model various inflation outcomes within its economic projections. While raising inflation is a risk, this is generally mitigated by the higher inflation on the assets that should provide higher returns.

21. At the 2022 valuation benefit projections are in line with the long-term consumer price index projections within this model.

22. There is no change in approach at the 2022 valuation, but Hymans have used updated modelling calibrations to reflect the current market outlook in the short to medium term.

23. The Hymans model allows for observed market information and short terms trends to reflect current market conditions at 2022, but generally the longer end of the 20-year model remains broadly the same as at the 2019 valuation, i.e., longer term projections are broadly in line with the Bank of England target of 2%.

24. The median (average) CPI over the first 20 years within the model is 2.7% p.a. which is slightly higher than the Bank of England target of 2%, due to the short-term higher inflation increasing the long-term estimate.

25. Given the current economic situation, inflation will continue to be closely monitored by the Fund Actuary and Officers over the coming months.

Further details on slide 18 & 21 of Hymans' report Appendix A

<u>Salary increases</u>

26. Salary increases are becoming less significant as more people have only career average benefits (CARE) service since April 2014. At the 2019 valuation 62% of active members had pre-April 2014 service, linked to final salary, and this has dropped to 40.4% at 2022.

Consumer Price Index (CPI) is measured over a 20-year average as noted in para 23, not CPI now.

27. At the 2019 valuation there was an allowance for short-term pay restraint, but this has been removed for the 2022 valuation.

28. The salary increases assumption for the 2022 valuation is CPI of 2.7% plus 0.5% plus a promotional element to account for people moving through the scale points within their pay grade.

Further details on slide 19 of Hymans' report Appendix A

<u>Other assumptions</u>

29. There are several other demographic assumptions that are listed on page 29 to 31 of Hymans report.

These are;

- Withdrawals from the scheme (excluding ill health)
- Ill health retirements
- Promotional salary scale
- Deaths in service
- 50/50 scheme take up

- Retirement age
- Cash commutation
- Proportion leaving a dependant.

These assumptions have been modelled using the Leicestershire Fund data and based on the Club Vita analysis.

Funding Strategy Statement and Investment Strategy Statement

30. The key policy changes in the Fund's draft Funding Strategy Statement (FSS) will be reviewed by Officers and will be presented to Pensions Committee in September 2022.

31. The full draft Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) will be reviewed and presented to Committee in November 2022. This is reliant on completion of the draft Net Zero Climate Strategy.

32. The Fund will propose to start a consultation with employers on the FSS and ISS after Committee in November 2022. To assist administration, this will commence at the same time employers receive their indicative employer rates.

33. The final assumptions will be taken to Committee in March 2023 alongside the final FSS and ISS after completion of the employer consultation.

34. The Pensions Manager will provide an update to the Board on the Whole Fund Results later in 2022, and final assumptions and Funding Strategy Statement and Investment Strategy Statement in 2023.

Timeline

35. The Valuation timeline has been expanded and accounts for the minor changes as agreed with the Fund Actuary, to primarily account for the FSS and ISS. The revised timeline is detailed below.

Date	Topic	Action or Awareness
August/September 2021	Mid-valuation funding update	Board/Committee – **done**
September 2021	Provide Hymans Robertson with stabilised employer data	Pension Section - **done**
September/October 2021	Calculate indicative stabilised employer rates	Hymans Robertson – **done**
November 2021	Agree principles for the 2022 assumptions	Committee - **done**

March 2022	Results of the stabilised employer modelling	Committee – **done**
April 2022	Provide the stabilised employers with their indicative rates. 1 April 2023 to 31 March 2026	Pension Section/Stabilised employers – **done**
June 2022	Detail proposed valuation assumptions	Committee – **done**
August 2022	Provide Hymans with all Fund data	Pension Section – **current stage**
August/September 2022	Review selected employer's financial health	Pension Section – **current stage**
September 2022	Review proposed key policy changes to the Funding Strategy Statement	Committee
September/October 2022	Calculate Whole Fund results	Hymans Robertson
October/November 2022	Whole Fund valuation results	Board/Committee
November 2022	Investment Strategy Statement Draft Funding strategy statement (full)	Committee
November 2022 (through to the 31 December 2022)	Provide the other employers with their indicative rates. 1 April 2023 to 31 March 2026. Start a consultation with employers on the Funding Strategy Statement and Investment Strategy Statement (subject to possible amendments for the climate strategy)	Pension Section/Fund employers
January 2023	Changes to Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
March 2023	Final assumptions and Funding Strategy Statement and Investment Strategy	Committee/Board

	Statement finalised	
March 2023	Final valuation report produced with final employer rates	Hymans Robertson
April 2023 to March 2026	Employer rates implemented	Pension Section/Fund employers

Recommendation

It is recommended that the Board notes the assumptions for the 2022 Valuation, subject to any final amendments if necessary.

Assumption	Approach
Longevity	A long-term trend of 1.5% annual improvements
Investment Return	4.4% p.a. assumed investment return over 0 to 20 years aiming to meet a 75% success rate, using Hymans latest economic scenario model
Discount Rate	Beyond 20 years, use the Fund’s agreed level of prudence of 75%
Benefit Revaluation and Pensions Increase	The median (average) CPI over the first 20 years of 2.7% p.a.
Salary Increases	0.5% above 2.7% CPI inflation
Others	Model using the Leicestershire Fund data and based on the Club Vita analysis

Equality and Human Rights Implications

None

Appendices

Appendix A – Hymans Robertson Assumptions Paper

Background Papers

26 November 2021 –Local Pension Committee 2022 Fund Valuation Assumption

Officers to Contact

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Leicestershire County Council Pension Fund

Actuarial valuation at 31 March 2022

Advice on assumptions

Richard Warden FFA
Tom Hoare FFA

24 May 2022
For and on behalf of Hymans Robertson LLP

Contents

In this report:

A glossary of technical terms used in this report can be found in Appendix 6

Summary of recommendations

Assumption	Recommended approach	Comments
Level of prudence	Adopt a 75% prudence level in setting the key assumptions (future investment return & discount rate).	75% prudence level (previously 80% at 2019 valuation) was **agreed at November 2021 committee**
Future investment return assumption	Returns are based on Hymans Robertson ESS model updated to latest market calibration.	**Asset class return expectations (over years 0-20) are slightly better than at 2019.**
Discount rate	Adopt discount rate (which applies from years 20+) at 75% prudence level	**No significant change in absolute asset class return expectations** after the end of the funding time horizon.
CPI inflation (benefit increases / CARE revaluation)	Based on Hymans Robertson ESS model	**Inflation expectations are slightly higher (c.0.4-0.5% p.a.) than 2019 due to current economic outlook**
Salary increases	0.5% above CPI inflation (was 0.5% at 2019)	**2022 proposed assumption in line with 2019 long-term salary increase expectations.** However, at 2019, allowance was made for short-term expected pay restraint. Given recent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations**, recommend that no allowance is made for any further short-term pay restraint.**
Baseline longevity	Based on Club Vita analysis updated to reflect non-Covid related experience	**Longevity assumptions are tailored to the Fund's experience and membership**
Future improvements in longevity	Updated to CMI 2021 model with no weight on 2020/21 data and with long term improvements of 1.5% p.a.	**Latest version of CMI model is best practice but avoid projections being affected by short-term Covid-19 experience**
Demographic assumptions (excluding longevity)	Adopt Hymans proposed demographic assumptions	**All demographic assumptions have been reviewed against LGPS wide experience with some adjustment to reflect Fund's own experience**

The valuation process

The valuation process

1. Contribution rate modelling
Spring 2022

2. **Assumptions advice**
Now ✓

3. Employer risk management
June / July 2022

4. Data provision
August 2022

5. Funding Strategy Statement
August 2022

6. Whole Fund results
September / October 2022

7. Employer results
October / November 2022

8. Employer discussions
December 2022 / January 2023

9. Valuation sign off
March 2023

Assumptions advice

It's now time to set assumptions for the 2022 formal valuation, after taking advice from us as your Fund Actuary.

As part of this process you need to make four main decisions:

1. Agree the prudence level in the assumptions
2. Confirm approach and choice of financial assumptions (salary and pension increases)
3. Agree the life expectancy assumption, including how much weight is placed on recent years affected by COVID-19
4. Agree all other demographic assumptions

Why and how we set assumptions

Assumptions matter – projecting future benefit payments and assets

To determine the level of employer contributions we carry out two projections.

The **benefit projection** estimates the future payments that will be made to members, allowing for future pension increases, death and other events.

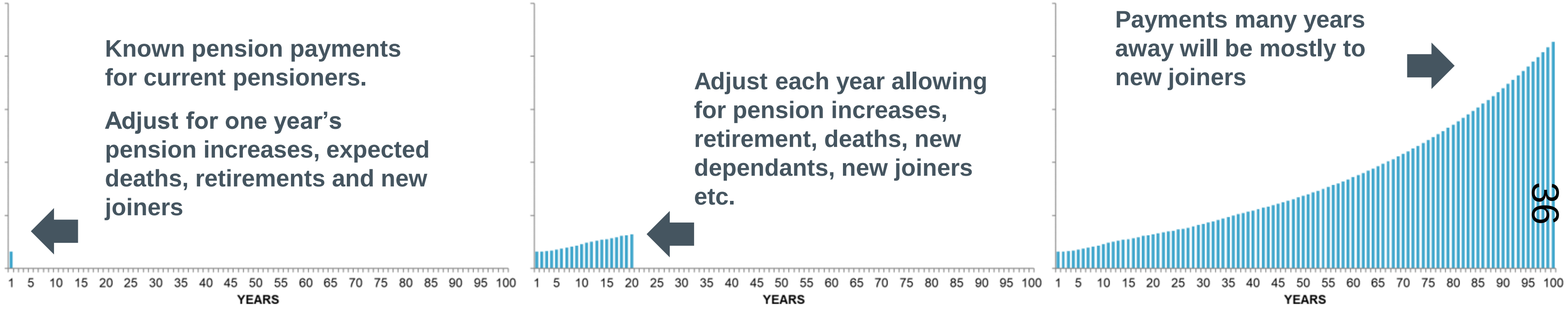
The **asset projection** takes into account future investment returns, contributions and benefits paid to members.

The contribution rates are set so at the funding time horizon, there are enough assets to meet future benefit payments in a sufficiently high number of future economic scenarios – the funding objective.

Because we can't see into the future, the projections mean working with uncertainty and require assumptions.

We review assumptions regularly to make sure they're relevant to the financial, demographic and regulatory environment.

Illustration: how we project benefit payments



Two types of assumptions:

1. **Financial** assumptions (like inflation) affect the amount of payments and asset values.
2. **Demographic** assumptions (like how long members live) affect the timing of payments.

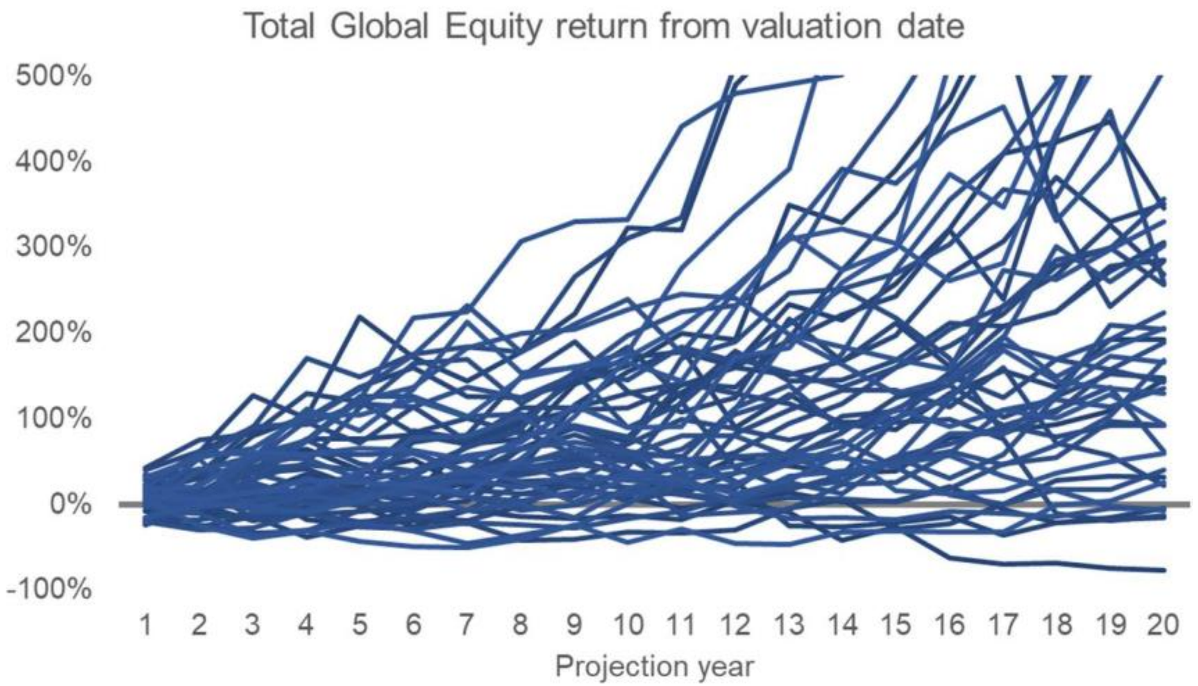
Assumptions and our valuation approach

We use a "risk-based" approach to calculating the benefit and asset projections.

Under this approach, we use an economic scenario generator (Hymans Robertson's proprietary generator is called the Economic Scenario Service – ESS) to produce 5,000 different simulations of future economic conditions and associated assumptions.

The assumptions in each scenario vary by year i.e. they are not 'flat', so they are a better representation of reality than a single, linear assumption.

The chart shows a sample of the 5,000 simulations for future cumulative total returns on global equities over the next 20 years.



This approach allows the generation of a distribution of future benefit and asset projections so all stakeholders in the Fund can better understand risk.

What assumptions are needed

Assumption	Description	Required for
Financial assumptions		
Future investment return	Projected annual returns and volatility on asset classes invested by the Fund e.g. UK equities, property etc.	**Asset projection** – to project employers' asset shares to the end of the funding time horizon
Discount rate	Annual rate of future investment return that will be earned on the Fund's assets after the end of the funding time horizon	**Funding objective** – to place a present value at the end of the funding time horizon on the future benefit payments
CPI inflation (benefit increases / CARE revaluation)	Future Consumer Price Index inflation	**Benefit projection** – to determine the size of future benefit payments (LGPS benefits are index-linked to CPI inflation)
Salary increases	Future inflationary salary awards	**Benefit projection** – to determine the size of future benefit payments (the pre-2014 final salary benefits are linked to salary) **Asset projections** – to determine future payroll values (and hence contribution income)
Demographic assumptions		
Baseline longevity	How long we expect members to live based on current observed death rates	**Benefit projection** – to determine how long each member's benefits are paid for
Future improvements in longevity	How death rates are expected to change in the future (historically life expectancy has improved over time)	**Benefit projection** – to determine how long each member's benefits are paid for
Other demographic events	Events such as retirement age, rate of ill health retirement, level of commutation and 50:50 take up	**Benefit projection** – to determine the size and timing of future benefit payments

How we review and set assumptions

Our approach

1. **Look at the assumptions from the last valuation**

2. **Review evidence and consider the landscape:**

   - Changes in financial/economic conditions
   - Regulation and guidance
   - Population and general pension scheme statistics
   - Fund specific data and experience, especially members' demographic characteristics
   - Future trends
   - Assessment of employers' financial strength
   - Investment strategy
   - Fund views – and employer views in some cases (e.g. salary increases)

3. **Propose, discuss and agree changes to set new assumptions**

Acknowledging uncertainty

There is no certainty about how the future may evolve and it is important to acknowledge this uncertainty during the valuation. Understanding the impact of the future deviating from the assumptions on funding levels and contribution rates is an important aspect of how the Fund manages risk.

Ways of understanding the impact:

- **Stress testing –** measures immediate changes in assumptions by testing alternatives at valuation date. We will stress test the longevity assumptions as part of the valuation.
- **Risk-based modelling –** risk-based approach involves projecting a wide range of possible future outcomes. There is no single figure for an assumption – instead, we work with a future range. We use a "risk-based" approach to calculate the benefit and asset projections and set the underlying financial assumptions.
- **Scenario projection –** considers future projections across different scenarios, bringing together relevant factors for a better understanding of overall impact. We will use different climate change scenarios at the valuation to help you understand this risk.

Most assumptions are a best estimate, set objectively without margins for adverse experience.
A prudent discount rate assumption meets the requirement (from LGPS guidance) for a 'prudent' valuation.

Other factors affecting assumptions at the 2022 valuation

Climate change

Climate change will affect many aspects of the Fund's assets and liabilities, for example the return on its assets, the inflation used to revalue benefits and the longevity of its members. The uncertainty around future climate pathways and their impact means that it is impossible to factor climate change considerations meaningfully into every assumption described in this paper.

We will however consider climate change scenarios when setting the long-term longevity improvements assumption, and the Fund will consider climate risk in its funding strategy by testing the resilience of the strategy in three climate scenarios.

Possible benefit changes

McCloud

Benefits accrued by certain members between 2014 and 2022 may be increased in future following the outcome of the McCloud case, which ruled that transitional protections introduced in 2014 to older members were discriminatory. We will make an allowance for the cost of these potential improvements in the 2022 valuation, based on the assumptions agreed here (in particular the salary increase and withdrawal assumptions). The impact is expected to be minimal for the majority of employers.

Cost sharing mechanism

Benefits could also change as a result of the 2016 and 2020 "cost cap" valuations, neither of whose outcome has been completely confirmed. If new assumptions are necessary to value any potential changes we will agree these separately.

Guaranteed Minimum Pension equalisation and revaluation

As per our approach for the 2019 valuation, we will assume that the Fund will fund all increases on GMP for members with a State Pension retirement date after 5 April 2016.

Other legal cases

Benefits could change as a result of other legal challenges (e.g. the "Goodwin" case affecting partner pensions), but at present we do not believe any additional assumptions are needed to value these.

Financial assumptions

Financial assumptions

Approach to setting **financial** assumptions

1. **Hymans' proprietary economic model, the Economic Scenario Service (ESS), is used to generate 5,000 different simulations of the future**
2. **ESS generates a range of future benefit and asset projections so stakeholders can better understand risk (hence "risk-based" approach)**
3. **Projections allow for different levels of inflation and returns across all asset classes**
4. **No single assumption for future investment returns or inflation**

Comparison with 2019

Here are how some of the main ESS assumptions have changed since 2019. Full details are in Appendix 1.

Assumption	31 March 2019	31 March 2022
CPI inflation	2.2%	2.7%
Global equity returns	5.8%	6.4%
Index-linked gilt returns	0.3%	0.1%
Corporate bond returns	1.9%	2.1%

Figures are median annualised values over years 0-20. ILGs and Corporate Bonds are medium duration, the latter is A rated.

The outlook for inflation is worse compared to 2019 however the returns on many asset classes are better.

Key decision

A discount rate is needed to place a prudent value on the benefit payments due after the funding time horizon. This value determines each employer's funding objective. The level of prudence is a key funding decision.

The discount rate is set relative to risk-free rates so that it varies according to the economic conditions in each of the 5,000 projections.

Investment return / discount rate

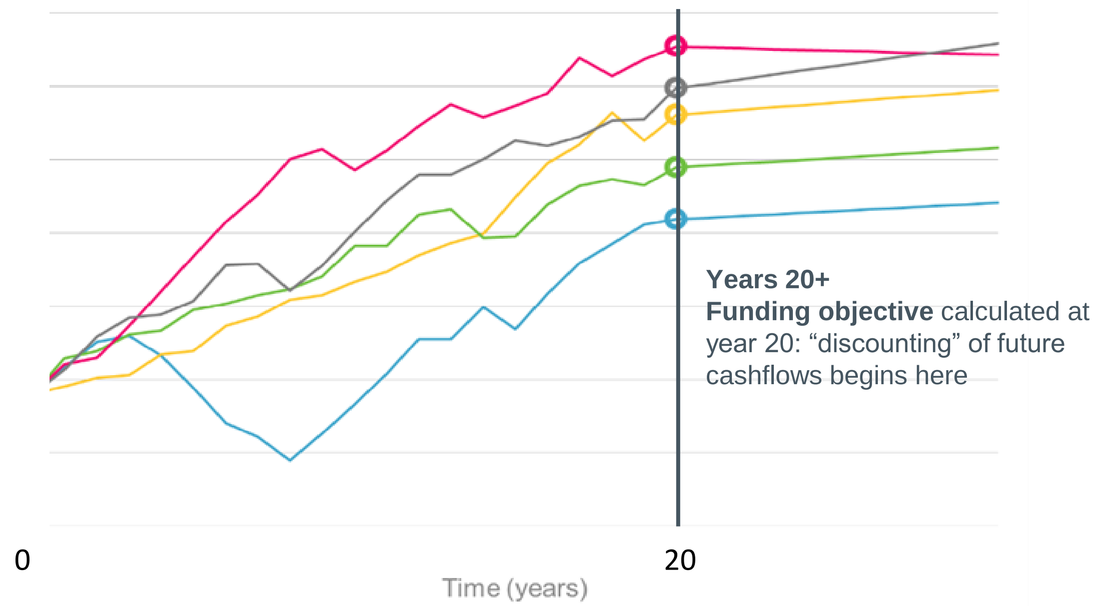
The approach to calculating the assumed future investment return differs over the projection period. However, the key decision for the Fund is to agree the level of prudence being adopted in setting the underlying assumptions within these approaches.

Years 0-20: Risk-based approach to generate future investment returns based on the Fund's investment strategy (using ESS).

Years 20+: projections further into the future lead to greater uncertainly. For this reason we adopt a 'straight line' approach to discounting the benefit cashflows. The Fund's discount rate is derived based on the underlying economic conditions in year 20, allowing for the Fund's level of prudence.

Same level of prudence (ie 75%) applies over both periods which drives the assumptions in line with the Fund's risk appetite.

Years 0-20:
Risk-based calculations over years 0-20 allowing for timing of cashflows and volatility of investment returns and inflation



Employer contribution strategies may be set using a different a time horizon (eg 17 years) however the above principle remains the same

Assumptions of future investment returns are generated in line with the Fund's agreed prudence level (75%)

Level of prudence

The prudence level in the future investment return (discount rate) assumption is the likelihood of the Fund's investment strategy achieving a given annualised return over the period.

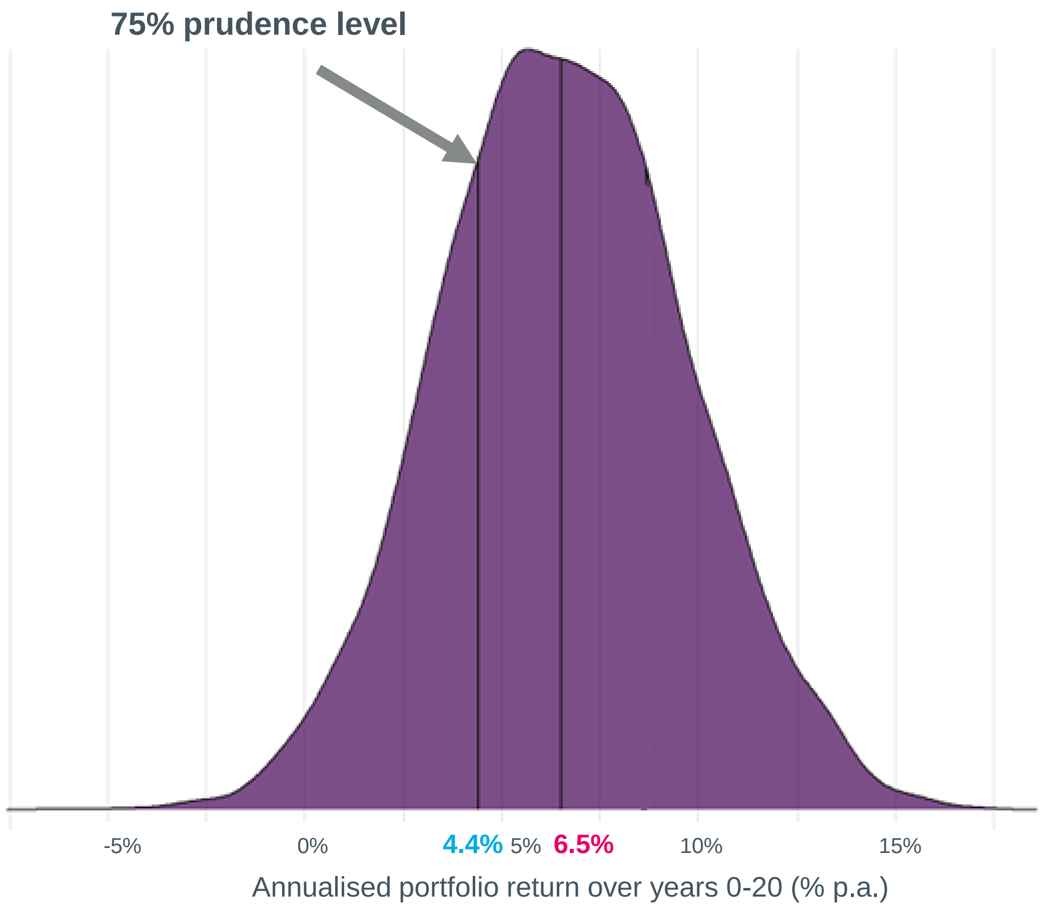
At the Fund's November 2021 committee meeting, it was agreed to adjust the level of prudence in the funding assumptions to allow for the now greater certainty around the impact of the McCloud judgement (than at 2019).

Using the Fund's current investment strategy and running 5,000 simulations of our proprietary economic model (ESS), we have generated a distribution of possible future annual investment returns over the 20 years from the valuation date. From the chart we can derive that:

- There is a 50% (best estimate) likelihood of the Fund's investments achieving at least an annual return of **6.5%** p.a. over the next 20 years;
- There is a 75% likelihood of the Fund's investments achieving at least an annual return of **4.4%** p.a. over the next 20 years (ie 75% of outcomes in the chart opposite lie to the right of this prudence line)

For the purpose of reporting a funding level and funding surplus/deficit for the 2022 valuation, we have selected the investment return assumption which has an associated 75% likelihood, namely 4.4% p.a..

The same level of prudence is used for the following 20 years (years 20-40) and the discount rate is based on the underlying economic conditions in 20 years time.



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The Fund's level of prudence helps to balance to the long term solvency of the Fund while seeking to maintain affordable contributions for employers.

HYMANS ROBERTSON

Summary - Investment return and discount rate assumptions

Approach	Approach to setting assumptions remains the same as at 2019. • **Years 0-20: Investment return assumptions:** Risk-based approach to generate future investment returns, based on Fund's investment strategy • **Years 20+: Discount rate assumption:** Assumed future investment returns are generated for each asset class from the ESS and combined into an overall portfolio return.
Level of prudence	**Adopting a 75% level of prudence** • The level of prudence will be reduced from 80% (at 2019) to 75%, as agreed at November 2021 committee. • At 2019 an additional 5% margin of prudence was included to allow for uncertainty surrounding the McCloud judgement. There is now greater certainty of the likely impact of McCloud and we have explicitly allowed for an estimate within the liability calculation at 2022 – meaning we can remove this 5% additional margin at 2022.
Outcome at 2022	Adopt assumptions in line with the 75% prudence level satisfying the regulatory prudence requirement. • **Years 0-20: Investment return assumptions** An assumed investment return of 4.4% p.a. at 31 March 2022 will be used for the purpose of reporting a funding level • **Years 20+: Discount rate assumption:** The discount rate assumption will be set relative to the Fund's level of prudence based on the underlying economic conditions at year 20

The investment strategy used in our analysis is set out in Appendix 2

RECOMMENDATION:

Continue to use the ESS to generate future investment returns

Set discount rate assumption relative to Fund's level of prudence (at 75%)

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IMPACTS:

The money you are aiming to hold to meet benefit payments and the target for investment return

SIGNIFICANCE:

Increasing the assumed discount rate decreases the assets the Fund is aiming to hold (i.e. the funding target)

Benefit revaluation and pension increases

2019 approach	Benefit projections were assumed to be in line with CPI projections from the ESS model
What's changed since the previous valuation?	Increased inflation expectations, perhaps due to government actions during Covid-19 pandemic and/or global supply and demand pressures
Proposed approach for the 2022 valuation	No change in approach, but use updated ESS calibration reflecting current market outlook in the short-medium term

RECOMMENDATION:

CPI inflation will be derived from the updated calibration of the ESS model

IMPACTS:

The increase applied to benefits each year

SIGNIFICANCE:

Increase in assumed future inflation will increase inflation linked liabilities

Salary increases

2019 assumption	CPI + 0.5% pa, plus a promotional salary scale We will only consider the inflationary element here
2019 approach	At the 2019 valuation, the assumption for 'inflationary' increases was based on an underlying assumption of short-term pay restraint (2.5% to 2020) followed by long-term increases in line with CPI inflation + 0.5%. After allowing for the expected run-off of the Fund's final salary (pre-2014) linked benefits, this gave an assumption of CPI + 0.5%.
Things to consider	**Run off of final salary liabilities:** it is expected that this will be more gradual than at previous valuations and therefore the impact of any short-term pay restraint is negated **McCloud remedy:** many members' benefits earned between 2014 and 2022 will retain a link to final salary, further negating the impact of any short-term pay restraint **Impact of Covid-19 on budgets:** the impact of the pandemic on public and private sector finances may mean lower future salary increases **National living wage increases:** recent years have seen an above inflation rise in the National Living Wage (NLW) and an increasing number of employers adopting this as their minimum wage. Although the NLW is aimed at the lowest paid, these recent increases will put pressure on salary rates across the whole workforce as employers may feel the need to keep the increments between staff consistent to adequately reward those with more responsibility or experience.

RECOMMENDATION:

No allowance made for short-term restraint with no change from 2019 long-term assumption of CPI + 0.5% pa (plus a promotional salary scale)

IMPACTS:

The benefits paid to members with service earned prior to 31 March 2014

Payroll projections used for contribution modelling

The estimated cost of the McCloud remedy

SIGNIFICANCE:

Less significant than in previous valuations (for example, +0.5% p.a. change in this assumption only increases liabilities by around 1%)

Reporting the funding level

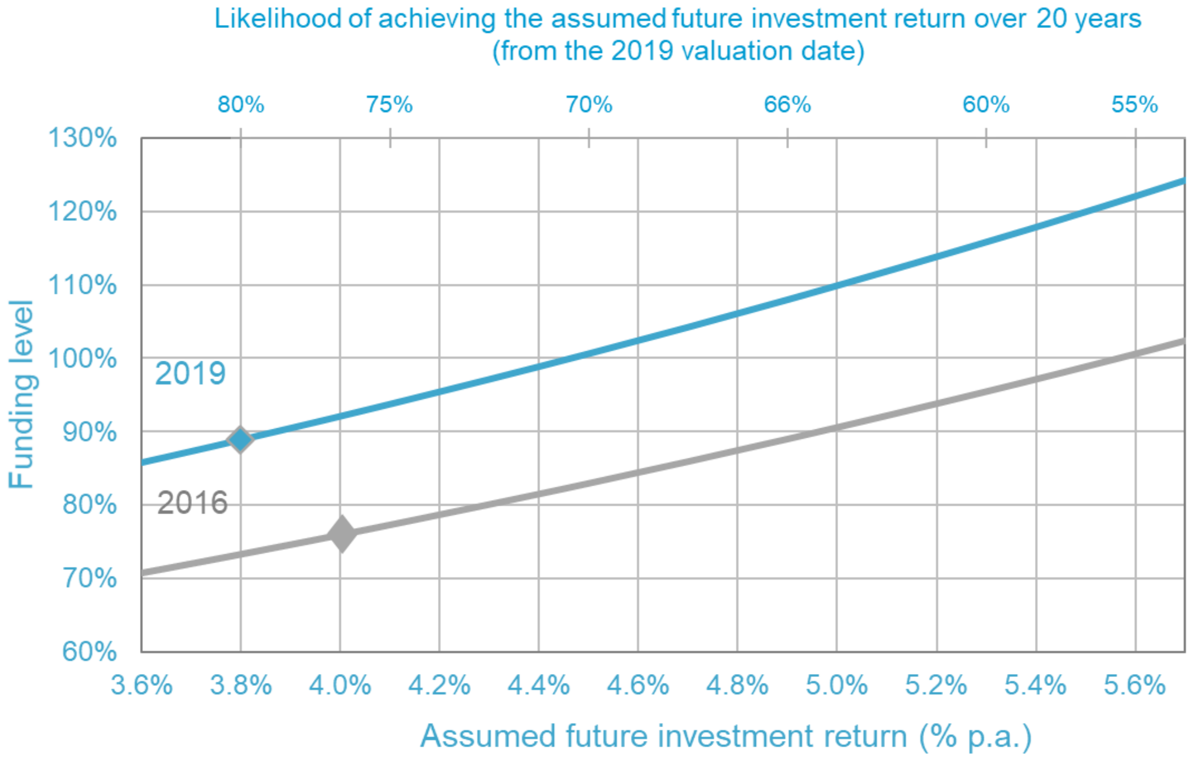
As well as setting contributions, a key output of the valuation is a measurement of past service liabilities at the valuation date itself to determine the funding level.

To report a funding level, we need to use a single value for each assumption (compared to the risk-based approach used for contribution rate setting).

To ensure consistency between the reported funding level and employer contribution rates, we still use the ESS to derive the assumptions used to report the funding level. These assumptions are summary statistics of the 5,000 individual simulations used to project forward assets and benefit payments when setting contributions.

At the 2019 valuation, we showed how the funding level at the valuation date varied with the choice of future investment return and the likelihood of the Fund's assets yielding at least a given investment return (based on the ESS simulations).

This was all detailed in this chart. A similar chart will be shown in your 2022 valuation preliminary results report.



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Assumptions for reporting the funding level

2019 approach	Funding level was reported using an assumed investment return assumption of 3.8%, which had an associated prudence level of 80% Pension increases were based on market-implied RPI inflation minus 1% p.a.
Proposed approach for the 2022 valuation	In general the approach is the same as already discussed, except that instead of 5,000 projections we choose a single value from those projections as follows: **Assumed investment return** Use the same approach as in 2019 with a reduced prudence level as used for the discount rate, i.e. 75%. This gives an assumed investment return of 4.4% p.a. at 31 March 2022. **Pension increases** Use the median projected CPI inflation from the ESS over the next 20 years (2.7% p.a. as at 31 March 2022). This is a change from 2019 due to gilt market supply/demand distortion which affects market-implied inflation metrics. **Salary increases** Assume salary increases of 0.5% p.a. above median projected CPI as mentioned above

RECOMMENDATION:

Use prudence level of 75% for the assumed investment return, and assume pension increases in line with the median projected CPI inflation from the ESS

IMPACTS:

Reported funding level.

SIGNIFICANCE:

For reporting and tracking the funding level only

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Longevity assumptions

Breaking it down

Your **longevity** assumptions

How long you expect to pay a pension to each member and their dependants.

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Baseline

- A snapshot of how long people currently live
- Measured **objectively** based on recent mortality data
- Use Club Vita analytics for a **tailored best estimate** based on members' characteristics
- Reflects that people with certain characteristics tend to live longer (women, non-ill-health retirees, higher affluence, non-manual workers)

+

Future improvements

- How life expectancy increases over time
- Shorter-term expectations reflecting recent trends
- Longer-term expectations reflecting historical trends **plus** evidence that improvements may be higher or lower than historical trend
- **Subjective** – wide range of possible outcomes

Evidence based baseline + informed future judgement

Baseline

2019 approach	Club Vita tables tailored to fit each individual member of the Fund
What's changed since the previous valuation?	Current assumptions capture the unique mix of people in your scheme using experience across the Club Vita database of similar individuals to identify a baseline longevity assumption for each member. But new evidence on longevity emerges yearly. Since your last valuation more data has been gathered and VitaCurves have been updated.
Proposed approach for the 2022 valuation	Adopt the latest member-specific Club Vita base tables – a consistent approach that captures more up-to-date experience. We will make an appropriate adjustment to recent data to avoid the assumption being skewed by excess deaths due to Covid-19 in 2020 and 2021
Other comments…	The Covid-19 pandemic has unfortunately resulted in increased morbidity and death since 2020. It is likely that we will see higher than expected death experience since the 2019 valuation. This will result in a decrease in liabilities as the Fund will be paying out less pension than expected. However, our initial estimates for a typical LGPS fund suggest that the reduction in liabilities due to the higher number of deaths will only be a decrease of 0.1-0.2%

RECOMMENDATION:

Latest member-specific Club Vita mortality base tables, adjusted to avoid being skewed by Covid-19.

IMPACTS:

How long you expect to pay a pension to each member and their dependants.

SIGNIFICANCE:

Small change in base table to reflect up-to-date experience

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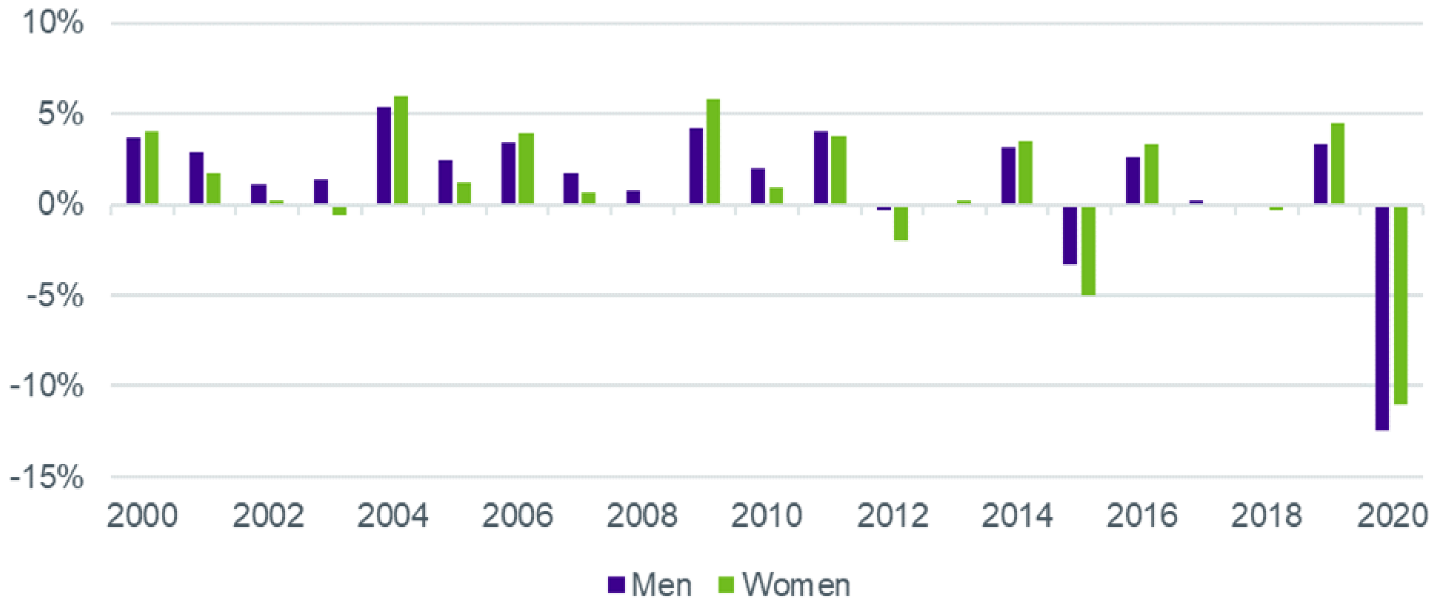
Future improvements - recent experience snapshot

- Lower improvements in longevity at population over recent years, however more affluent pensioners have not seen the same level of slowdown. Adopting starting rates based on population-level data risks understating current rates of improvement for your members.
- COVID-19 meant 2020 death rates were significantly higher at population level than previous years.
- The immediate impact from actual experience over the period to a Fund's valuation date will be accounted for in the valuation data. However, for most schemes this impact is relatively low.
- There is uncertainty over how the Covid-19 pandemic will impact the course of future longevity improvements in the medium to longer term.
- This uncertainty means schemes should be wary of weakening mortality assumptions materially from those adopted previously.

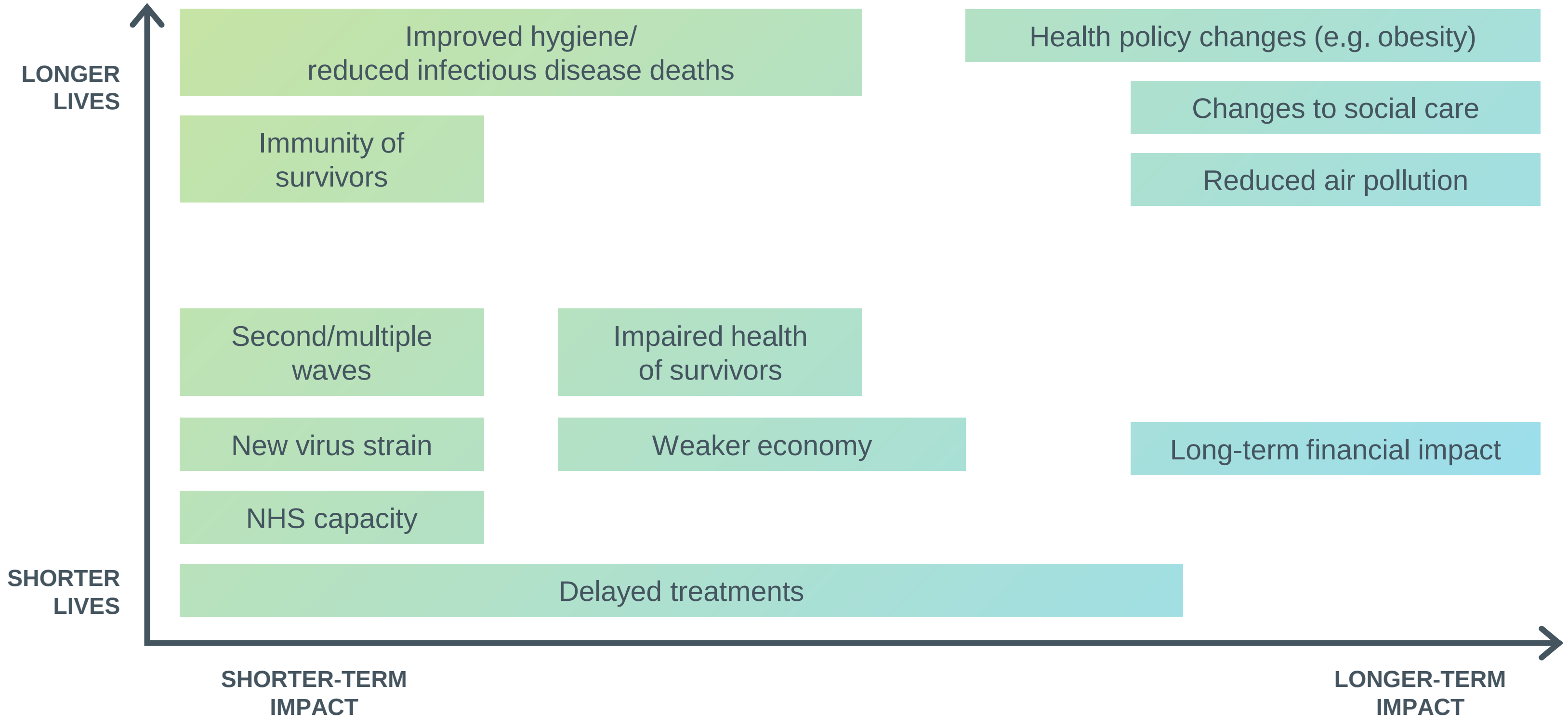
Headline rate of improvement (England & Wales)



Source: Annual improvement in standardised mortality rate, based on data from ONS for England & Wales, as published by the CMI alongside CMI_2020

Future improvements - future COVID-19 impact

- No consensus on the pandemic's impact on mortality for pension schemes.
- CMI model now allows 2020 and 2021 data to be treated differently (or ignored), reflecting that it is an exceptional period not necessarily indicative of a future mortality rate trend.
- Most funds unlikely to make an explicit allowance at this time



Too early to judge future impact – points to no explicit allowance

Future improvements

2019 approach	The starting point is the Actuarial Profession's CMI model, which is updated annually with the latest observed mortality data. At the 2019 valuation we used CMI_2018 with default smoothing parameters, an initial addition (A parameter) of 0.25% for females/0.5% for males and long-term rate of improvement of 1.25% pa.
Proposed approach for the 2022 valuation	Use the latest available CMI model (CMI_2021) with the parameters adjusted as follows: **Weight placed on 2020 and 2021 experience (W parameters)** Given that both 2020 and 2021 have been significantly affected by the Covid-19 pandemic, **we would recommend that no weight is placed on data from these years**. This will avoid overstating the impact of the pandemic on long-term rates of improvements, as we have little evidence of the long-term effects at this stage. **Adjustment to observed data to reflect scheme membership (A parameter)** The A parameter allows users to adjust the starting point for the projections in the model to reflect the difference between the population-wide data used in the model and the Fund's own membership. Based on analysis carried out by Club Vita, we recommend using an A parameter of 0.25%. **Long-term improvement rate (LTR parameter)** Club Vita analysis suggests a reasonable long-term trend of 1.5% annual improvements in longevity. The strength of this recommendation has increased since the previous valuation and the arguments to keep it at 1.25% (e.g. the LGPS mechanisms which supposedly mitigate longevity risk like the Cost Cap) have weakened, so we now recommend using 1.5%.

Further information about the future improvement assumption is set out in Appendix 3

RECOMMENDATION:

Latest available CMI model with an A parameter of 0.25%, long-term rate of improvement of 1.5% pa and no weight given to 2020 and 2021 data.

IMPACTS:

How long you expect to pay a pension to each member and their dependants.

SIGNIFICANCE:

Increase liabilities by around 1-2% vs 2019 assumption

In isolation, life expectancy will increase by around 0.5 years for females aged 45 (and c0.2 years for males)

Other demographic assumptions

Other demographic assumptions

Withdrawals (excluding ill-health)	Based on our LGPS experience analysis for the period 2016-2019, we have increased the likelihood of withdrawals at each age. Following the Fund specific analysis, our recommendation is to scale the default assumption by 120% for full time employees (males & females), 60% for part time employees (males & females). Please see Appendix 4 for detailed results of the fund-specific demographic experience analysis.
Ill-health early retirements	Our LGPS-level analysis shows the incidence of ill-health retirements is slightly lower than expected at 2019. We propose leaving the assumption unchanged due to the potential increase in ill-health retirements as a result of Covid-19. Fund specific analysis shows a slightly lower rate of ill-health retirements than expected. However, as there are only a small number of data points, we do not believe there is credible evidence to adjust the assumption.
Promotional salary scale	Our analysis at LGPS-level does not suggest that any change is required to the default salary scale used at the 2019 valuation. Analysis of the Fund's own results does not suggest any reason to alter the standard assumption.
Death in service	The incidence of death in service is very low. Our LGPS-level analysis shows that the incidence of death in service is less than expected at 2019. Whilst there may have been an increase in the period from 2019 to 2022, we believe that will be temporary. Therefore, we have reduced the expected rate of death in service by 20% (compared to 2019). Similarly, Fund specific analysis does not suggest any reason to alter the standard assumption.

RECOMMENDATION:

Adopt proposed demographic assumptions based on LGPS wide analysis, adjusted for local experience where appropriate

IMPACTS:

Timing and magnitude of future cashflows.

SIGNIFICANCE:

Minor impact on liabilities

Other demographic assumptions

50:50 take up option	At 2019, the Fund's assumption was 1% of members would elect to take up the 50:50 option. Take up according to the Fund's 2019 data was 0.75%. It is not clear how the take-up of this option will change in the future. Therefore, our recommendation would be to keep this assumption unchanged at 1%.
Retirement age	Due to benefit changes in the LGPS, there are a complex set of rules determining the age a member can retire with unreduced benefits. These rules differ by member and the period in which the benefit was earned. However, by 2022, many of the members with complex retirement ages will have retired and therefore the assumptions can be simplified. At 2019 we assumed members retired in the years leading up to their state pension age, with a chance of retiring at each age from age 55 based on historical data. For 2022, the assumption will reflect the earliest age at which a member can retire with all of their benefits unreduced. We estimate the impact of this change to reduce liabilities by around 1%.
Cash commutation	At 2019, the Fund assumed that the rate at which members exchanged their pension for tax-free cash at retirement was 50% of HMRC limits for service to 1 April 2008 and 75% thereafter. Based on the Fund's own experience, we propose to update this assumption to 55% of HMRC limits for all tranches of benefit.

RECOMMENDATION:

Adopt proposed demographic assumptions based on LGPS wide analysis and Fund's own experience

IMPACTS:

Timing and magnitude of future cashflows.

SIGNIFICANCE:

Minor impact on liabilities

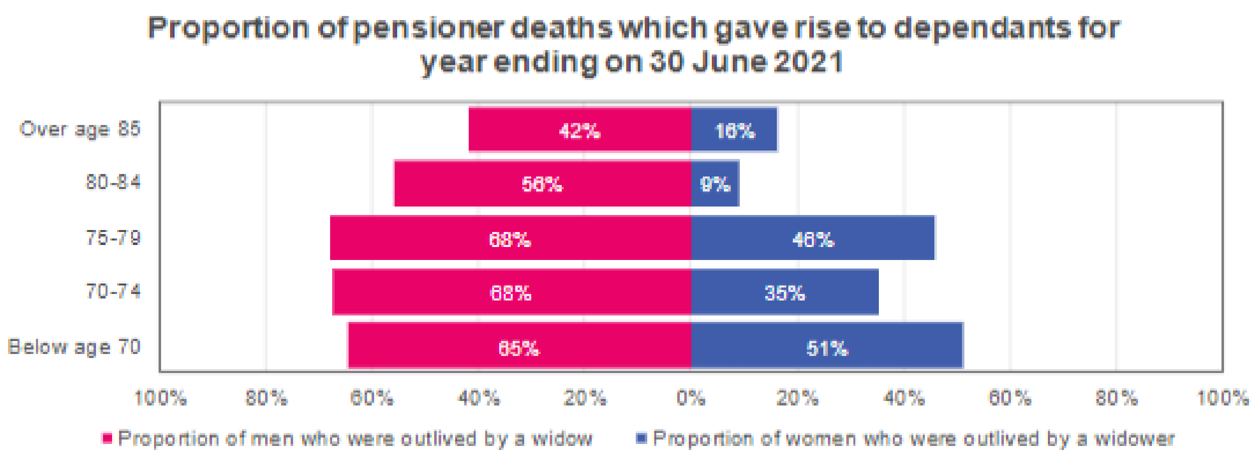
Other demographic assumptions

Proportion leaving a dependant

This is monitored by Club Vita as part of helping the Fund to manage its longevity risk.

The chart below shows the percentage of members in the Fund who are outlived by a partner eligible for an LGPS dependant pension.

For 2022 we will use the latest available Club Vita analysis to set an assumption appropriate to your Fund.



Source: Club Vita – Leicestershire Pension Fund annual report

RECOMMENDATION:

Adopt proposed demographic assumptions based on Club Vita analysis

IMPACTS:

Timing and magnitude of future cashflows.

SIGNIFICANCE:

Minor impact on liabilities

HYMANS ROBERTSON

Decisions and next steps

Decisions for today

1. Agree the prudence level in the assumptions
2. Confirm approach and choice of financial assumptions (salary and pension increases)
3. Agree the life expectancy assumption, including how much weight is placed on recent years affected by COVID-19
4. Agree all other demographic assumptions

The valuation process

1. Contribution rate modelling — Spring 2022
2. **Assumptions advice — Now** ✓
3. Employer risk management — June / July 2022
4. Data provision — August 2022
5. Funding Strategy Statement — August 2022
6. Whole Fund results — September / October 2022
7. Employer results — October / November 2022
8. Employer discussions — December 2022 / January 2023
9. Valuation sign off — March 2023

Appendices

APPENDIX 1

Economic Scenario Service (ESS)

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation).

In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc.

The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration). The following table shows the calibration at 31 March 2022.

		Annualised total returns																
		Cash	Index Linked Gilts (medium)	UK Equity	Private Equity	Property	Emerging Market Debt (local currency)	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	All World Equity GBP Hedged	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	CorpShort A	CorpMedium A	Inflation (CPI)	EM Equity Unhedged
10 years	16th %'ile	0.8%	-1.9%	-0.4%	-1.2%	-0.6%	-1.5%	-1.1%	1.1%	1.4%	1.7%	-0.3%	-0.4%	2.7%	1.4%	-0.1%	1.6%	-2.5%
	50th %'ile	1.8%	0.2%	5.7%	9.4%	4.4%	3.4%	4.9%	5.4%	3.2%	3.5%	5.9%	5.8%	6.0%	2.4%	1.6%	3.3%	5.8%
	84th %'ile	2.9%	2.4%	11.6%	20.1%	9.5%	8.6%	10.9%	9.5%	5.1%	5.2%	11.9%	11.9%	9.2%	3.4%	3.2%	4.9%	14.4%
20 years	16th %'ile	1.0%	-1.5%	1.7%	2.4%	1.4%	0.5%	1.2%	2.8%	2.1%	2.8%	1.9%	1.8%	4.3%	2.0%	1.1%	1.2%	0.1%
	50th %'ile	2.4%	0.1%	6.2%	10.0%	5.0%	4.2%	5.6%	6.0%	3.8%	4.4%	6.4%	6.3%	6.8%	3.2%	2.1%	2.7%	6.3%
	84th %'ile	4.0%	1.9%	10.6%	17.6%	8.9%	8.1%	10.1%	9.4%	5.7%	6.0%	11.0%	11.1%	9.2%	4.6%	3.2%	4.3%	12.8%
40 years	16th %'ile	1.2%	-0.3%	3.2%	4.7%	2.6%	1.9%	2.6%	4.0%	2.5%	3.6%	3.5%	3.4%	5.5%	2.4%	2.0%	0.9%	2.1%
	50th %'ile	2.9%	1.2%	6.7%	10.3%	5.5%	5.0%	6.1%	6.6%	4.4%	5.3%	6.8%	6.8%	7.7%	3.9%	3.1%	2.2%	6.8%
	84th %'ile	4.9%	3.1%	10.2%	16.1%	8.8%	8.2%	9.8%	9.4%	6.5%	7.1%	10.4%	10.4%	10.0%	5.8%	4.4%	3.7%	11.7%
	Volatility (Disp) (5 yr)	1.7%	6.8%	18.1%	30.3%	14.9%	15.1%	17.8%	12.6%	5.0%	5.9%	18.2%	18.5%	10.5%	3.0%	6.5%	3.3%	26.0%

APPENDIX 2

The Fund’s asset allocation

The table sets out the long-term strategic asset allocation we have used for the analysis of the future expected investment returns for the Fund and the subsequent discount rate recommendations.

This asset allocation is as set out in the Fund’s Investment Strategy Statement.

Please note due to rounding (to 1d.p) the sum of the individual asset classes may not add up to 100%.

Asset class	Allocation
A Credit (4 yr maturity)	3.0%
Cash	0.5%
DGF High Beta	2.5%
DGF Low Beta	5.0%
EM Debt Local	2.5%
EM equities (unhedged)	5.0%
Global Equites (hedged)	16.0%
Global Equities (unhedged)	16.0%
Index linked gilt (14 yr maturity)	4.5%
Infrastructure equity (listed)	9.8%
Multi Asset Credit (sub investment grade)	4.0%
Private Equity	5.8%
Private Lending	10.5%
Property	10.0%
UK Equities	5.0%
Total	100.0%

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – initial addition (A parameter)

The CMI model is based on England & Wales population mortality data. Evidence suggests that most members of an occupational pension scheme (e.g. the LGPS) have experienced higher improvements in life expectancy than the general population in recent years. The A parameter allows users to adjust the starting point for the projections in the model to reflect this differing experience.

To help set this parameter, Club Vita have undertaken some analysis to calculate mortality improvement rates split by socio-economic group. The results are shown in the table along with the England & Wales rates within the core CMI_2021 model.

This analysis is consistent with similar analysis performed by the CMI, which found higher longevity improvements in less deprived population groups (IMD deciles 8-10). These results are also shown in the table for comparison.

	Annualised mortality improvement (2013 – 2018)	
	Men	Women
England & Wales (core CMI)	0.9%	0.6%
Club Vita 'Comfortable'	+0.3% vs. E&W	+0.5% vs. E&W
Club Vita 'Making-Do'	+0.5% vs. E&W	+0.5% vs. E&W
Club Vita 'Hard-Pressed'	-0.2% vs. E&W	+0.7% vs. E&W
CMI analysis IMD deciles 8-10 (more affluent)	+0.2% vs E&W	+0.3% vs E&W

Both analyses show that in recent years, more affluent individuals have enjoyed higher than average improvements in life expectancy. It is these individuals that also tend to dominate the liabilities of the Fund.

The majority of the Fund's liabilities relate to those members in the making-do and comfortable groups, corresponding roughly to IMD deciles 8-10. Based on the figures above, we recommend using the A parameter to adjust the starting point in the CMI model by 0.25%.

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – long-term rate (LTR)

Life expectancy has improved consistently since at least the turn of the 20th century thanks to many factors such as better public health, improved medical treatments, better diet and lower rates of smoking.

We need to consider how (or if) the improvements we have seen in recent years will continue into the long-term. As a starting point, the recent trend (which is arguably the most informative for us) suggests a long-term rate of between 1.25% and 1.5% p.a..

The table on the right summarises possible future drivers of change in the long-term rate of improvement compared to this level.

Slide 24 also included factors specific to Covid-19, and Club Vita have also considered Covid-19 and Climate Change in detail.

Higher future improvements	Lower future improvements
Stronger government intervention – e.g. to reduce alcohol or red meat consumption	Less scope for future 'gentrification' – i.e. the change in affluence levels of pensioners can't keep increasing at the rate it has done
Medical innovation – as we have seen with the development of new Covid-19 vaccines. Could also include "super drugs" that tackle multiple diseases at once	Smoking – the benefit from widespread quitting has already happened and can't happen again
Anti-ageing treatments and regenerative medicine – could become a reality	Obesity – rates may increase leading to poorer health in retirement
Climate change – could lead in the UK at least to milder climates and fewer cold-weather deaths	Super-bugs – antibiotic-resistant diseases could make routine medical procedures and treatments untenable
	Climate change – could lead to resource scarcity, higher food prices, less availability of fresh food, etc

APPENDIX 4

Demographic assumptions analysis

The following slides summarise the results of your Fund's demographic experience over the period 2016-2019, which we have used as the basis for adjusting our default LGPS-wide assumptions to your own Fund's profile.

The default assumptions are based on analysis of a combined dataset of all our E&W LGPS clients (around half of all funds). This gives us sufficient data to set robust assumptions even for rare events like ill-health retirements. Where there is sufficient data to justify it, we have proposed adjusting the default assumption to better reflect your Fund's membership profile.

The following assumptions are covered in this section:

- Withdrawal from active service
- Death in service
- Promotional salary scale
- Ill-health retirements

Key to charts

The charts on the following slides use the following colour scheme:

- The black line shows actual experience seen in your Fund
- The blue line shows the expected occurrences based on our LGPS-wide default assumption
- (Where applicable) The pink line shows the adjusted assumption which we recommend for your Fund

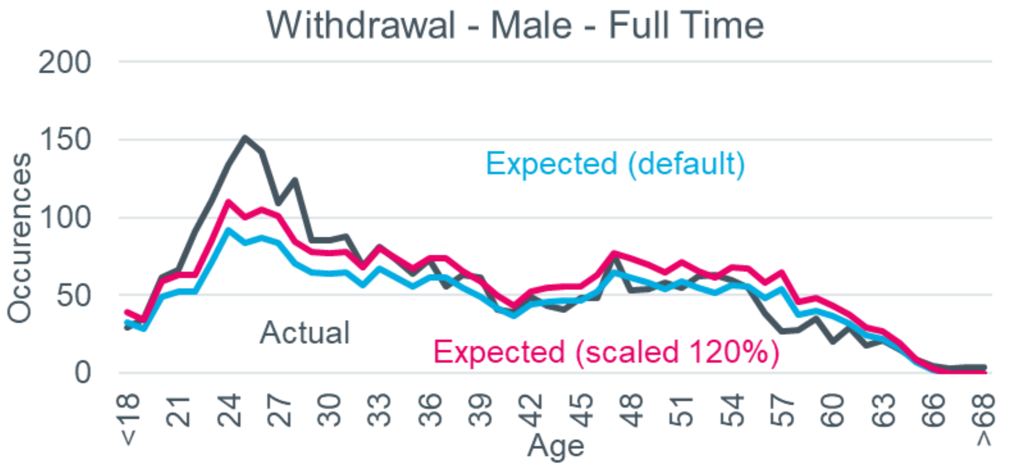
Withdrawal from active service

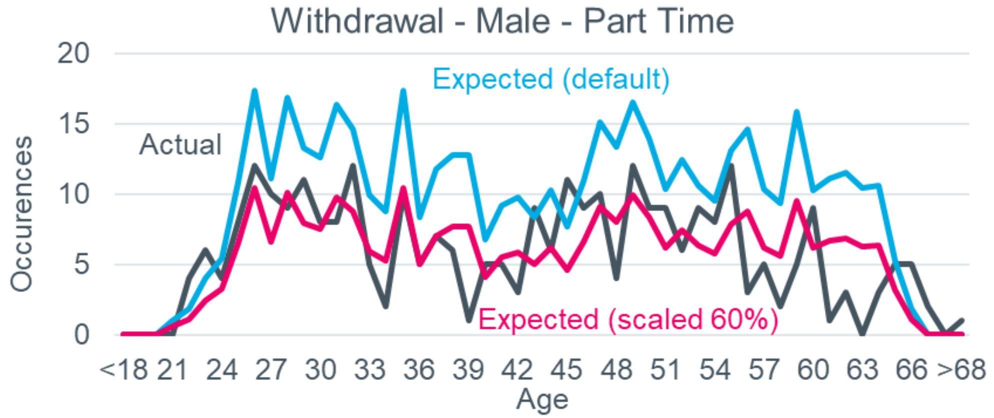
The following slide shows how withdrawal experience in your Fund (black line) compares with our default LGPS-wide assumption (blue line), alongside the scaled assumption we propose to use for the 2022 valuation (pink line).

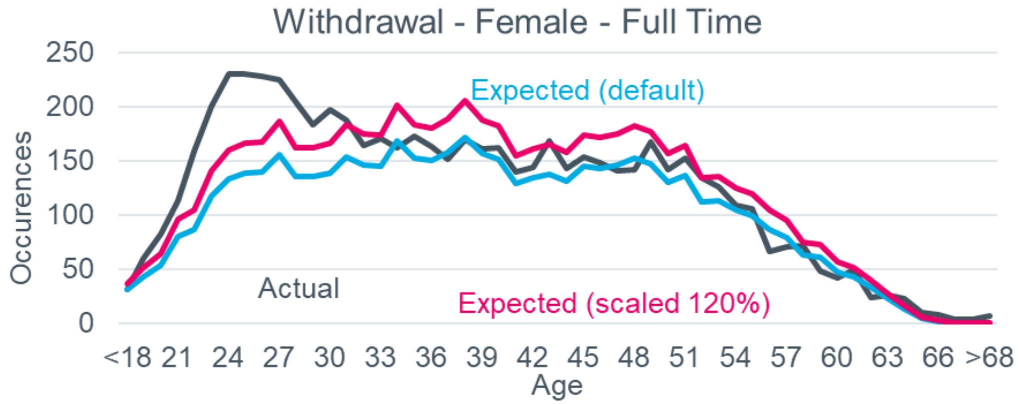
The analysis shows that in general the pattern of withdrawals by age does fit the default assumption, but that overall withdrawal rates were slightly lower in your Fund compared to the LGPS average. The default assumption has therefore been scaled to better fit your Fund's own experience to get the recommended assumption for your Fund.

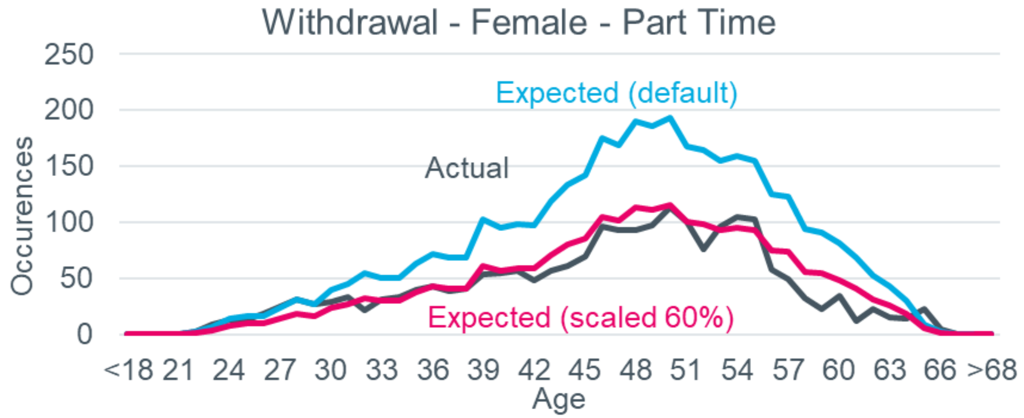
APPENDIX 4

Demographic assumptions analysis - withdrawal



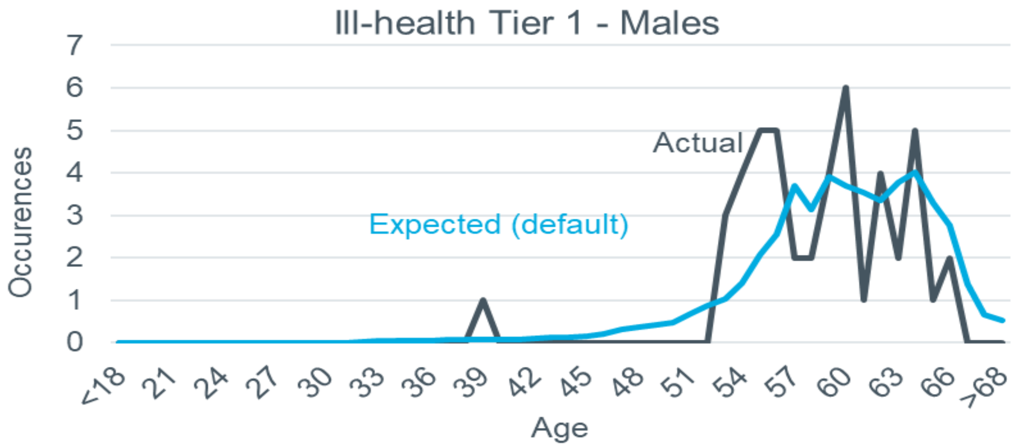


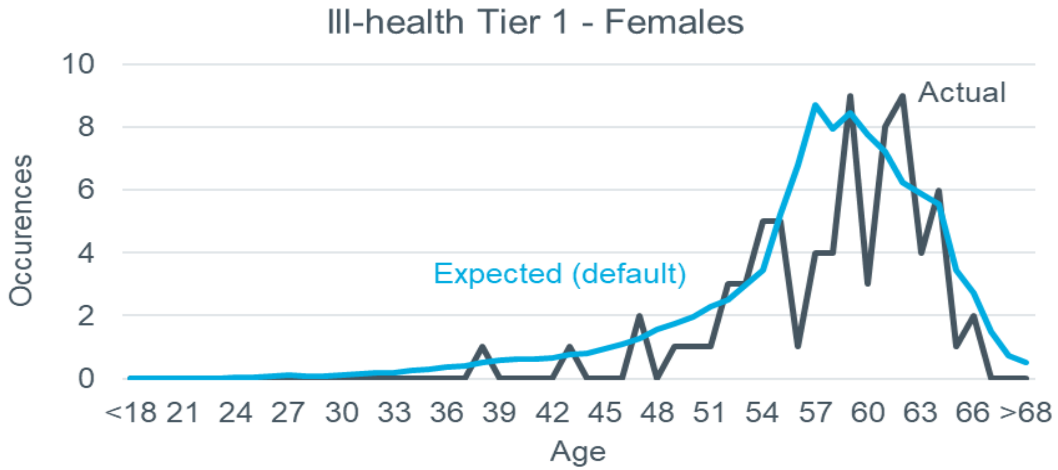




APPENDIX 4

Demographic assumptions analysis – ill-health retirements





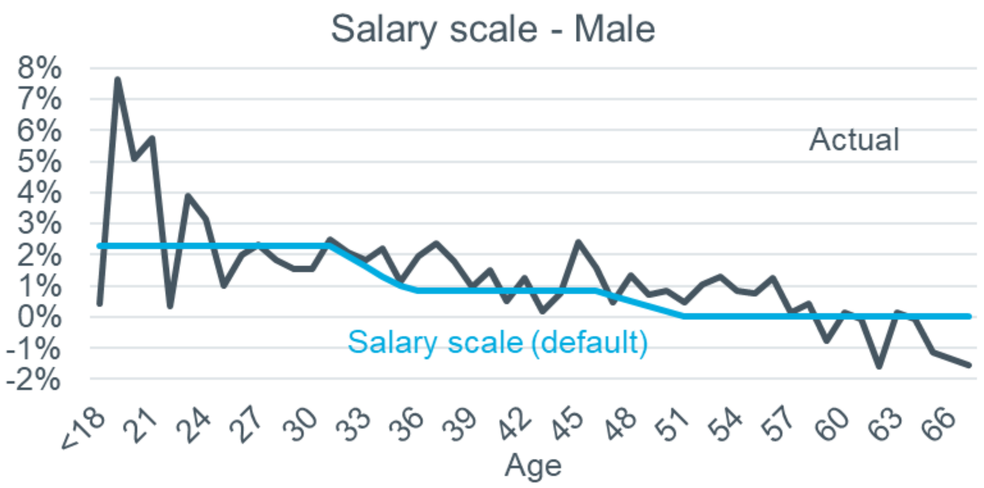
There were few Tier 1 Ill-health retirements in the period in question which means it is not possible to make a credible adjustment to the default assumption.

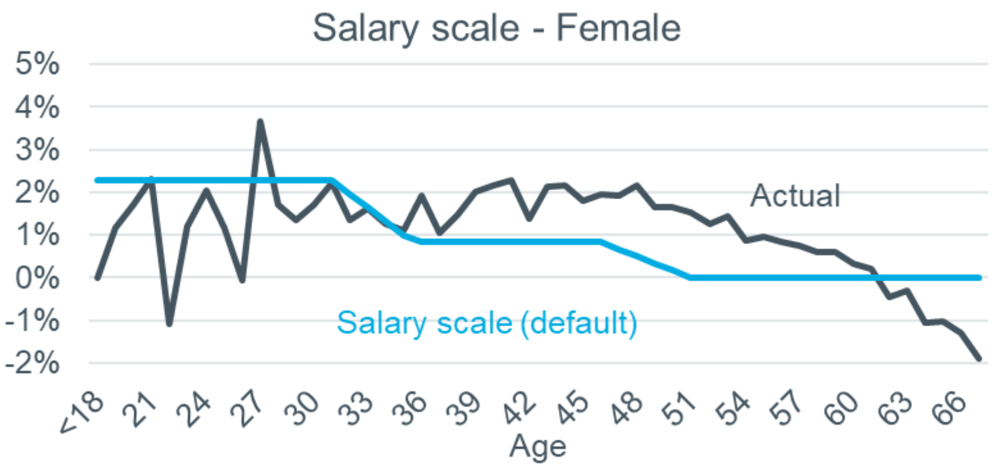
There were even fewer Tier 2 cases (16 in total) so the analysis has not been shown.

Without sufficient evidence to justify a change we recommend using our default assumption for the 2022 valuation for both T1 and T2 ill-health retirements.

APPENDIX 4

Demographic assumptions analysis – promotional salary scale





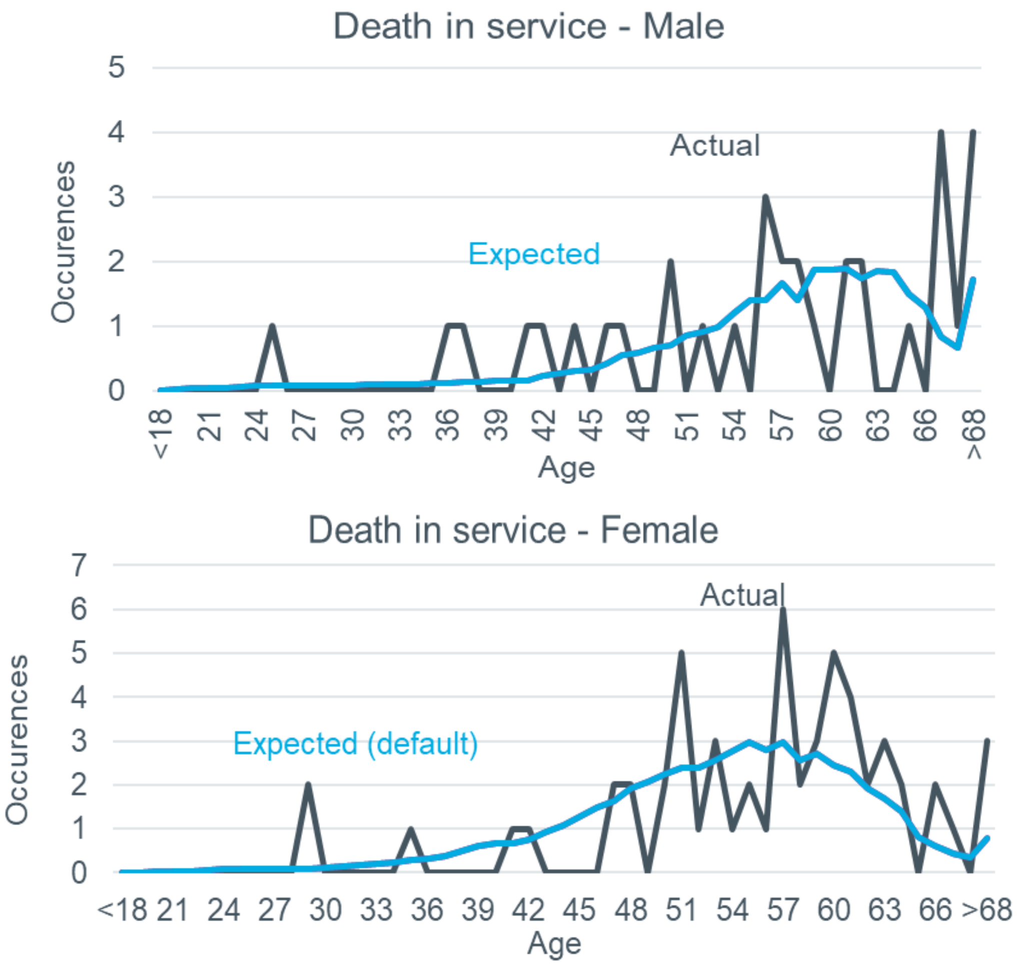
Separating out promotional and inflationary salary awards is very difficult, particularly when breaking it down by age and sex. Our analysis assumed that average inflationary increases over 2016-2019 were 1.3% p.a., so we have stripped this out and shown any remaining increases versus our promotional pay scale (which is the same for men and women).

Apart from at lower ages where there are only a handful of members and the analysis is unreliable, the general pattern of promotional increases does approximately fit our default assumption (higher increases at younger ages). The fit is clearer for men than women.

Based on the analysis we do not believe there is sufficient evidence to justify a departure from our default assumption.

APPENDIX 4

Demographic assumptions analysis – death in service



There were very few deaths in service in the period in question which means it is not possible to make a credible adjustment to the default assumption.

We therefore recommend using our default LGPS-wide assumption for the 2022 valuation.

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APPENDIX 5

Reliances and limitations

This paper is addressed to Leicestershire County Council as Administering Authority to the Leicestershire County Council Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing the assumptions for the 2022 formal valuation and setting out our recommendations. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The results of the Fund specific demographic assumptions analysis are wholly dependent on the valuation data provided to us for the 2019 valuation and the assumptions that we use in our calculations.

The assumptions in this document are for the Fund's ongoing employers. Different assumptions may be used for some employers (e.g. more prudent assumed investment return or more prudent longevity improvements assumptions) in particular circumstances. If required, these will be discussed and agreed as part of the 2022 valuation process and will be set out in the Funding Strategy Statement.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:
TAS100; and
TAS300.

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APPENDIX 6

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts who Hymans Robertson partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. E.g. retirement age, promotional salary scales etc. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns. At the valuation the discount rate is used to calculate the value of remaining benefit payments at the end of a given time horizon (e.g. 20 years). It is expressed as a prudent margin above the risk-free rate.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns, interest rates etc

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APPENDIX 6

Glossary

Term	Explanation
Inflation	The term for that prices in general tend to increase over time. It can be measured in different ways, with different measures using a different “basket” of goods and using different mathematical formulae.
Liability/ies	An employer’s liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members connected to that employer. The benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a Prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a given discount rate assumption will be achieved in practice, based on the ESS model. The higher the Prudence Level, the more prudent the discount rate is.
RPI inflation	The annual rate of change of the Retail Prices Index. RPI is no longer linked to any LGPS benefits. It still has many legacy uses, notably to determine the payments to holders of index-linked government bonds.
Time horizon (or Horizon)	The period over which we require each employer in the Fund to reach full funding. The Time Horizon is typically long (up to 20 years) for employers who we expect to be in the Fund for the long-term (e.g. local authorities and academy schools) and shorter for employers who are expected to leave (e.g. contractors or employers who don’t admit new staff to the LGPS).
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

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Agenda Item 7

Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD – 17 AUGUST 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2021/22

Purpose of the Report

1. The purpose of this report is to seek the Board's comments on the appended Annual Report and Accounts of the Pension Fund for the financial year 2021/22.

Background

2. There is a statutory requirement for the Annual Report and Accounts to be available on or before 1st December 2022. The Accounts are in the process of being audited and the Board and Committee will be updated at the earliest possible opportunity on the opinion given by the Auditor once this process has been completed.

3. Due to the Board's role in assisting the Administering Authority in ensuring the effective and efficient governance and administration, it was considered appropriate to seek the Board's views on the report. Any comments from the Board will be considered by the Local Pension Committee at its meeting on 9 September.

4. The Annual report and Accounts will go to the Pension Fund Annual General Meeting on 12 December 2022.

Appendix

5. Pension Fund Annual Report

Equality and Human Rights Implications

6. None Specific

Officers to Contact

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Pensions Manager
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LOCAL GOVERNMENT PENSION SCHEME LEICESTERSHIRE

Administered by

LEICESTERSHIRE COUNTY COUNCIL

Pension Fund Annual Report

Year ended 31st March 2022

CONTENTS

The Fund has a number of policy statements including:

- Funding Strategy Statement
- Investment Strategy Statement and Investment Advisor Objectives
- Administration and Communication Strategy

These are available on the link below. They have not been reproduced within the Annual report, as when taken in combination are sizeable and some have previously been approved by the Pensions Committee.

https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/fund-admin-and-guidance/pension-fund-and-finance

INTRODUCTION

Leicestershire County Council is the administering body for the Local Government Pension Scheme (LGPS) within Leicestershire and Rutland. Leicestershire County Council has a statutory obligation to administer a Pension Fund for eligible employees of all Local Authorities within the geographic boundaries of Leicestershire and Rutland and also the employees of certain other scheduled and admitted bodies. The Fund does not cover teachers, police or fire-fighters as they have their own schemes.

This report has been produced in accordance with Section 57 of the Local Government Pension Regulations 2013. It sets out the way in which the Pension Fund is managed both in relation to the administration of benefits and to the investment of the Fund's assets.

The benefits within the scheme are determined by regulation and guaranteed by statute. The pension fund exists to help defray the cost of paying pension benefits. Contributions to the pension scheme are made by both employees and employers. Any new employee is automatically brought into the scheme unless they opt out.

Employee Contributions	+	Employer Contributions	+	Investment Returns	=	Pension Payments

The Fund's membership increased by 1,710 during 2021/22 and at the year-end stood at 99,240. Figures for Active, Preserved and Pensioner Members all saw an increase during the year.

SCHEME MANAGEMENT AND ADVISORS

The Local Pension Committee is responsible for the management of the Fund, and considers pensions matters with a view to safeguarding the interests of all Fund members. The Members who sit on the Committee act on behalf of the beneficiaries of the LGPS and in this way have a similar role to trustees in primarily protecting the benefits of the LGPS members, overseeing the direction of investments and monitoring liabilities. The Committee comprises of five County Council members, two from Leicester City Council, two members representing the District Councils, one representative of De Montfort/Loughborough Universities and three non-voting staff representatives. In order to ensure continuity, staff representatives, who are chosen at the Fund's Annual General Meeting, are appointed to the Committee for a three year period but arrangements have been made to ensure that at least one staff representative place becomes available each year. The Local Pension Committee sets the overall investment strategy for the Fund and will deal with all investment governance issues. The Committee meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund.

The Investment Subcommittee consists of six voting members (the Chair, Vice Chair, one other elected member of the County Council, the Universities representative and one member representing each of the City and District Councils, all of whom are members of the Local Pension Committee) and one non-voting staff representative. Its role is to consider action that is in-line with the strategic benchmark agreed by the Committee and to take a pro-active approach to the Fund's investments, and also to deal with 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes.

The Committee and Subcommittee receive investment advice from Hymans Robertson LLP. Other consultants will also be utilised if there is felt to be an advantage to this.

The Local Pension Board was established by the Administering Authority under Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Local Pension Committee. The Board's role is to assist the County Council as the Administering Authority and Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme. The Administering Authority retains ultimate responsibility for the administration and governance of the Scheme.

Membership of the Local Pension Board consists of six voting members. Three employee representatives elected in the same manner as those employee representatives on the Local Pension Committee, and three employer representatives comprising two elected members of Leicestershire County Council and one elected member from Leicester City Council.

There is a statutory requirement for the Fund to maintain a Governance Compliance Statement, and this is replicated in full in the Governance Compliance Section here.

At a national level the LGPS is governed by the Department for Levelling Up, Housing and Communities (DLUHC) and the LGPS Scheme Advisory Board (SAB). The LGPS also takes account of guidance issued by the Pensions Regulator and Pensions Ombudsman determinations.

The role of the SAB is to help and support DLUHC and administering authorities fulfil their statutory duties and obligations. The SAB aims to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.

Scheme Management and Advisors as at March 2022.

Local Pension Committee	
Leicestershire County Council	Leicester City Council
Mr. T. Barkley CC (Chairman)	Cllr. A. Clarke
Mr. D. Grimley CC (Vice-Chairman)	Cllr. S. Waddington
Mr. K. Merrie CC MBE	
Dr. R. K. A. Feltham CC	District Council Representatives
Mr. D. Gamble CC	Cllr. C. Frost
	Cllr. M. Graham MBE
Employee Representatives	University Representative
Mr. A. Wilson	Mr. Z. Limbada
Mr. N. Booth	
Mr. G. Lawrence	
Up to date Membership of the Local Pension Committee can be viewed here.	
Local Pension Board	
Employer Representatives	Employee Representatives
Mr. R. Shepherd	Ms. C. Fairchild (Vice-Chairman)
Mrs. R. Page CC (Chairman)	Ms. R. Gilbert
Cllr. D. Bajaj (appointed as at 31 March 2022)	Mr. M. Saroya
Up to date Membership of the Local Pension Board can be viewed here.	
Officers responsible for the Fund	
Finance	Pensions Administration
Chris Tambini – LGPS Senior Officer (Director of Corporate Resources – Leicestershire County Council)	Ian Howe - Pensions Manager - Leicestershire County Council
Investment Managers	
Investments managed by LGPS Central Pool:	
All World Equity Climate Multi Factor Fund	LGPS Central PE Partnership 2018 & 2021 LP
Emerging market equities multi-managers fund *(BMO, UBS, Vontabel),*	Global active emerging market bond multi manager fund *(Amundi, M&G)*
Global active corporate bond multi-manager fund *(Neuberger Berman, Fidelity)*	Global equities multi-manager fund (*Harris, Schroders & Union)*
Infrastructure core / core plus multi manager fund	LGPSC Credit Partnership I
Global active MAC multi-manager fund *(Western Asset Management, BMO)*	LGPSC Credit Partnership II
Others:	
Adams Street Partners	Aegon Asset management (formerly Kames Capital)
Aspect Capital	Kravis Kohlberg Roberts
La Salle Investment Management	Legal & General Investment Management
Catapult Venture Managers	Partners Group
Colliers Capital UK	Permal (formerly Fauchier Partners)
Cristofferson, Robb & Company	Pictet Asset Management
Infrastructure Funds Management	M&G Investments
JP Morgan Asset Management	Ruffer LLP
Standard Life Aberdeen	Stafford Capital Partners
Pooled investments	
LGPS Central	
Fund Custodian	**Legal Advisor**
JPMorgan, Bournemouth	County Solicitor, Leicestershire County Council
Auditor	**Actuary and Investment Consultant**
Grant Thornton LLP	Hymans Robertson LLP, Glasgow
Banker	**AVC Provider**
National Westminster Bank, Leicester	Prudential, London

Scheme Administrator
Leicestershire County Council

RISK MANAGEMENT

There are many risks associated with the Local Government Pension Scheme, covering both the investment of the assets and the administration of the benefits payable. Officers monitor Fund risk and bring a risk report to each Local Pension Committee and Local Pension Board meeting, to provide the latest position on key risks.

The risks are individually scored and each has additional controls applied to mitigate the risk. Any risk score of 15 or over is classed as a very high risk, and escalated within Leicestershire County Council. There are no scores on the Pension Fund risk register 15 or over.

The ongoing risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is quantified by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid. As at March 2021 a quick review suggested that the overall Funding position had improved but the final position cannot be confirmed until the Fund's valuation as at 31 March 2022 has completed. The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer contributions, with employee contributions assumed to be fixed. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk considered. The Fund's asset allocation policy is reviewed annually.

Individual investment manager performance is usually of lower importance than the asset allocation benchmark, but individual manager performance does have an impact and their performance is considered and reviewed regularly. When there are doubts about a manager's ability to generate future performance that is in line with the Fund's requirements/expectations appropriate action will be taken, and this may include the release of a manager. It is not generally optimal to change managers on a frequent basis due to the associated costs (which are mainly the impact of bid/offer spreads and charges within markets), and as a result changes are considered very carefully before they are agreed.

The Local Pension Committee receives advice from the investment practice of Hymans Robertson and this assists in making decisions in respect of both overall investment policy, manager selection/retention and good governance.

The Fund employs a large number of investment managers, and all of these invest in a specific asset class and can be termed 'specialist'. Many of these managers are required to have external assessments of their systems and operations and these are reviewed to ensure that there are no issues which put the Fund's investments at risk.

Other investment managers that the fund employs are appointed by LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the Midlands. Leicestershire County Council along with 8 other pension funds is a joint owner of the company. The company has its own governance and risk management structures in place.

Under the Pensions Regulations all employers must pay over contributions deducted from employees, plus the required employer contributions, to the administering authority within certain timescales. These payments are monitored closely, and immediate action is taken in the event of a late payment. Late payment does not put the benefits of individuals at risk.

Many of the risks associated with providing efficient and cost-effective Pensions Administration are mitigated by ensuring that officers involved in LGPS are knowledgeable and well-trained on an on-going basis. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support for them is in place.

FINANCIAL PERFORMANCE

Non-investment cash flows

Non-investment cash inflows for the fund come via payments from Employers of their and employees' contributions. There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively because of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, and it was not felt necessary to levy interest on overdue contributions. Employer contributions ranged from 0% to 35.7% with the average employer rate being 25.6%.

Administrative, including investment management, costs were at £42.5m for the year compared to £45.3m in the previous year (2020/21). This decrease was largely driven by a reduction in performance related investment manager costs based on the assets under management. Investment management fees are variable as they are based on market values that are impossible to predict in advance. Action was taken during the year to reduce investment management costs where there was opportunity to do so. There were no material movements in non-investment assets and liabilities.

The general trend of overall net cash flows is monitored, whether these are derived from investment or non-investment related sources. Non-investment cash flows were positive by £54.8m in 2021/22, compared to £62.1m in 2020/21. In addition, the Fund received investment income of £43.6m. In the context of the funds, £5billion of assets, the cash flow movements are not material. Any short-term cash surpluses or shortfall can be managed through the funds passive investments that have good levels of liquidity.

Cash flows are unlikely to reduce in the near future. Benefits paid are increasing, due to increasing numbers of pensioners and inflation-linked annual increases, the value of this increase is offset by the increasing rate of employers' contribution. In future years this could result in a reduction in the available cashflow and will require monitoring. The Fund also has significant investments in accumulation funds where the investment income is reinvested rather than distributed, and these could, if required, be changed to income producing funds with the generation of an extra £30m+ cash flow p.a.

The overall impact of a strong positive cash flow is that the Fund has flexibility in the selection of investments and fewer restrictions due to liquidity concerns. There are strong controls in place for ensuring that all income due is received and that benefits are not overpaid. A monthly automated check of pensioners is carried out through a reliable tracing agency to ensure that UK based pensions cease upon death, and the Fund has a very low incidence of overpayments that occur either as a result of fraud, late notification or error.

Details of contributions in and payments out of the fund are shown overleaf:

2020/21		2021/22
£m	**Payments in:**	**£m**
(183.0)	Employer Contributions	(192.5)
(45.1)	Member Contributions	(47.0)
(5.3)	Transfers in From other pension funds	(9.9)
(233.4)	**Total Inflows**	**(249.4)**
	Payments out:	
132.1	Pensions	137.3
27.5	Lump Sum Retirement Benefits	34.2
5.0	Lump Sum Death Benefits	5.7
6.7	Payments to and on Account of Leavers	17.4
171.3	**Total Outflows**	**194.6**
(62.1)	**Net Cash (inflows)**	**(54.8)**

2021/22 Performance Vs Budget

The outturn for 2021/22 was:

Heading	**Budget**	**Actual**	**Variance**
	£000s	**£000s**	**£000s**
Investment Management Expense:			
o **Management**	25,400	23,146	-2,254
o **Transaction**	9,810	5,961	-3,849
o **Performance**	5,490	9,856	4,366
Sub Total	**40,700**	**38,963**	**-1,737**
LGPS Central costs	1004	995	-9
Staffing and other admin expenses	1,400	1,473	73
IT costs	500	448	-52
Actuarial costs	150	163	13
Support Services	400	492	92
Total	**44,154**	**42,534**	**-1,620**

Forecast v Outturn report on Pension Fund cash flows

The Fund is cash flow positive (its income exceeds the liabilities to be paid) meaning that sale of investments is not required outside of asset transitions. As such the cash flow monitoring is focused on making investments to keep the variance to the strategic asset allocation as low as possible. Hence the approach taken to date has been to forecast cash-flow when deciding the funding approach for new investments. An overview of the funds cashflow and forecasting approach is shown below.

Cash Flow	£ millions	Forecast approach
Opening Cash Balance 01 April 2021	**331**	
Net investment activity	(195)	Significant underlying activity, purchases of £845m and sales of £650m. Large net investment reflects the fact the Fund was underweight in private and illiquid markets at the start of the reporting period. Committed capital in these markets has started to be drawn down during 2021/22. Guidance by managers tends to be short term so it can be difficult to predict overall flows but as spread through year can 'mop-up' when investing.
Currency hedge profit or loss	(29)	Dependent upon relative currency performance and Aegon's decisions. Very hard to forecast and necessitates the holding of a cash buffer.
Management expenses and fees	(7)	This is the element of fund management and administration fees which result in a cash flow out. Most investment fees paid are embedded in the underlying fund so do not generate a cash flow. Able to make good level of prediction, although elements are performance dependant.
Investment income	44	Primarily from Infrastructure and property assets, usually predictable. Increase this year due to timberland fund reaching maturity and starting to distribute.
Non-investment income	55	Employer and employee contributions exceed the benefit payments made. Usually, only moves gradually compared to the previous year, unless a step change following the triennial valuation or significant increase in transfers in or out of the fund.
Change in working capital	(12)	Working capital is the capital the Fund uses for its day-to-day operations and is calculated as current assets minus current liabilities. This is usually predictable as it generally relates to contributions due from employers, investment income, fees, and expenses. The change in working capital compared to last year was primarily driven by several employers switching to paying their contributions in arrears (including LCC).
Total increase/(decrease) in cash balance	**(144)**	Aim to keep cash level minimal as per strategic allocation. Cash balances were high at the start of the reporting period due to the Funds underweight position in illiquid markets. The large decrease in cash in 2021/22 reflects efforts to reinvest in these markets and the availability of new products from LGPS Central.
Closing Cash Balance 31 March 2022	**181**	

Details of over payments, recoveries and amounts written off, Including the results of participation in National Fraud Initiative exercises

The biennial National Fraud Initiative (NFI) exercise for 2020/21 identified four pensions overpayments totalling £18k. During 2021/22 investigation took place on the four cases, resulting in three cases totalling £13k, being written off. There was no indication of fraud in any of the cases. Work remains ongoing on the fourth case. NFI matches current pensions to DWP deceased persons data to identify anomalies. The cases noted were exceptions to the rule such as overseas pensioners where preventative controls are somewhat weaker, i.e. where a death was not registered in the UK. Moving forward, the Pensions Section will data match to DWP deceased persons data twice-yearly, in addition to the standard NFI cycle, in order that anomalies can be identified and investigated earlier in the process, and recovery initiated without delay. No overpayments were identified outside of the NFI exercise.

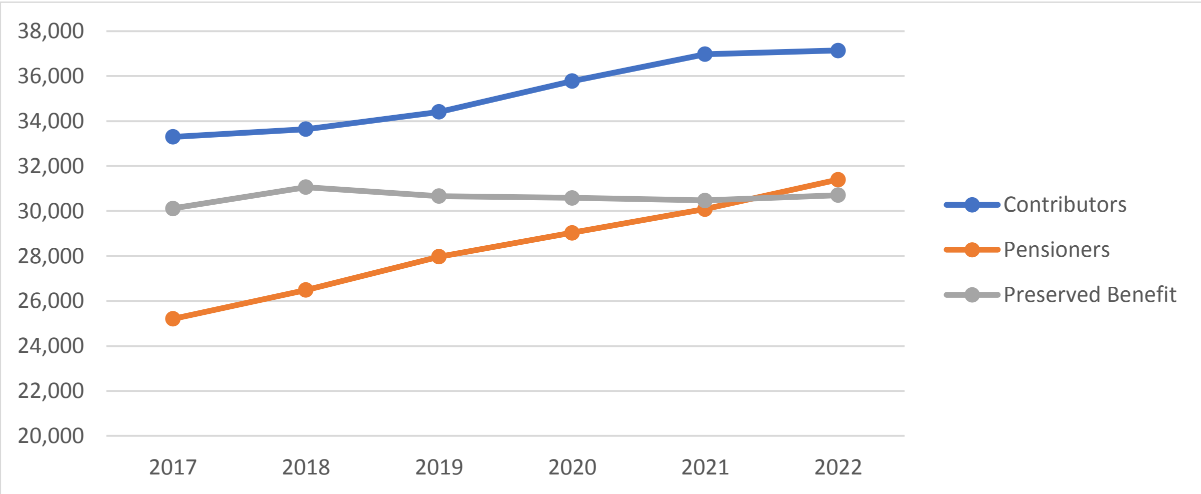
PENSION SCHEME ADMINISTRATION

The number of scheme members who are either active contributors, receiving a benefit or who have a future entitlement to a benefit increased by 1,710 over the course of the year. This figure excludes the 5,155 members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

Active membership increased by 167 from 36,972 to 37,139.
Pensioners increased by 1,308 from 30,089 to 31,397.
Preserved membership increased 235 from 30,469 to 30,704.

The Fund's employers have completed the auto enrolment process, with many of the larger employers completing this prior to 2017/18. The auto enrolment process forces employing bodies to bring almost all employees that are eligible to join the LGPS but are not currently scheme members into the scheme. This is reflected by the increase in active members over the past 5 years.

Membership numbers over the last six years are shown in the graph below.



Leicestershire Pension Fund contributions:

Employer Name	Employer Contributions £000	Employee Contributions £000
Leicester City Council	51,318	11,985
Leicestershire CC	45,431	10,858
The Chief Constable & The OPCC	11,834	3,284
Leics De Montfort University	11,469	3,177
Loughborough University	7,057	1,585
Charnwood Borough Council	4,094	827
Rutland CC	3,254	848
North West Leics DC	2,832	940
Hinckley and Bosworth BC	2,796	718
Blaby District Council	2,353	608
ESPO	2,252	537
Harborough District Council	2,046	403
Oadby and Wigston BC	1,407	284
Melton BC	1,309	356
Leics Fire Service (Civilians)	1,070	295
FE and Sixth Form colleges	6,609	1,712
Town & Parish Councils	644	194
Academies, Free Schools and others	34,758	8,364
Total	**192,533**	**46,975**

The Leicestershire Local Government Pension Fund provides services in line with the requirements of a fund of this nature. This includes the correspondence with members, calculation of benefits, maintenance of members records and data and Pension payments through the payroll service. A service is also provided for members to log onto the online member site and a service for employers to upload member data monthly.

<u>Value for Money Statement</u>

The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance states Pension Funds need to produce a Value for Money Statement. The Value for Money Statement is in respect of

i. Administration costs
ii. Service to scheme members
iii. Workloads
iv. Data quality
v. Fund risk management

i. Administration Costs

Officers must demonstrate value for money. The cost per member is calculated using the total cost for staffing, IT, actuarial and support services divided by the scheme membership at 31 March 2022. To compare the 2021/22 costs, information from three years prior is included.

The Fund has 36 full time equivalent working in Pension Scheme Administration. Scheme membership is 99,240 equating to 2,757 members per FTE.

The pension administration costs include staffing, IT, actuarial and support services. It does not include the costs relating to investment activity.

Year	Members	Full Time Equivalent – Pensions Administration	Administration Costs £000	Cost per member (admin cost / members)
2018/19	93,046	31	2,300[1]	£24.72
2019/20	95,401	33	2,300	£24.11
2020/21	97,530	33	2,155	£22.10
2021/22	99,240	36[2]	2,576	£25.96
2022/23 – Forecast	103,000	35[3]	2,790	£27.09*

*The proposed increase in cost in 2022/23 is as a result of the increased resource required for the McCloud project and the introduction of the national Pensions Dashboard programme.

There was increased spend in all the four key areas in 2021/22 compared to 2020/21, as detailed in the following table.

Year	Staffing	IT	Actuarial	Support Services	Other
2020/21	1,202,000	423,000	77,000	393,000	58,000
2021/22	1,382,000	448,000	163,000	492,000	91,000
Increase	180,000	25,000	86,000	99,000	33,000

[1] Total was £2,400,000 but reduced by £100,000 income
[2] Includes two Kick Starters from the Government's initiative to introduce graduates into work.
[3] Includes an apprentice

Staffing - The increase in staff costs were for the additional three colleagues primarily assisting on McCloud. There was also an inflationary increase to staff salaries and pay progression for colleagues moving through the pay bands.

IT - costs increased to cover system changes for McCloud and the purchase of Insights which is a new reporting tool provided by the system provider.

Actuarial - Every three years the Fund must complete an actuarial valuation. The valuation exercise includes a significant amount of time from the Fund's Actuary Hymans Robertson. Therefore, in a valuation year the actuarial costs increase. The expected actuarial cost for the valuation was budgeted in 2022/23. However, the stabilised employer valuation work was brought forward into 2021/22 thereby increasing the cost spend in 2021/22. A lower expected increase in 2022/23 is anticipated.

Support Services - There were increases in the support services to cover increasing workloads in certain areas, inflationary increases and the implementation of the new print/post/scanning solution.

Other - These relate to other general costs e.g., LGA training, CIPP qualifications, Club Vita membership, tracing service, SAB annual levy etc.

Fund Administration Charge

Funds charge a percentage of the employer primary contribution rate to fund pension administration. Given the differences in the demographics of Funds this is not considered a reliable measure of costs between Funds. For example, a Fund with a greater percentage of active members and low fund maturity will receive more income, compared with a more mature Fund that has a greater percentage of pensioners and preserved members. Officers feel the cost per member provides a more transparent way to measure administration cost between Funds.

ii. Service to Scheme Members

Fund Officers measure key performance indicators (KPIs) for both business process and customer satisfaction. These are reported on a quarterly basis to the Local Pension Board. The full year KPI's are set out below and demonstrate a good service continues to be provided to the Fund's Scheme Members.

Full Year - 1 April 2021 to 31 March 2022							
Business Process Perspective	Target			Customer Perspective - Feedback	Target		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	89%	►	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲
Pension payments made within 10 working days of receiving election	95%	95%	▲	Experience of dealing with Section - rated at least good or excellent	95%	92%	►
Death benefits/payments sent to dependant within 10 working days of notification	90%	87%	►	Establish members thoughts on the amount of info provided - rated as about right	92%	93%	▲
				Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Good or better than target	▲			Email response - understandable	95%	93%	►
Close to target	►			Email response - content detail	92%	94%	▲
Below target	▼			Email response - timeliness	92%	91%	►

During 2021/22 the Fund had three Stage 2 complaints via the formal Internal Resolution Disputes process. Two were resolved and one remains ongoing. Details on how to make a complaint are available later in the report.

iii. Workloads

The 2021/22 figures are included in the table below .

Area of work	Cases Completed
Preserved Benefits	2,034
Retirement Options	2,675
Retirements Paid	2,113
Deaths	1,196
Refunds Paid	1,148
Estimates	1,206
Transfers in and out (excluding interfunds out)[4]	287
Aggregations	1,593
New starters	7,397

Details of new pensioner analysed by retirement type.

Type of retirement	Cases Completed
Early	1,524
Ill Health	46
Normal	153
Late	243
Redundancy/Efficiency/Flexible	147
Total	**2,113**

[4] Interfunds out have a one-year window for a member decision and are therefore excluded.

Scheme Membership in the last three years is set out below:

Year	Active Members	Preserved Members	Pensioner Members	Total
2019/20	35,779	30,586	29,036	95,401
2020/21	36,972	30,469	30,089	97,530
2021/22	37,139	30,704	31,397	99,240

vi. Data Quality

Officers monitor and improve annually data quality. This is reported to The Pensions Regulator each year. Data is split between common and scheme specific data.

- Common data is primarily used to hold members information e.g., NI number, Date of Birth etc.
- Scheme specific data is primarily used in the calculation of member benefits.

The Fund data scores in the last three years

Year	Common Data Score	Scheme Specific Data Score
2019/20	**99.20%**	**90.40%**
2020/21	**99.20%**	**90.90%**
2021/22	**97.20%**	**97.59%**

With the introduction of Insights further data analysis is now available and it has emerged the previously submitted score needed a slight adjustment and the 2021/22 scores reflect this. However overall, the latest scores are more favourable.

A list of the Fund's strategies and policies can be found on the following link.

https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/fund-admin-and-guidance/pension-fund-and-finance

Other Fund information:

Help desk arrangements and information are as follows:

Contact Type	From	To	Contact
MSS Helpdesk Phones	8:00am	17:00pm	0116 3057886
Benefits Helpdesk Phone	8:00am	17:00pm	0116 3054000
Pensions Benefits Queries	Pensionsbenefits@leics.gov.uk		
Email MSS Queries	PensionsMSS@leics.gov.uk		

General Pensions Queries	Pensions@leics.gov.uk
Address:	Pensions Section Leicestershire County Council County Hall Glenfield Leicester LE3 8RB

Internal Disputes

If you are not satisfied with any decision given by either the Pension Section or your employer/ former employer, relating to your Local Government Pension Scheme (LGPS) benefits, you may appeal in writing under the Internal Disputes Resolution Procedure (IDRP). You must write within six months of receiving the decision.

Any points of difference should firstly be addressed with the Pensions Office on an informal basis. You can write to:

The Leicestershire County Council Pension Section, County Hall, Glenfield, Leicester, LE3 8RB

Or, contact the Pensions Officer who has dealt with your case. Their name and contact details will be on your correspondence.

We will then try to resolve the matter for you. Should you still be unhappy and wish to take the matter further you can request an information sheet and form to complete. This will contain the name and address of the 'Specified Person' nominated by your employer or former employer who would formally investigate your complaint.

A copy of the form is available here.

Following this, if you are still dissatisfied with their decision, a 'second stage' of complaint can be requested, which will be looked at by the Legal Services team at Leicestershire County Council in most cases.

Should you be dissatisfied with the outcome of this, further details of the next stages of complaint would be provided at the time, should this be necessary.

Further advice can be found at the following:

Money Helper	Web:	https://www.moneyhelper.org.uk/en
	Phone:	0800 011 3797
LGPS Regulation &	Web:	https://www.lgpsregs.org/

Guidance

INVESTMENT POLICY AND PERFORMANCE

The Fund's strategic asset allocation benchmark at the year end was as follows. The benchmark is updated once a year usually in the first calendar quarter. Changes to the portfolio holdings are enacted over the year to adjust towards the benchmark. At the year end the major differences to the benchmark weights was overweight 'growth' assets by c5.6% and underweight 'income' assets by c8%. Growth assets contain the Funds equity holdings which have performed well compared to other asset classes pushing up the weighting versus the target. Investment committee decisions to invest into 'income' assets were taken during the course of 2021 when LGPS Central launched infrastructure, multi asset credit and private debt products which the Fund made commitments to. More recently the Local Pension Committee approved an allocation to the LGPS Direct Property Fund which when commitments are called will align further towards the target benchmark position for income assets.

	Weighting	**Benchmark**	**Difference**
Growth	60.8%	55.25%	5.55%
Income	28.4%	36.75%	-8.35%
Protection	7.9%	8.00%	-0.1%
Cash	2.9%	0.00%	2.9%
	100.00%	100.00%	0.00%

The setting of the strategic benchmark is the one of the most important decisions that the Committee makes. It is this decision that will have the most significant impact on the investment return achieved and approximately 90% of the Fund's overall risk is encompassed within the mix of assets classes within the overall portfolio. Individual investment manager choices are important as they can produce added value by outperforming their benchmarks, but their influence is small in comparison to the choice of benchmark. Variances to benchmark positions can take time to close especially when investments or divestments need to be made to illiquid products such as infrastructure and property that usually have a time lag between committing capital and the money being requested (called) by the investment manager.

Although some investments have moved over to LGPS Central as part of asset pooling, the Local Pension Committee still retain full responsibility for asset allocation and will continue to be accountable for the majority of the Fund's investment performance.

A comprehensive analysis of investment holdings by manager and their associated performance is provided in Appendix A. A summary is provided below:

	1 Year %		**3 Years % p.a**		**5 Years % p.a**	
	Fund	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Growth assets	14.6	10.5	12.3	10.5	9.0	8.4
Income assets	10.7	8.8	5.1	5.2	5.5	5.3
Protection assets	1.2	1.6	2.6	2.9	2.8	2.9
TOTAL FUND	**11.4**	**8.9**	**9.2**	**8.2**	**7.5**	**6.9**

The Fund has a large number of investment managers and it is inevitable that some of them will have periods of disappointing performance – sometimes this disappointing performance can last multiple years, and can be the result of a particular investment 'style' not being in favour with market sentiment. It is important to understand why managers are performing as they are, regardless of whether this is above or below their benchmark and to assess whether this is a cause for concern. Spontaneous reactions that are based on relatively short periods of poor performance are not usually sensible and understanding the reasons for poor performance is vital. It is implausible to believe that all managers appointed by the Fund can simultaneously perform well, in fact the Fund is positioned such that some assets should perform well in traditional market downturns. The Fund needs to have a reasonable spread of management styles and asset classes and occasionally a manager is chosen specifically because they provide diversification of returns from other managers within the overall portfolio.

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate, although the pooling of investments within the Local Government Pension Scheme mentioned earlier in this report means that there needs to be a greater awareness of when action is appropriate and when it is not and indeed action will be taken at a pooled level rather than an individual pension fund level. Since 1st April 2014 all investment performance has been measured net of investment management fees and the figures quoted above are, therefore, after taking these into account.

The management of the individual asset classes is carried out as follows:

Growth Assets

The Fund has a global passive equity manager (Legal and General) that manages against both market capitalisation benchmarks and also against alternative benchmarks. The Fund has two active equity investments with LGPS Central (the pooling company), a global equity multi manager investment and an active emerging market multi manager product. The Fund also has invested into a passive product with LGPS Central, a climate multi factor fund.

Within growth assets the Fund also has private equity investments (i.e. investment in unquoted companies), the vast majority of which is managed by Adams Street Partners as well as the three managers classed within targeted return class. The Fund also has invested in two LGPS Central Private Equity vintages.

The Fund's targeted return exposure can generally be categorised as investments that are seeking to make a return of 4% p.a. more than could be achieved by an investment in cash and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund has three different managers employed in this area - Aspect Capital Partners, Ruffer and Pictet Asset Management.

Income Assets

Property - Colliers Capital UK manage a directly owned property portfolio but have scope to invest in specialist pooled property funds which are in areas that they find attractive but would not be practical to buy directly, usually due to the size of individual investments (for example leisure complexes based around multiplex cinemas or Central London offices).

La Salle Investment Management manage a portfolio of pooled property funds, which includes a wide range of property types and some which are specialist in nature. Via their ability to research the underlying holdings and the skills of the property managers, it is expected that they will add value to the Fund.

The Fund has also invested in two stand-alone property 'recovery' funds, managed by Aegon Asset Management.

Infrastructure – The Fund employs six managers covering a broad range of global infrastructure with exposure to core infrastructure such as toll roads, ports and timber farms to more value add / opportunistic exposure including asset leasing, data centres and renewables.

Other asset classes included within the income class include various types of credit investments. Emerging market credit and private credit to corporate enterprises feature in this class. Partners Group are the single biggest manager with whom the Fund invests within private credit. The emerging market credit exposure is via a multi manager fund from LGPS Central.

Protection assets

UK inflation is one of the Fund's biggest risks, due to the direct link to benefits and the less-direct link to salary growth of active members. Protecting against this risk is, therefore, sensible but it is also expensive. It involves taking money out of assets that are seeking investment growth (e.g. equities) and investing it in safer, and therefore lower-returning, index-linked bonds. Increasing this allocation would push up employers' contribution rates to levels which are unaffordable, so cannot be implemented in a large scale manner.

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds, these are expensive as there are a number of price-insensitive buyers and a lack of supply. As a result the Fund has a three-pronged approach to obtaining some protection against inflation, investment in infrastructure and timberland, both of which have a good historic link to inflation and also a global government index-linked portfolio. Aegon Asset Management manages a portfolio of global index-linked stocks. Some inflation protection is afforded by exposure to global infrastructure managers where underlying assets are subject to contracted or regulated income.

Other mandates included within protection assets include a short dated investment grade bond fund with Aegon Asset Management and a LGPS Central investment grade corporate bond fund. Both aim to provide stable but lower rates of returns than similar funds included within the income portfolio.

Other portfolios

Active foreign exchange hedging is undertaken by Aegon Asset Management to reduce the impact of currency fluctuations from the Fund's holdings which are held in currencies other the sterling. At the year end the benchmark level of hedge as advised by Hymans and approved by the Pension Committee is 30% of foreign currency exposure. Aegon manage the level of hedge of currencies the Fund is exposed to between unhedged and fully hedged based on their view of the prevailing market conditions.

RESPONSIBLE INVESTING (RI)

RI introduction

The term 'responsible investment' refers to the integration of financially material Environmental, Social and Governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of our fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

Effective management of financially material ESG risk should support long term investment returns. The Fund's responsible investing (RI) policy is contained within the investment strategy statement alongside the Fund's view of environmental social and governance (ESG). The Fund is continually developing its RI policies with the support of LGPS Central's in house team. Fund's launched by LGPS Central ensure ESG credentials of managers are tested during the procurement phase.

The Fund produces an annual RI plan with progress monitored at each Local Pension Committee meeting. The Fund has also been undertaking climate risk analysis with the third climate risk report (CRR) scheduled to be delivered to the Local Pension Committee before the calendar year end. The CRR report will again analyse the Funds listed equity exposure against the relevant benchmarks for the investment and provide analysis against various metrics including carbon footprints and exposure to green revenues. The report will incorporate areas that the Fund can investigate to improve climate metrics.

The Fund has also commenced work on delivering its first Net Zero Climate Strategy (NZCS). It is planned to be delivered to the Local Pension Committee later in 2022 with approval by the Local Pension planned in early 2023. The Fund has engaged with Local Pension Committee members throughout the process and will engage with employers, members of the pension scheme and large investment managers on the targets it is proposing within the NZCS.

At each opportunity to present to the Funds Pension Committee, Investment Managers delivered ESG updates alongside the traditional market and performance. This will enhance the knowledge of the Committee to make more informed decisions in the future.

As an externally managed pension fund, the Investment Managers contracted by the Fund are instructed to exercise, on behalf of the Pension Fund, all rights (including voting), having regard to the best long-term financial interests of the Fund. This includes factors relating to climate change and climate policy. The Fund will not appoint any manager unless they can show evidence of being able to fulfil the Fund's investment objectives, including its Responsible Investment objectives in the course of due diligence performed.

LGPS Central and RI

The Fund is a part-owner of LGPS Central, an asset manager that will increasingly manage the Fund's holdings. With the Fund's support, LGPS Central has developed a leading approach to responsible investment and has identified climate change as one of its stewardship priorities.

The Fund invests in a number of investment products launched by LGPS Central as detailed within the investment policy and performance section of this report. Central have a published a 'responsible investment and engagement framework' available on the company's website:

https://www.lgpscentral.co.uk/wp-content/uploads/2021/06/LGPSC-RI-E-Framework-2021.pdf

This framework contains two key objectives:

- To support the company's investment objectives
- To be an exemplar for Responsible Investment within the financial services industry and raise standards across the market

To supplement Central's RI policy they publish quarterly stewardship reports which are available on their website and are taken to each Local Pension Committee to highlight engagement progress and developments within responsible investing.

The Pension Committee endorses Central's RI beliefs which are summarised below:

•Long termism: A long term approach to investment will deliver better returns and the long term nature of LGPS liabilities allows for a long term investment horizon.

•Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Company and its investment managers.

•Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long term through widespread stewardship and industry participation.

Membership of the Local Authority Pension Fund Forum (LAPFF)

The Fund is a Member of the Local Authority Pension Fund Forum (LAPFF), an association of local authority pension funds, with over 80 LGPS funds as members with collective fund value of over £300bn. The forum:

•Seeks to protect and enhance the value of members shareholdings by optimising local authority pension funds' influence as shareholders on ESG (environmental, social and governance) issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance

•Facilitates commissioning of research and policy analysis of issues more effectively than individual members

•Provides a forum for consultation on shareholder initiatives

•Provides a forum for information exchange and discussion about any investment issues

•Provides a forum to consider issues of common interest to all pension fund administrators and trustees

Legal and General Investment Management (LGIM)

LGIM are one of the Funds largest managers who at the year end managed 17% of the Funds assets via a number of low cost passive index funds. Voting activity and engagement is carried out by LGIM in line with their published RI policies which are available on their website. The results of their engagement and voting activity is collated by Central and is reported to the Committee on a quarterly basis.

Collective pressure from investors via organisations such as the LAPFF has helped to encourage listed companies to enhance their corporate governance and to improve their environmental and social impacts.

RI and Voting

LGPS Central provide the Fund with a quarterly update of voting activity. This is focused on listed equities. This voting activity covers the funds managed by Central and the fund's managed by Legal and General investment management (LGIM). At 30th March 2022 this covered c45% of all Fund assets. Around 20% of fund assets reside within debt and property and have no voting rights.

Both Central and LGIM with whom the Fund has the majority of listed equites vote at company meetings in line with their RI policies. Central provide a summary of voting quarterly. The Fund expects the proportion of assets to be managed by Central to increase over time as assets are transitioned into pooled vehicles. Central's Responsible Investment and Engagement framework will be applied to all investments.

The update on voting activity contains information such as the number of resolutions voted on, whether votes were opposing the management, detail on what types of votes were cast, for example board structure and remuneration. Officers summarise the voting results and present to the Pension Committee each quarter.

Introduction to the Taskforce on Climate-related Financial Disclosures

The Fund is committed to being a responsible long-term investor, this is reflected within the Fund's Investment Strategy Statement (ISS). The Fund, as a responsible owner, has a strategy of engagement with companies to improve their stewardship, rather than simply excluding them from the investment portfolio. This is evidenced by the Fund's engagement through its partners with numerous companies on climate and other ESG matters.

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney (then Governor of the Bank of England) in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice. The Fund produced its first TCFD report and presented it to the Local Pension committee in June 2021. A copy can be found on the Fund's website.

The TCFD recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see illustration below) are designed to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. These disclosures and metrics will evolve and develop over time and will aim to include more portfolio assets than listed equities.

TCFD Disclosure Pillars:

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policy makers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

TCFD Report Summary

In 2020 the Fund commissioned its pooling company, LGPS Central Limited, to undertake an in-depth review of the Fund's exposure to financially material climate-related risks and opportunities. The Climate Risk Report included both climate scenario analysis and carbon risk metrics. The report was presented to the Pensions Committee in November 2020, with all recommendations in the report receiving approval by the Committee. In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, the Fund published its first TCFD aligned report in May 2021. A summary of the June 2022 TCFD report that the Local Pension Committee considered is provided below.

Governance

The Pension Committee ("the Committee") is responsible for preparing the Investment Strategy Statement (ISS). The ISS includes a formal investment belief on responsible investment, recognising its ability to enhance long term performance. The Pension Fund Committee meets quarterly and includes voting reports from its LGIM and LGPS Central sub-funds as well as the LGPS Central Quarterly Stewardship Update.

The Fund has received two Climate Risk Reports from LGPS Central, which will support the formation of the Fund's Climate Strategy.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

Strategy

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Examples Short, Medium & Long-Term Risks

	Short & Medium Term	Long Term
Risks	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise

Asset class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

Risk Management

The Fund seeks to identify and assess climate-related risks at the total Fund level and at the individual asset level. Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central Limited, EOS at Federated Hermes and LAPFF. Based on its Climate Risk Report, the Fund will develop a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by our stewardship partners, will include targeted engagement at investee companies of particular significance to the Fund's portfolio. The Climate Stewardship Plan includes nine companies across four sectors: Energy, Info Tech, Materials and Utilities.

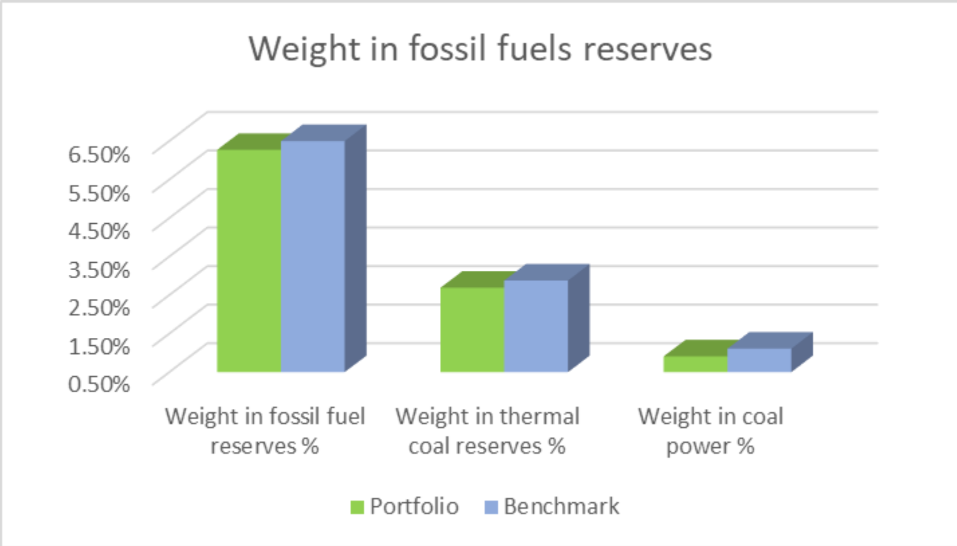
Metrics & Targets

The Fund's carbon risk metrics cover its listed equities portfolios, which represents c50% of the Fund's total assets. The scope of the analysis comprises the total equities portfolios as at 31st March 2021 and covers 10 equity strategies and 4,527 individual companies. The carbon footprints are provided below and illustrated in the graphic.

- Total Equities: 120.2 (tCO2e/ $m revenue)
- Total Active Equities: 131.2 (tCO2e/ $m revenue)
- Total Passive Equities: 115.8 (tCO2e/ $m revenue)

The overall carbon intensity of the Fund has improved from the first carbon risk report was commissioned which was calculated with a portfolio as at date of 31st December 2019. The reduction at total equity level was 25%. This will have been as a result of underlying companies carbon metrics changing over time and asset management including a transition of investments into a Climate balanced multi factor fund with the Fund's pooling company LGPS Central.

The CRR also measures the exposure of the Fund to fossil fuel reserves, thermal coal reserves, coal power and clean technology. The results as at the 31st March 2021 are illustrated below.
The CRR measures the Funds weight to fossil fuel reserves and weight in clean technology versus the benchmarks for each of the mandates. The chart below aggregates results for all mandates and illustrates the positive performance versus benchmarks.



The Fund overall has a 38.82% with exposure to clean technology revenues, this is slightly below the benchmark position of 39.50%. The actual position has improved since the initial CRR dated 31st December 2019 by 4.66%.

LGPS CENTRAL POOL

As mentioned earlier in the report the Fund is an investor in LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the Midlands. Leicestershire County Council along with eight other funds is a joint owner of the company. The company has its own governance and risk management structures in place. The aim of the Company is to use the combined buying power of its partner funds to reduce costs, improve investment returns and widen the range of available asset classes for investment – all for the benefit of local government pensioners, employees and employers. Further information on the Governance Structure on LGPS Central can be found within the Governance Compliance Section here.

LGPS Central ltd is based in Wolverhampton and their details can be found below:

Address:
LGPS Central Ltd
Floor 1
i9
Wolverhampton Interchange
Wolverhampton
WV1 1LD

Website: https://www.lgpscentral.co.uk
e-mail: enquiries@lgpscentral.co.uk

Assets under management

During the 2021/22 financial year, the following new amounts were invested or committed into the pool by the Leicestershire Fund:

Fund Name	Invested/Committed
MAC Multi Manager Fund	£200m
LGPSC Credit Partnership I	£60m
LGPSC Credit Partnership II	£100m
LGPS Central Core/Core Plus Infrastructure Partnership LP	£70m
LGPS Central PE Primary Partnership 2021 LP	£30m

In total as at 31 March 2022 £2,100.9m worth of assets were managed directly by the LGPS Central Pool. Further to this the Fund has £975.8m worth of passive equities which are invested in a low cost collectively pooled vehicle. As at 31 March 2022 53.3% of the Fund's assets are pooled.

Post Pooling report

The information request set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2021/22. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in later years.

The analysis provided by LGPSC should relate to the specific Partner Fund (i.e. nine separate information packs). The provision of the information by LGPSC to each Partner Fund should ensure consistent reporting across Partner Funds, and allow LGPSC to aggregate, and reconcile back the individual Partner Fund disclosures, to the Company's financial statements.

1. Set up costs

Leicestershire's share of the set-up cost associated with the pool were as follows:

£000	Final Set up costs
Set Up Costs	
Recruitment	27
Procurement	2
Professional Fees	187
IT	97
Staff Costs	142
Other Costs (provide details)	
Premises	49
Staffing-Related Costs	5
Travel and Expenses	1
Training and Events	1
FCA Fees	1
General Admin Costs	2
Set-Up Costs Before Funding	**514**
Share Capital	1,315
Debt	685
Other Costs	-
Set-Up Costs After Funding	**2,514**

Transition fees	
Taxation (seeding relief)	
Other transition costs	
Transition Costs	

Please note that CIPFA has not provided a set definition of Indirect Costs but notes that ''these would include, for example, overhead costs incurred by the administering authority or the pool in respect of senior management time, accommodation or support services recharged on a % of time/floor area basis as opposed to being directly linked to pension fund activities''. It appears likely to PAF Finance that the set-up costs captured to date relate to Direct Costs (i.e. either incurred directly by LGPSC or recharged by Partner Funds to LGPSC).

£000	2014/15	2015/16	2016/17	2017/18	2018/19	Cumulative Total
Set-Up Costs Before Funding	**-**	**-**	**95**	**419**	**-**	**514**
Set-Up Costs After Funding	**-**	**-**	**95**	**2,419**	**-**	**2,514**
Transition Costs						

Transition fees – please see item 8 later for a more detailed breakdown of the information required.

2. Recharges By Partner Funds to LGPS Central in respect of Set-Up Costs

£000	At 1 April-18	Recharges in Year	Settled in 18/19	At 31 March-22
Set-Up Cost Recharges	**502**	**-**	**(502)**	**-**

3. Governance, Operator and Product Development Charged by LGPS Central to Partner Funds

£000	At 1 April-21	Charges in Year	Settled in Year	At 31 March-22
Governance Costs	-	219	-	-
Operator Costs	-	580	-	-
IMMC (*)	-	502	-	-
Product Development Costs	-	114	-	-
Total	**320**	**1,415**	**(1,354)**	**381**

(*) Please note that this is expected to relate to IMMC charges in respect of any discretionary and/or advisory services provided by LGPSC to a Partner Fund. Any IMMCs (both internal and external charges) which are charged directly to a product (e.g. ACS sub-funds and SLP Private Equity) should be disclosed through Information Request (5) and (6) below.

4. Other Transactions between Partner Funds and LGPS Central

£000	At 1 April-21	Charges in Year	Settled in Year	At 31 March-22
Interest Payable	32	32	(32)	32
Total	**32**	**32**	**(32)**	**32**

5. LGPS Central Investment Management Expenses Charged to Partner Funds

	£000	Direct	Indirect	Total	*Bps Charge*
1	Ad Valorem	2,901		2,901	13.67
2	Performance	-		-	-

3	Research	-		-	-
4	PRIIPS Compliance	-		-	-
5	Other (provide details)	-		-	-
	Management Fees	**2,901**	**-**	**2,901**	**13.67**
6	Commissions	669		669	3.15
7	Acquisition/issue costs	-		-	-
8	Disposal costs	-		-	-
9	Registration/filling fees	-		-	-
10	Taxes and Stamp Duty	862		862	4.06
11	Other (provide details)	-		-	-
	Implicit Costs	1,551		1,551	7.31
	Transaction Costs	**3,082**	**-**	**3,082**	**14.52**
					-
12	**Custody/Depositary**	**227**		**227**	**1.07**
13	**Other (provide details)**				**-**
	Fund Accounting	34		34	0.16
	Transfer Agent	5		5	0.02
	External Audit	13		13	0.06
	Performance Reporting	11		11	0.05
	Transaction Charges	(36)		(36)	(0.17)
	MACS Fees	1		1	0.00
	Total Costs	**6,238**		**6,238**	**29.40**

Note: The total of the analysis should reconcile to request (6) below

*BPS= Basis points charged based on Assets under Management

6. Investment Management Expenses By Product / Service

£000	1	2	3	4	5	6	7	8	9	10	11	12	13	Total 2021/22 Costs	AUM At 31 March 2022 £m	*2021/22 Bps Charge*
Global Multi-Manager	1,055					141				223	1,001	50	15	2,485	514	*49.90*
Climate Factor Fund	250					303				367	(364)	93	20	669	891	*7.81*
Emerging Market Equities	803					225				272	264	44	34	1,642	191	*77.82*
Corporate Bonds	113					-				-	492	12	4	621	126	*51.75*
Emerging Market Debt	236					-				-	292	10	(59)	479	119	*39.92*
Multi-Asset Credit	407					-				-	(134)	18	14	305	193	*16.05*
ACS Sub-Funds	**2,864**	**-**	**-**	**-**	**-**	**669**	**-**	**-**	**-**	**862**	**1,551**	**227**	**28**	**6,201**	**2,034**	
Private Equity 2018 V'tage	3													3	10	*3.00*
Private Equity 2021 V'tage	10													10	30	*12.50*
Private Debt	13													13	160	*1.78*
Infrastructure	11													11	70	*3.14*
Alternative Vehicles	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**270**	
Total	**2,901**	**-**	**-**	**-**	**-**	**669**	**-**	**-**	**-**	**862**	**1,551**	**227**	**28**	**6,238**	**2,304**	***29.40***

Items 1 – 13 relate to the categories highlighted in the management costs table.

7. Asset Under Management & Performance by Product / Service

£000	AUM At 1 April-21 £m	AUM At 31 March-22 £m	One Year Gross Performance %	One Year Net Performance %	Passive Benchmark Used	One Year Passive Index %
Global Multi-Manager	454	514	12.13%	11.91%	FTSE All World Index	11.73%
Climate Factor Fund	775	891	14.09%	14.06%	FTSE All-World Climate Balanced Comprehensive Factor Index	13.73%
Emerging Market Equities	215	191	-11.54%	-11.98%	FTSE Emerging Markets Index	-4.71%
Corporate Bonds	106	126	-5.53%	-5.62%	ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%	-5.29%
Emerging Market Debt	108	119	-5.95%	-6.14%	JPMorgan EMBI Global Diversified Index, hedged to GBP	-8.09%
Multi-Asset Credit	-	193	-3.30%	-3.50%	3-month GBP SONIA	0.36%
ACS Sub-Funds	**1,658**	**2,034**				
Private Equity 2018 Vintage	10	10				
Private Equity 2021 V'tage	0	30				
Private Debt	0	160				
Infrastructure	0	70				
Alternative Vehicles	**10**	**270**				
Total	**1,668**	**2,304**				

8. Transition Costs

No transitions in 2021/22

Leicestershire County Council Pension Fund ("the Fund")

ACTUARIAL STATEMENT FOR 2021/22

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 17 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 formal valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.8%
Salary increase assumption	2.8%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.8 years
Future Pensioners*	22.2 years	25.2 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year’s annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Tom Hoare FFA

09 August 2022

For and on behalf of Hymans Robertson LLP

FINANCIAL STATEMENTS

Pension Fund

(Registration number: 00328856RQ)

Introduction

The Leicestershire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Leicestershire County Council.

General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by Leicestershire County Council to provide pensions and other benefits for pensionable employees of Leicestershire County Council, Leicester City Council, the district councils in Leicestershire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by the Leicestershire County Council Pension Fund Committee, which is a committee of Leicestershire County Council.

The Pension Committee consists of ten voting members and three non-voting staff representatives. The voting members are split into five County Council members, two from Leicester City Council and two representing the District Councils and a single member representing Universities. The Committee receives investment advice from the funds Actuary, Hymans Robertson LLP, and meets quarterly to consider relevant issues.

Membership

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

Organisations participating in the fund include the following:

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

Membership details are set out below:

	31-Mar-21	31-Mar-22
Number of employers	283	286
Number of employees in the scheme (Actives)		
County Council	8,474	8,554
Other employers	28,498	28,585
Total	**36,972**	**37,139**
Number of pensioners		
County Council	11,641	11,962
Other employers	18,448	19,435
Total	**30,089**	**31,397**
Deferred pensioners		
County Council	10,003	9,791
Other employers	20,466	20,913
Total	**30,469**	**30,704**
Total number of members in the pension scheme	**97,530**	**99,240**

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% and 12.5% of pensionable pay for the financial year ending 31 March 2022. Employers contributions are set based on triennial actuarial funding valuations. In 2021/22 the average employer rate was 25.6% of pay (25.4% 2020/21).

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based in final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website, https://www.leicestershire.gov.uk

Fund Account for the Year Ended 31 March 2022

2020/21 £m		Notes	2021/22 £m
	Contributions		
(183.0)	Employer Contributions	6	(192.5)
(45.1)	Member Contributions	6	(47.0)
(5.3)	Transfers in from Other Pension Funds	7	(9.9)
(233.4)	**Total Contributions**		**(249.4)**
	Benefits		
132.1	Pensions	8	137.3
27.5	Commutation of Pensions and Lump Sum Retirement Benefits	8	34.2
5.0	Lump Sum Death Benefits		5.7
6.7	Payments to and on Account of Leavers	9	17.4
171.3	**Total Benefits**		**194.6**
(62.1)	**Net (Additions)/Withdrawals from Dealings with Members**		**(54.8)**
45.3	Management Expenses	10	42.5
(16.8)	**Net (Additions)/Withdrawals Including Fund Management Expenses**		**(12.3)**
	Returns on investments		
(30.7)	Investment income	11	(43.6)
(979.5)	(Profit) and Losses on Disposal of Investments and Changes in Value of Investments	12	(551.9)
(1,010.2)	**Net Returns on Investments (Sub Total)**		**(595.5)**
(1,027.0)	**Net (Increase) / Decrease in the Net Assets Available for Benefits fund During the Year**		**(607.8)**
(4,155.2)	Net assets of the scheme Opening		(5,182.2)
(5,182.2)	**Net assets of the scheme Closing**		**(5,790.0)**

Net Assets Statement as at 31 March 2022

2020/21 £m		Notes	2021/22 £m
5,183.5	Investment assets	12	5,771.2
(10.9)	Investment liabilities	12	(0.7)
5,172.6			**5,770.5**
15.3	Current Assets	15	25.4
(5.7)	Current Liabilities	15	(5.9)
5,182.2	**Net Assets of the Fund at 31 March**		**5,790.0**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

The notes on pages 83 to 108 form part of the Financial Statements.

Notes to the Accounts

1. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2021/22.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take account of the actuarial present value of promised retirement benefits. The Fund has disclosed this information, by appending a copy of the report to the Pension Fund accounts.

The Accounts have been prepared on a going concern basis.

2. Accounting policies

The following principal accounting policies, have been adopted in the preparation of the financial statements:

Fund Account – Revenue Recognition

Contribution Income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

Transfers to and from other Schemes

Transfers in and out relate to members who have either joined or left the fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in

Transfers In, shown in Note 7. Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investments

Interest Income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend Income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the terms of the lease.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/ losses during the year.

Fund Account – Expense Items

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

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

Management Expenses

The fund discloses management expenses for administration, oversight and governance, and investment management. The disclosures comply with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016).

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 10A and grossed up to increase the change in value of investments.

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

Net Assets Statement

Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued at bid price. Other quoted securities and financial futures are valued at the last traded price. Private equity investments and unquoted securities are valued by the fund managers at the year end bid price, or if unavailable in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities and index-linked securities but is included in investment income receivable.

Pooled Investment Vehicle units are valued at either the closing bid prices or the closing single price reported by the relevant investment managers, which reflect the accepted market value of the underlying assets.

Private equity, global infrastructure and hedge fund valuations are based on valuations provided by the managers at the year end date. If valuations at the year end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

Property investments are stated at open market value based on an expert valuation provided by a RICS registered valuer and in accordance with RICS guidelines.

Options are valued at their mark to market value. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The investment reconciliation table in Note 12 discloses the forward foreign exchange settled trades as net receipts and payments.

Foreign Currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Cash and Cash Equivalents

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

Financial Assets

Financial Assets classes as amortised cost are carried in the net assets statement at amortised cost, i.e. the outstanding principal as at the year end date.

Financial Liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains and losses arising from changes in the fair value of the liability between contract date, the year end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost, i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by appending a copy of the report to the Pension Fund Accounts.

Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC's are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed for information in Note 26.

Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a plausible asset whose existence will only be confirmed or otherwise by the occurrence of future events.
A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

3. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in the introduction to the accounts. Actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance between longer term and short term yield/ return.

Investment in LGPS Central Asset Pool

This investment has been valued at cost on the basis that fair value as at 31 March 2022 cannot be reliably estimated. Management have made this judgement because; a) the Pool only became licensed to trade in February 2018 and b) no dividends to shareholders has yet been declared.

Directly Held Property

The fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The fund has determined that these contracts all constitute operating lease arrangements under IAS7 and the Code, and therefore the properties are retained on the net assets statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historic experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial Present Value of Promised Retirement Benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: • A 0.1% decrease in the discount rate used would result in an increase in the pension liability of £168m • A 0.1% increase in the pension increase rate would increase the pension liability by £151m • A one year increase in assumed life expectancy would increase the liability by approximately £322m.
Private Equity Investments	Private equity investments are valued at fair value. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £434m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 28%, an increase or decrease of £121m.
Freehold, Leasehold Property and Pooled Property Funds	Valuations techniques are used to determine the carrying amount of pooled property funds and directly held freehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property based investments by up to 15%, i.e. an increase or decrease of £72m on the carrying value of £483m.
Private Debt Investments	Private debt funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private Debt funds are valued at £246m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 10%, an increase or decrease of £25m.
Infrastructure Investments	Infrastructure funds are valued in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable data but where it is not possible management uses the best data available.	Infrastructure funds are valued at £327m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 14%, an increase or decrease of £46m.
Timberland Investment	Investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by an underlying fund manager. In circumstances where audited financial statements are not available, the valuations are then derived from unaudited quarterly reports.	Timberland funds are valued at £132m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 16%, an increase or decrease of £21m.

5. Events after the Reporting Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 30 June 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information (where known).

There are no material events after the reporting date that would require an adjustment or additional disclosure to the accounts.

6. Contributions

2020/21 £m		2021/22 £m
	Employers	
169.2	Normal	179.9
10.7	Deficit Repair	9.2
0.0	Voluntary additional	0.0
1.4	Advanced payments for early retirements	1.4
1.8	Additional payments for ill-health retirements	2.0
	Members	
44.6	Normal	46.5
0.4	Purchase of additional benefits	0.5
228.1	**Total**	**239.5**

Additional payments for early retirements are paid by employers, once calculated and requested by the Fund, to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are generally paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid.

On occasions employers without ill-health insurance are charged for at least part of the ill-health costs. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

The contributions can be analysed by the type of Member Body as follows:

2020/21 £m		2021/22 £m
55.1	Leicestershire County Council	48.7
162.3	Scheduled bodies	180.4
10.7	Admitted bodies	10.4
228.1	**Total**	**239.5**

7. Transfers In

2020/21 £m		2021/22 £m
5.3	Individual transfers in from other schemes	9.2
0.0	Bulk transfers in from other schemes	0.7
5.3	**Total**	**9.9**

8. Benefits

The benefits paid can be analysed by type of Member Body as follows:-

2020/21 £m		2021/22 £m
56.9	Leicestershire County Council	59.8
99.1	Scheduled bodies	108.4
8.6	Admitted bodies	9.0
164.6	**Total**	**177.2**

9. Payments to and on Account of Leavers

2020/21 £m		2021/22 £m
0.6	Refunds to members leaving the scheme	0.8
6.1	Individual transfers to other schemes	13.3
0.0	Bulk transfers to other schemes	3.3
6.7	**Total**	**17.4**

10. Management Expenses

2020/21 £m		2021/22 £m
43.6	Investment Management Expenses (Note 10A)	39.7
1.4	Pension Scheme Administration Costs	1.9
0.3	Oversight and Governance Expenses	0.9
45.3	**Total**	**42.5**

10a. Investment Management Expenses

2020/21 £m		2021/22 £m
23.3	Management Expenses	23.9
13.2	Transaction Costs	5.9
7.1	Performance Related Fees	9.9
43.6	**Total**	**39.7**

11. Investment Income

2020/21 £m		2021/22 £m
0.9	Dividends from equities	1.6
0.0	Income from Government Bonds	0.2
1.4	Income from index-linked securities	1.2
22.5	Income from pooled investment vehicles	31.8
5.8	Net rents from properties	5.7
1.0	Interest on cash or cash equivalents	0.1
(0.9)	Net Currency Profit / (Loss)	3.0
30.7	**Total**	**43.6**

12. Investments

	Value at 1 April 2021 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2022 £m
Equities	63.1	27.8	(50.9)	6.0	46.0
Government Bonds	3.3	19.0	(13.6)	(0.2)	8.5
Index-linked securities	288.4	178.9	(197.6)	11.1	280.8
Pooled investment vehicles	4,375.2	616.6	(420.2)	541.8	5,113.4
Properties	108.6	0.5	0.0	11.2	120.3
Derivatives contracts	3.9	30.4	(3.3)	(18.0)	13.0
Cash and currency & other investment balances	330.1	0.0	(141.6)	0.0	188.5
Total	**5,172.6**	**873.2**	**(827.2)**	**551.9**	**5,770.5**

	Value at 1 April 2020 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2021 £m
Equities	33.8	40.4	(29.2)	18.1	63.1
Government Bonds	0.7	16.3	(13.6)	(0.1)	3.3
Index-linked securities	339.9	160.5	(218.3)	6.3	288.4
Pooled investment vehicles	3,527.4	1,145.8	(1,166.9)	868.9	4,375.2
Properties	99.6	9.7	0.0	(0.7)	108.6
Derivatives contracts	57.0	4.0	(144.1)	87.0	3.9
Cash and currency and other investment balances	88.5	241.6	0.0	0.0	330.1
Total	**4,146.9**	**1,618.3**	**(1,572.1)**	**(979.5)**	**5,172.6**

The change in the 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.

The Fund has the following investments which exceed 5% of the total net value of assets:

2020/21 £m		2021/22 £m
775.0	LGPS Central – All World Equity Climate Multi Factor Fund	890.6
454.5	LGPS Central - Global Equity Active Multi Manager Fund	513.6
328.4	Legal and General North America Index Fund	366.0
1,557.9	**Total**	**1,770.2**

2020/21 £m		2021/22 £m
	Equities	
29.3	UK quoted	24.0
1.3	UK unquoted	1.3
32.5	Overseas quoted	20.7
63.1		**46.0**
	Government Bonds	
0.0	UK Government Unquoted	0.0
2.6	UK Government Quoted	0.0
0.0	Overseas Quoted	7.8
2.6		**7.8**
	Corporate Bonds	
0.7	UK unquoted	0.7
0.7		**0.7**
	Index Linked Securities	
255.8	UK quoted	269.2
32.6	Overseas quoted	11.6
288.4		**280.8**
	Pooled investment vehicles (unquoted)	
267.9	Property funds	362.6
363.9	Private equity	433.5
670.5	Bond and debt funds	926.6
0.1	Hedge funds	0.0
2349.8	Equity-based funds	2,581.3
12.8	Commodity-based funds	16.2
134.1	Timberland fund	132.3
146.7	Managed futures fund	184.2
183.2	Targeted return fund	150.2
246.2	Infrastructure fund	326.5
4,375.2		**5,113.4**
	Properties	
108.6	**UK (Note 14)**	**120.3**
331.1	**Cash and currency**	**187.1**
	Derivatives contracts	
2.1	Forward foreign exchange assets	5.3
10.1	Other option assets	8.4
(8.3)	Forward foreign exchange liabilities	(0.7)
3.9	**Sterling Denominated**	**13.0**
(1.0)	**Other Investment Balances**	**1.4**
5,172.6	**Total Investments**	**5,770.5**

At 31 March 2022 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £433m in private equity, £23m in bond and debt funds, £22m in infrastructure and £132m in timberland.

13. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make a full cash investment and can be held to ensure that the Fund's exposures are run efficiently. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.

Forward Foreign Exchange Contracts

All forward foreign exchange contracts are classed as 'Over the Counter' and at the year end the net exposure to forward foreign exchange contracts can be summarised as follows:

Settlement	Currency Bought	Local Value Millions	Currency Sold	Local Value Millions	Asset Value £m	Liability Value £m
Within 1 Month	GBP	0.3	AUD	0.5	0.0	(0.0)
	GBP	13.0	EUR	15.6	0.0	(0.2)
	GBP	6.9	USD	9.3	0.0	(0.1)
1 - 3 Months	GBP	374.3	USD	489.0	2.8	0.0
	GBP	88.6	TWD	3,275.0	1.2	0.0
	GBP	30.9	JPY	4,756.0	1.0	0.0
	GBP	36.2	CNY	303.0	0.1	0.0
	GBP	4.7	SEK	57.7	0.1	0.0
	GBP	3.8	HKD	39.0	0.1	0.0
	GBP	41.6	EUR	49.3	0.0	(0.1)
	GBP	17.0	INR	1,725.0	0.0	(0.1)
	GBP	6.5	KRW	10,500.0	0.0	(0.1)
	GBP	13.6	CHF	16.4	0.0	(0.1)
	GBP	3.4	DKK	30.2	0.0	(0.0)
	GBP	3.8	THB	167.5	0.0	(0.0)
	GBP	5.9	EUR	6.9	0.0	(0.0)
	GBP	9.6	USD	12.6	0.0	(0.0)
Open forward currency contracts at 31 March 2022					**5.3**	(0.7)
Net forward currency contracts at 31 March 2022					**4.6**	

Prior Period Comparison:		
Open forward currency contracts at 31 March 2021	**2.1**	**(8.2)**
Net forward currency contracts at 31 March 2021		(6.1)

Options

All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

2020/21 £m		2021/22 £m
10.1	Equity rate-based	8.4
10.1	**Total**	**8.4**

14.

Property Investments

31 March 2021 £m		31 March 2022 £m
83.5	Freehold	96.2
17.5	Long Leasehold (over 50 years unexpired)	17.5
7.6	Medium/Short Leasehold (under 50 years unexpired)	6.6
108.6	**Total**	**120.3**

All properties, with the exception of the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2022. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All of the Valuers are Members of the Royal Institute of Chartered Surveyors.

14A Property Holdings

31 March 2021 £m		31 March 2022 £m
99.6	**Opening Balance**	**108.6**
	Additions:	
9.6	Purchases	0.0
0.1	Subsequent Expenditure	0.5
0.0	Disposals	0.0
(0.7)	Net increase in market Value	11.2
108.6	**Total**	**120.3**

15. Current Assets and Liabilities

2020/21 £m		2021/22 £m
10.9	Contributions due from employers	20.1
4.4	Other Debtors	5.3
15.3	**Current assets**	**25.4**
(1.8)	Due to Leicestershire County Council	(1.7)
(1.8)	Fund Management Fees Outstanding	(2.1)
(2.0)	Other Creditors	(2.1)
(5.7)	**Current liabilities**	**(5.9)**
9.6	**Net current assets and liabilities**	**19.5**

Contributions due at the year end were received by the due date.

16. Analysis of Investments by Manager

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

At 31 March 2021 £m	%		At 31 March 2022 £m	%
		Investments Managed by LGPS Central Pool		
775.0	15.1	All World Equity Climate Multi Factor Fund	890.6	15.4
		Global equities multi-manager fund:		
129.5	2.4	*Harris*	145.8	2.4
173.1	3.3	*Schroders*	195.6	3.3
151.8	3.0	*Union*	172.3	3.0
		Global Active MAC Multi Manager Fund		
0.0	0.0	*Western Asset Management*	110.6	2.0
0.0	0.0	BMO	111.4	2.0
		Emerging market equities multi-manager fund:		
68.7	1.3	*BMO*	66.0	1.1
74.9	1.5	*UBS*	62.2	1.1
71.1	1.4	*Vontobel*	63.1	1.1
		Global Active Emerging Market Bond MMF		
53.9	1.1	*Amundi*	59.6	1.1
53.9	1.1	*M&G*	59.9	1.1
		Global Active Investment Grade Corporate Bond MMF		
53.1	1.0	*Neuberger Berman*	62.2	1.1
53.0	1.0	*Fidelity*	63.5	1.1
0.0	0.0	LGPS Central Core/Core Plus Infrastructure Partnership LP	21.7	0.3
3.9	0.1	LGPS central PE primary partnership 2018 LP	6.6	0.1
0.0	0.0	LGPSC Credit Partnership II	6.2	0.1
0.0	0.0	LGPSC Credit Partnership I	3.6	0.1
1,661.9	**32.3**	**Sub Total**	**2,100.9**	**36.4**
		Investments Managed outside of Pool		
883.4	17.1	Legal & General	975.8	16.9
449.4	8.7	Aegon (Formerly Kames Capital)	455.8	7.9
334.3	6.4	Adams Street Partners	394.7	6.8
192.8	3.7	LaSalle	276.6	4.8
265.9	5.1	Partners Group	236.0	4.1
146.7	2.9	Aspect Capital	184.2	3.2
206.0	3.9	Ruffer LLP	153.6	2.6
183.2	3.5	Pictet Asset Management	150.2	2.6
129.0	2.5	Colliers Capital UK	135.9	2.5
134.1	2.6	Stafford Timberland	132.3	2.3
106.6	2.1	IFM Investors (UK) Ltd	131.4	2.3
173.6	3.3	Internally Managed	121.7	2.1
114.1	2.2	JP Morgan Asset Management	108.7	1.9
71.6	1.4	M&G	81.6	1.4
38.0	0.7	Kravis Kohlberg Roberts & Co	39.7	0.7
38.0	0.7	Cristofferson, Robb & Co	34.2	0.6
24.9	0.5	Aberdeen Standard Life	31.4	0.5
18.2	0.4	Infracapital	25.0	0.4
0.8	0.0	Catapult Venture Managers	0.8	0.0
3,510.6	**67.7**	***Sub Total***	**3,669.6**	**63.6**
5,172.6	**100.0**	**Grand Total**	**5,770.5**	**100.0**

7. Custody of Assets

All the Fund's directly held assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. Most of the pooled investment funds are registered with administrators that are independent of the investment manager.

18. Operation and Management of fund

Details of how the Fund is administered and managed are included in the Pension Fund Annual Report.

19. Employing bodies and fund members

A full list of all bodies that have active members within the Fund is included in the in the Pensions fund annual report available from the fund website.

20. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of the 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 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

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.

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, hedge funds and infrastructure, 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 Leicestershire County 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.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2022	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets at fair value	2,693.0	1,160.0	1,918.2	5,771.2
Financial liabilities at fair value	(0.7)	0.0	0.0	(0.7)
Net financial assets	**2,692.3**	**1,160.0**	**1,918.2**	**5,770.5**

Values at 31st March 2021	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets at fair value	2,403.0	1,030.1	1,750.4	5,183.5
Financial liabilities at fair value	(10.9)	0.0	0.0	(10.9)
Net financial assets	**2,392.1**	**1,030.1**	**1,750.4**	**5,172.6**

21. Classification of Financial Instruments

2020/21 £m				2021/22 £m		
Fair value through profit and loss	Assets at amort-ised cost	Liabilities at amort-ised cost		Fair value through profit and loss	Assets at amort-ised cost	Liabilities at amort-ised cost
			Financial Assets			
63.1	0.0	0.0	Equities	46.0	0.0	0.0
3.2	0.0	0.0	Government Bonds	8.5	0.0	0.0
288.5	0.0	0.0	Index-linked securities	280.8	0.0	0.0
4,339.7	0.0	0.0	Pooled investment vehicles	5,121.7	0.0	0.0
2.1	0.0	0.0	Derivatives contracts	5.3	0.0	0.0
0.0	331.2	0.0	Cash and currency	0.0	187.1	0.0
0.0	0.0	0.0	Other investment balances	0.0	0.0	0.0
0.0	1.0	0.0	Sundry debtors and prepayments	0.0	0.8	0.0
4,696.6	**332.2**	**0.0**		**5,462.3**	**187.9**	**0.0**
			Financial Liabilities			
(8.3)	0.0	0.0	Derivatives contracts	(0.7)	0.0	0.0
0.0	0.0	(2.6)	Other investment balances	0.0	0.0	0.0
0.0	0.0	(4.1)	Sundry Creditors	0.0	0.0	(4.4)
(8.3)	**0.0**	**(6.7)**		**(0.7)**	**0.0**	**(4.4)**

The value of debtors and creditors reported in the Notes to the Statement of Accounts are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

(iv) The following gains and losses are recognised in the Fund Account:

(v)

2020/21 £m		2021/22 £m
	Financial Assets	
943.8	Fair value through profit and loss	578.2
	Financial Liabilities	
0.2	Fair value through profit and loss	(8.3)
944.0	**Total**	**569.9**

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised I the financial statements. The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

22. External Audit Fee

2020/21 £		2021/22 £
34,530	Payable in respect of external audit	33,193
34,530	**Total**	**33,193**

23. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with Leicestershire County Council's Local Pension Committee (formerly called the Pension Fund Management Board).

a) Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund's investment strategy.

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2021/22 reporting period:

Asset type	Potential market movements (+/-)
Overseas government bonds	8%
Global credit	10%
Global government index-linked bonds	8%
UK equities	16%
Overseas equities	19%
UK property	15%
Private equity	28%
Infrastructure	14%
Commodities	14%
Hedge funds and targeted return funds	12%
Timberland	16%
Cash	1%

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown in the second table):

Asset Type	Value at 31st March 2022 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	25.3	16	29.3	21.3
Overseas equities	20.7	19	24.6	16.8
UK Corporate Bonds	0.7	10	0.8	0.6
Global index-linked bonds	288.6	8	311.7	265.5
Pooled property funds	362.6	15	417.0	308.2
Pooled private equity funds	433.5	28	554.9	312.1
Pooled bond and debt funds	926.6	10	1,019.3	833.9
Pooled hedge funds	0.0	12	0.0	0.0
Pooled equity funds	2,581.3	19	3,071.7	2,090.9
Pooled commodity funds	16.2	14	18.5	13.9
Pooled targeted return funds	150.2	12	168.2	132.2
Pooled timberland fund	132.3	16	153.5	111.1
Pooled managed futures fund	184.2	12	206.3	162.1
Pooled infrastructure fund	326.5	14	372.2	280.8
UK property	120.3	15	138.3	102.3
Cash and currency	187.1	1	189.0	185.2
Options, futures, other investment balances, current assets and current liabilities	14.4	1	14.5	14.3
Total assets available to pay benefits	**5,770.5**		**6,689.8**	**4,851.2**

Asset Type	Value at 31st March 2021 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	30.6	16	35.5	25.7
Overseas equities	32.5	19	38.7	26.3
UK Corporate Bonds	0.7	10	0.8	0.6
Global index-linked bonds	291.1	8	314.4	267.8
Pooled property funds	267.9	15	308.1	227.7
Pooled private equity funds	363.9	28	465.8	262.0
Pooled bond and debt funds	670.4	10	737.4	603.4
Pooled hedge funds	0.1	12	0.1	0.1
Pooled equity funds	2349.6	19	2,796.0	1,903.2
Pooled commodity funds	12.8	14	14.6	11.0
Pooled targeted return funds	183.2	12	205.2	161.2
Pooled timberland fund	134.1	16	155.6	112.6
Pooled managed futures fund	146.7	12	164.3	129.1
Pooled infrastructure fund	246.2	14	280.7	211.7
UK property	108.6	15	124.9	92.3
Cash and currency	331.3	1	334.6	328.0
Options, futures, other investment balances, current assets and current liabilities	2.9	1	2.9	2.9
Total assets available to pay benefits	**5,172.6**		**5,979.6**	**4,365.6**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk, but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2022 and 31st March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31st March 2021 £m	Asset type	As at 31st March 2022 £m
331.3	Cash and Currency	187.1
291.1	Fixed interest securities	288.6
622.4	**Total**	**475.7**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31st March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	187.1	1.9	(1.9)
Fixed interest securities	288.6	2.9	(2.9)
Total	**475.7**	**4.8**	**(4.8)**

Asset type	Carrying amount as at 31st March 2021	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	331.3	3.3	(3.3)
Fixed interest securities	291.1	2.9	(2.9)
Total	**622.4**	**6.2**	**(6.2)**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is actively managed and the neutral position is to hedge 25% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2021 and as at the previous period end:

Asset value as at 31st March 2021 £m	Currency exposure – asset type	Asset value as at 31st March 2022 £m
32.5	Overseas equities	20.7
32.6	Overseas government index-linked bonds	11.6
363.1	Private equity pooled funds	432.7
0.1	Pooled hedge Funds	0.0
144.1	Pooled Bond and Debt Fund	391.7
2,156.6	Overseas and Global equity-based pooled funds	2,366.1
12.8	Commodity-based pooled funds	16.2
246.2	Infrastructure pooled funds	326.5
134.1	Timberland pooled fund	132.3
107.8	Emerging Market Debt pooled fund	119.5
0.0	Overseas government Bonds	7.8
3,229.9	**Total overseas assets**	**3,825.1**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Current exposure – asset type	Asset value as at 31st March 2022	Change to net assets available to pay benefits	
		13%	-13%
	£m	£m	£m
Overseas equities	20.7	23.4	18.0
Overseas government index-linked bonds	11.6	13.1	10.1
Private equity pooled funds	432.7	489.0	376.4
Pooled hedge funds	0.0	0.0	0.0
Pooled Bond and Debt Fund	391.7	442.6	340.8
Overseas equity-based pooled funds	2,366.1	2,673.7	2,058.5
Commodity-based pooled funds	16.2	18.3	14.1
Infrastructure pooled funds	326.5	368.9	284.1
Timberland pooled fund	132.3	149.5	115.1
Emerging Market Debt pooled fund	119.5	135.0	104.0
Overseas government Bonds	7.8	8.8	6.8
Total change in assets available	**3,825.1**	**4,322.3**	**3,327.9**

b) Credit Risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an Aberdeen Standard Life Money Market Fund.

The Fund believes it has managed its exposure to credit risk and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2022 was £187m (31st March 2021: £331m).

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund's cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2022 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £1,377m, which represented 24% of total Fund assets. (31st March 2021: £1085m, which represented 21% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy. All financial liabilities at 31st March 2022 are due within one year.

Refinancing Risk

The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing
risk as part of the Fund's treasury management and investment strategies.

Securities Lending

The Fund ceased to take part in securities lending activities towards the end of the 2017/18 financial year and there was no stock on loan at 31 March 2022

Reputational Risk

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

24. Related Party Transactions

Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Leicestershire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Leicestershire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage, on a pooled basis, investment assets of nine Local Government Pension Schemes across the Midlands. It is jointly owned in equal amounts by the eight Administering Authorities participating in the Pool. £1.3m is invested in the share capital and £0.7m in a corporate bond with LGPS Central Ltd.

During 2021/22 a total of £0.9m was payable to LPGS Central Ltd for governance, operator and product development fees. Of these £0.9m was a creditor balance at the year end. As at 31 March 2022, £2.1bn of LCC LGPS investments were managed by LGPS Central Ltd (£1.7bn as at 31 March 2021).

25. Contingent Liabilities and Contractual Commitments

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £2m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

At 31st March 2022, the Fund had the following contractual commitments:-

	31-Mar-21 £m	31-Mar-22 £m
Aberdeen Standard Life Capital SOF III Fund	10.0	10.3
Adams Street Partners	125.9	126.0
Catapult Venture Managers	0.5	0.0
Infracapital Greenfield Partners I Fund	12.4	8.8
KKR Global Infrastructure	22.0	12.0
LGPS Central PE Primary Partnership 2018 LP	7.0	4.2
M & G Debt Opportunities Fund IV	2.8	6.3
Stafford International Timberland Funds VII & VIII	1.1	1.2
LGPSC Credit Partnership II	0.0	96.4
LGPSC Credit Partnership I	0.0	53.5
LGPS Central Core/Core Plus Infrastructure Partnership LP	0.0	48.1
LGPS Central PE Primary Partnership 2021 LP	0.0	30.0
CRC Capital Release Fund V	0.0	44.0
Partners Group Multi Asset Credit VI S.C.A., SICAV-RAIF	0.0	20.8
Total	**181.7**	**461.6**

25A Key Management Personnel

Key management personnel are members of the pension fund committee and the Director of Corporate Resources. It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 32 and 33 of the County Councils accounts.

26. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During the previous financial year, 2021/22, £1.6m in contributions were paid to Prudential. The capital value of all AVC's at year end , 31 March 2021 was £18.6m . The equivalent figures for 2021/22 are not available at the time of the publication of the draft accounts. This will be updated during the audit of the statement of accounts.

27. Policy Statements

The Fund has a number of policy statements which can be found on the LPGS website. They have not been reproduced within the Accounts, as in combination they are sizeable, and it is not considered that they would add any significant value to most users of the accounts. The Statements are:

Investment Strategy Statement (ISS)
Administration and Communication Strategy
Funding Strategy Statement (FSS)

28. Compliance Statement

Income and other taxes

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

Self-investment

There has been no material employer related investment in 2021/22 (or 2020/21). There were occasions on which contributions were paid over by the employer later than the statutory date and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values

There are no discretionary benefits included in the calculation of transfer values.

Pension Increase

All pension increases are made in accordance with the Pensions Increase (Review) Order 1997.

Changes to LGPS

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

Leicestershire County Council Pension Fund ("the Fund") Actuarial Statement for 2021/22

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

to ensure that employer contribution rates are reasonably stable where appropriate;

to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);

to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 17 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 formal valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.8%
Salary increase assumption	2.8%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.8 years
Future Pensioners*	22.2 years	25.2 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year’s annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Tom Hoare FFA

06 May 2022

For and on behalf of Hymans Robertson LLP

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2022	31 March 2021
Active members (£m)	4,176	4,155
Deferred members (£m)	1,670	1,801
Pensioners (£m)	2,213	2,383
Total (£m)	**8,059**	**8,339**

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £654m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £43m.

Financial assumptions

Year ended (% p.a.)	31 March 2022	31 March 2021
Pension Increase Rate	3.20%	2.85%
Salary Increase Rate	3.70%	3.35%
Discount Rate	2.70%	2,00%

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.5 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.4 years	25.7 years

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	168
1 year increase in member life expectancy	4%	322
0.1% p.a. increase in the Salary Increase Rate	0%	16
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	151

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2022' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:

Tom Hoare FFA

26 May 2022
For and on behalf of Hymans Robertson LLP

Statement of Responsibilities for Leicestershire County Council Pension Fund

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of the financial affairs of its Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts

MR. L. BRECKON
CABINET LEAD MEMBER FOR CORPORATE RESOURCES
30 JUNE 2022

THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

The Director of Corporate Resources is responsible for the preparation of the Authority's Pension Fund Statement of Accounts in accordance with proper accounting 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 Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority 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 Pension Fund'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 Pension Fund 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 above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2022 and its income and expenditure for the year ended the same date.

C TAMBINI
DIRECTOR OF CORPORATE RESOURCES
30 JUNE 2022

Independent auditor’s report to the members of Leicestershire County Council on the pension fund financial statements of Leicestershire County Council Pension Fund

To follow

GOVERNANCE COMPLIANCE STATEMENT

1.1 INTRODUCTION

This is the governance compliance statement of the Leicestershire Pension Fund. The Fund is required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended) and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. Under Regulation 31 (3) (c) there is a requirement to measure the Fund's governance arrangements against a number of standards set out within guidance issued by DLUHC. The Fund's compliance with these can be viewed at the end of the document, here.

In order to improve the transparency and auditability of governance arrangements the Fund has further produced its governance compliance statement to recognise the Scheme Advisory Board's recommendations set out within the Good Governance Phase 3 report

In accordance with the above, what follows is the Fund's assessment of its compliance with the standards as outlined.

1.2 FUNCTIONS AND RESPONSIBILITIES

The Local Pension Committee (LPC) meets five times a year and its members act in a quasi-trustee capacity. One of these meetings is specifically used to focus entirely on investment strategy. No substantive issues of investment policy will be carried out without the prior agreement of the LPC or, in extreme circumstances and where it is impractical to bring a matter to the LPC, following consultation with the Chair.

The LPC is made up of 13 members, ten of which are Employer Representatives with voting rights comprising of five County Councillors, representing Leicestershire County Council, two City Councillors representing Leicester City Council, two district councillors jointly representing the district councils, one member jointly representing De Montfort/Loughborough Universities. There are also three non-voting employee representatives. The ten voting members are appointed using the due political process or, in the case of the two universities, by joint arrangement. There will be at least one employee representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

The LPC are advised and supported by the Director of Corporate Resources, Director of Law and Governance, Assistant Director of Strategic Finance and Property, Head of Pensions and Senior Finance and Legal Officers from Leicestershire County Council. As well as its Investment Advisor Hymans Robertson.

The LPC may delegate certain actions to the Director of Corporate Resources. It is the expectation of the LPC that some of the more administrative matters relating to investment management, such as the appointment of a custodian, are carried out by the Director of Corporate Resources.

An Investment Subcommittee, with its members drawn from the LPC, is a decision-making Subcommittee and will generally deal with more technical aspects of investment (such as looking at potential new investment opportunities or dealing with the appointment of new investment managers), any decisions made by the Subcommittee are reported at the following LPC.

The Local Pension Committee Terms of Reference.

The Local Pension Board was established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 to assist the Administering Authority in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations, other legislation and the requirements of the Pensions Regulator. The LPC, in fulfilling its functions, will have regard to advice of the Board.

The Board is made up of six voting members, three Employer Representatives (two elected members of Leicestershire County Council and one from Leicester City Council) and three employee representatives as well as one reserve employee representative role. There will be at least one employee representative position available annually, as well as for a reserve employee representative, and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

The Board publishes an Annual Report which is available on the Fund's website. The Board focuses on the Fund's governance and administration processes, monitoring the Fund's compliance with statutory and regulatory guidance and working with officers to ensure the highest standards are met.

Local Pension Board Terms of Reference

The Director of Corporate Resources oversees the implementation of Fund policy and the management of the day-to-day operational functions through the Fund's service areas.

Roles, Responsibilities and Delegated decisions.

An Annual Meeting of the Pension Fund is held annually, to which all employee members and other interested parties are welcome. The purpose of the meeting is to present the Annual Report of the Fund and to report on current issues, as well as to elect employee representatives for any vacant positions on the LPC and the LPB.

A number of other initiatives to involve stakeholders also take place, including:

- Presentations by the Fund/Actuary to employing bodies;
- Pensions roadshows at various venues;
- The Annual Report and Account of the Pension Fund;
- Other communications to members.

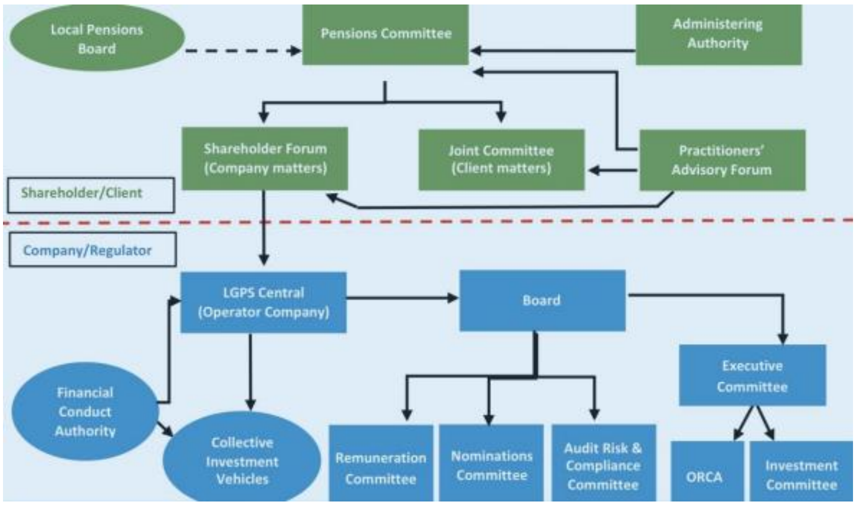
Further details can be found within the Representation and Engagement section of this statement.

1.3 INVESTMENT POOLING

LGPS Central, an FCA-regulated pool company, was launched on 1 April 2018. Leicestershire Pension Fund together with eight partner pension Funds across the LGPS continue to work with the company to further develop the required business as usual governance oversight and monitoring arrangements.

The Fund recognises the potential conflict posed through the involvement of pooling with LGPS Central. Specific governance arrangements have been established with LGPS Central and other partner funds reflecting each partner authority's role as business owner and client of LGPS Central. These are managed through the following forums:-

The Shareholder Forum – The purpose is to oversee operation and performance of LGPS Central and to represent the ownership rights and interests of the shareholding Councils. The Forum is independent of LGPS Central and its meetings are separate from Company Meetings and is enshrined within the Shareholders' Agreement.



The Joint Committee – A public forum for councils to provide oversight of the delivery of the objectives of the Pool, the delivery of client services, the delivery against its Business Case and to deal with common investor issues. The Company's investment performance and capability is overseen on a day to day basis by the Senior Fund Officers via the Practitioner's Advisory Forum and on a bi-annual basis by the Joint Committee which is constituted of representatives from each of the Partner Funds.

The Chairman of the Local Pension Committee acts as the Fund's representative at both the Shareholders Forum and the Joint Committee and reports back to the Local Pension Committee as appropriate.

The Partner Funds and the Company work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver the strategic asset allocations in line with regulation and guiding principle. To hold the company to account and to meet FCA requirements for a regulated asset manager. The governance structure is designed to ensure sufficient independence from between Partner Funds and the Company during implementation and ongoing management of the Investment Sub-Funds.

The Investment Strategy Statement further sets out the Fund's approach to Pooling and the Pensions Committee and Board receives regular updates on the work of LGPS Central to enable Members to oversee and scrutinise its operations as set out in the respective Terms of References.

1.3.1 Dual interests as Administering Authority and Employer

Leicestershire County Council recognises its dual role as employer participating in the Fund and the Administering Authority legally tasked with the management of the Fund can create the potential for Conflicts of Interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived Conflict arises and that all of the Fund's employers are treated fairly and equitably. The Fund manages this risk through its Conflict of Interest Policy that was approved June 2021. The Policy and other related policies for the management of the Fund can be viewed here.

Ultimately Fund is run for the benefit of its members and on behalf of all its employers. For that reason, the Fund's finances. are managed independently from Leicestershire County Council. The LGPS Senior Officer reviews the budget independently taking into account the full need of the service. The Budget and Business Plan is then considered by the Board before seeking approval by the Committee. Any spending controls in place for the County Council do not apply to the Fund, though the Fund is mindful of the need to manage costs to minimise the financial burden on scheme employers.

1.4 SUFFICIENCY OF RESOURCES FOR SERVICE PLANNING AND DELIVERY

In order to ensure that the Fund has appropriate resource to deliver its statutory obligations it has adopted a three-stage approach:-

1.4.1 Business planning and budget setting.

The Fund operates a business plan which sets out the priorities for the Fund's services which is approved annually by the Local Pension Committee, with the oversight of the Pension Board. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis.

The latest business plan and budget is publicly available here.

The business plan takes into account the risks facing the Fund, performance of the Fund (including workloads) and anticipated regulatory changes. The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan. The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan, and the Board monitor it on a quarterly basis.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published within the Fund's Annual Accounts.

1.4.2 Service Delivery

The Fund publishes an Administration and Communication strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

• details of the structures and processes in place for the delivery of the pension administration function;

• expected levels of performance for the delivery of key Fund and employer functions;

• the Fund's approach to training and development of staff;

• the Fund's approach to the use of technology in pension administration.

The policy can be viewed here.

1.5 MONITORING DELIVERY AND CONTROL ENVIRONMENT

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

Performance against KPIs is reported to the Local Pension Board on a quarterly basis. The Pension Committee further receives regular updates. KPI performance is reported in the Fund's annual report. Plans to address any workloads are added to the business planning process above.

The Pension Manager monitors cost and resource levels to balance value for money with service delivery, which is set out elsewhere in the report.

1.5.1 Internal Audit Plan

Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. One audit, outstanding from the previous year was concluded and four assurance audits were undertaken in 2021/22. The assurance grading was overall positive and there were no high importance recommendations. Final reports for all completed audits were also shared with the Fund's External Auditor (Grant Thornton LLP) in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts.

In the year, Internal Audit reviewed several areas of the Fund's administration and investment. These areas included, contribution banding changes, contribution calculations, annual Pensions Increase, Pension Creation and Pension Pooling in relation to Transitions. Work was also undertaken on the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. Progress continues to be made on the one remaining case identified during an earlier NFI exercise. In addition a review of progress on implementing recommendations from the Good Governance Project and the McCloud remedy were reviewed, with further work planned in 2022/23. Ongoing collaborative work with partner fund internal auditors, continues with Leicestershire staff providing feedback to the wider group. Internal Audit continue to review and comment on the Risk Register prior to Board and Committee meetings.

Officers also share the Risk Register with Internal Audit prior to Board and Committee meetings.

1.6 REPRESENTATION AND ENGAGEMENT

1.6.1 Local Pension Committee Membership and Attendance to March 2022.

The Local Pension Committee representation policy, as set out above recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains its representation on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain an equal share of voting members on the Pension Committee.

	REPRESENTING	2021/22 June	September	November	January	March	ATTENDANCE
VOTING MEMBERS (EMPLOYER REPRESENTATIVES)							
MR. T. BARKLEY(CHAIRMAN)	Administering Authority	✓	✓	✓	Substitute sent	✓	80%
MR. D. GRIMLEY CC	Administering Authority	✓	✓	✓	✓	✓	100%
MR. K. MERRIE MBE CC	Administering Authority	✓	✓	✓	X	✓	80%
DR. R. K. A. FELTHAM CC	Administering Authority	✓	✓	✓	✓	✓	100%
MR. D. GAMBLE CC	Administering Authority	✓	X	X	✓	X	40%
CLLR. R. GOVIND (TO SEPTEMBER 2021)	Leicester City Council	✓	X				50%
CLLR. S. WADDINGTON (FROM DECEMBER 2021)	Leicester City Council				✓	✓	100%
CLLR. A. CLARKE	Leicester City Council	✓	✓	✓	✓	✓	100%
CLLR. M. GRAHAM MBE	District Councils	✓	✓	✓	✓	✓	100%
CLLR. C. FROST	District Councils	X	X	X	X	X	0%
MR. Z. LIMBADA	Universities	✓	X	✓	✓	X	60%
NON-VOTING MEMBER (SCHEME MEMBER REPRESENTATIVE)							
MR N. BOOTH	Elected 2019	✓	✓	X	✓	X	60%

MRS J. DEAN (TO DECEMBER 2021)	Elected 2018	X	x	✓			33%
MR. G. LAWRENCE (FROM DECEMBER 2021)	Elected 2021				✓	✓	100%
MR A. WILSON	Elected 2020	X	x	X	✓	✓	40%
	Proportion of voting members not from the Administering Authority						5 out of 10 (50%)

1.6.2 Local Pension Board Membership and Attendance to March 2022

The Local Pension Board's Representation equally comprises three Employer Representations and three Employee Representatives. The Scheme Member Representatives represent active, deferred and pensioner Scheme members and are appointed by an open election process, as set out above.

A Reserve Scheme Member Representative was first appointed December 2020, where a Scheme Member is unable to attend they will act as nominated substitute.

	REPRESENTING	MEETINGS 2021/22				ATTENDANCE
		May	August	November	February	
MRS. R. PAGE (CHAIRMAN)	Administering Authority	✓	✓	✓	✓	100%
MR. R. SHEPHERD	Administering Authority	✓	✓	✓	✓	100%
CLLR. E. PANTLING	Leicester City Council	X	X	x	X	0%
MRS. C. FAIRCHILD (VICE-CHAIR)	Term ends December 2023.	✓	✓	✓	✓	100%
MS. D. HALLER	Term ends December 2021 Resigned November 2021.	Reserve Substituted	x			0%
MS. R. GILBERT	Term ends December 2022.	✓	x	X	✓	50%
MR. M. SAROYA	Reserve Member up to December 2021. Elected Scheme Member Representative December 2021 to 2024	✓	x	✓	✓	75%

1.6.3 Engagement with Employers

The Fund carries out a range of activities that are designed to engaged employers. These are set out within the Fund's Administration and Communication Strategy and includes

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A regular employer bulletin provides updates on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

1.6.4 Engagement with Members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointment, by phone or at our offices, with members of the pension team to discuss specific matters.

1.7 TRAINING

The Public Service Pensions Act 2013 provides for the regulation of the LGPS by The Pensions Regulator and, accordingly, the increased emphasis on the role of Funds' Governing Bodies their knowledge and understanding

The Fund's Pensions Committee and Pensions Board training policy is reviewed and approved by the Pensions Committee, in accordance with the policy training activity undertaken is monitored, recorded and reported to each body. By implementing and participating in training, Committee and Local Pensions Board members will be better placed to make well-informed decisions and, consequently, will be able to comply with the increased requirements of the regulator and the overarching governance requirements of the scheme.

A major factor in the governance arrangements of the Fund is to ensure that the Committee and the Local Pension Board members and officers have the relevant skills and knowledge through application of the CIPFA Knowledge and Skills Framework. Arrangements for regular training are in place with training delivered through various means including in-house structured training events for both Pensions Committee and the Local Pensions Board, conferences, training delivered at Committee meetings, as well as briefings and research material.

1.7.1 Training Policy

The Fund's Training Policy was first adopted in November 2019 and had been reviewed, updated and approved in March 2022 by the Committee. The policy applies to all members of the Local Pension Committee, Local Pension Board and senior officers involved in the management and administration of the Fund. In relation to training for those involved in the governance and the day to day management and administration of the Fund. The Training Policy has regard to relevant codes of practice and guidelines issued by the Pensions Regulator, CIPFA, the training needs of the Committee and Board and the Fund's current priorities. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified. The Fund will measure and report on progress against the training plans as set out below.

A copy of the policy can be found here.

1.7.2 Evidencing Standards of Training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in this statement. Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed, and any gaps identified are addressed as part of the ongoing training plans. Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan. Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal. All Members are required to take induction training prior to taking up their role and are provided with an Information Pack including all relevant reading material to keep up to date with pensions issues.

Members of the Committee and Board complete self-evaluation forms on an annual basis assessing their General Understanding, and knowledge on Funding, Investment and Pension Administration. A personal Training Plan is then developed for each Member based on the results of these assessments and is supplemented, where appropriate, to cover matters arising in the course of managing the Fund as part of reports to the Board and Committee and following meetings delivered by officers or the Fund's providers such as the Actuary, independent advisers and investment managers.

Given there have been a number of recent changes both within the LGPS, and externally in the broader pensions environment all Board and Committee Members are encouraged to complete training modules on Hymans Robertson Aspire Website (introduced 2021), The Pension Regulator's online training and other external training as held by the Scheme Advisory Board, Local Government Association, Hymans Robertson as well as LGPS Central's at its Annual Stakeholder Day.

The CIPFA requirement for continuous professional development for the Fund's s151 officer now includes a regular LGPS element. This requirement applies to the s151 officer for the Council. The Fund has complied fully with this requirement.

LOCAL PENSION COMMITTEE

		JOINT PENSION BOARD AND COMMITTEE TRAINING - GOVERNANCE AND ADMINISTRATION	GOOD GOVERNANCE AND THE PENSION REGULATOR CODE	ISC TRAINING PRIVATE DEBT/INFRASTRUCTURE	HYMANS ROBERTSON VALUATION	CLIMATE RISK REPORT TRAINING / WORKSHOP	ACTUARIAL VALUATION	IFM INFRASTRUCTURE
TOM BARKLEY CC	Leicestershire County Council	✓	✓	✓	✓	✓	✓	✓
CLLR R. GOVIND (TO NOVEMBER 2021)	Leicester City Council	x	✓	✓				
CLLR A. CLARKE	Leicester City Council	✓	✓	✓	x	✓	✓	✓
CLLR. M. GRAHAM	District Representative	✓	✓	✓	✓	✓	✓	✓
CLLR. FROST	District Representative	x	x			x	x	x
MR.Z. LIMBADA	Universities Representative	x	✓	✓	x	✓	x	x
MR GAMBLE (FROM MAY 2021)	Leicestershire County Council	✓	✓	x	x	✓	✓	✓
DR FELTHAM (FROM MAY 2021)	Leicestershire County Council	✓	✓		✓	✓	✓	✓
MR. MERRIE MBE (FROM JUNE 2021)	Leicestershire County Council	✓	✓		✓	✓	✓	✓
MR. GRIMLEY (FROM MAY 2021)	Leicestershire County Council	✓	✓	x	✓	✓	✓	✓
CLLR. S. WADDINGTON (FROM JANUARY 2022)	Leicester City Council				✓	✓	✓	✓
<u>SCHEME MEMBER REPRESENTATIVES</u>								
MR. A. WILSON	Employer Rep Elected 2019 AGM	x	✓		x	✓	✓	✓
MR. N. BOOTH	Employer Rep Elected 2020 AGM	✓	✓		✓	✓	x	x
MR. G. LAWRENCE (FROM DECEMBER 2021)	Employer Rep Elected 2021 AGM					✓	✓	✓
MS. J. DEAN (TO DECEMBER 2021)	Employer Rep Elected January 2018	✓	x		x			

Hymans Aspire Learning Training

The Fund introduced the Hymans Aspire Learning Academy during November 2021 and was designed to support the training needs of the Pension Committee, Local Pension Board and Fund Officers and supplements the Fund's own training plan. It consists of a series of video presentations with supplemental learning material and quizzes. Committee and Board progress to March 2022 is set out below.

	An introduction to the LGPS Module 1	LGPS Governance and Oversight Bodies Module 2	Administration and Fund Management Module 3	Funding and Actuarial Matters Module 4	Investments Module 5	Current Issues Module 6
Local Pension Committee						
Tom Barkley CC	P	P	S	S	S	S
Cllr A. Clarke	P	P	S	S	S	S
Cllr. M. Graham	C	C	C	C	C	C
Cllr. Frost	P	S	P	S	S	S
Mr.Z. Limbada	S	S	S	S	S	S
Mr. A. Wilson	C	C	C	C	C	C
Mr. N. Booth	C	S	S	C	C	C
Mr. G. Lawrence (From December 2021)	C	C	S	C	P	P
Mr Gamble (from May 2021)	S	S	S	P	S	S
Dr Feltham (From May 2021)	C	P	S	C	S	S
Mr. Merrie MBE (from June 2021)	C	C	C	C	C	C
Mr. Grimley (from May 2021)	C	C	C	C	C	C
Cllr S. Waddington	P	S	S	S	S	S

S – Subscribed P – In progress C – Completed

Progress from the Local Pension Board is compiled within its own Annual Report available on the Fund's Website.

In summary, the Fund invests significant resources into the development of its Committee and Local Pensions Board members, firmly believing that the benefits over the long term are essential to the effective governance and management of the Fund. The Fund further encourages Members to attend external events such as:

- The Pension Fundamentals
- LGPS Central Stakeholder events
- LGA Governance Conference

1.8 REVIEW AND COMPLIANCE WITH BEST PRACTICE

This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This guidance contains a number of best practice principles and these are shown below with the assessment of compliance.

Principle	Compliance/Comments
Structure	
The strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant
That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	Fully compliant
That where a secondary committee has been established, the structure ensures effective communication across both levels.	Fully Compliant
That where a secondary committee has been established, at least one seat on the main committee is allocated for a member of the secondary committee	Fully Compliant - All Investment Subcommittee will be full LPC members
Representation	
That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including employing authorities, scheme members, independent professional observers and expert advisors)	Fully Compliant
That where lay members sit on a main committee, they are treated equally and are given full opportunity to contribute to decision making, with or without voting rights	Fully Compliant
Selection and Role of Lay Members	
That committee members are fully aware of their status, role and function they are required to perform.	Fully Compliant
Voting	
The policy of the administering authority on voting rights is clear and transparent, including the justification for not extended voting rights to certain groups	Fully Compliant
Training/Facility Time/Expenses	
That the policy applies equally to all members of committees	Fully Compliant
Meetings (frequency/quorum)	
That the main committee meet at least quarterly	Fully Compliant

That secondary committees meet at least twice a year and the meetings are synchronised with the main committee	The Investment Subcommittee meets regularly, so Fully Compliant
If lay members are not included in formal governance arrangements, a forum is available outside of these arrangements by which their interests can be represented	Lay members are included on main committee, so not relevant
Access	
That, subject to any rules in the Council's constitution, all members have equal access to committee papers, documents and advice that falls to be considered by the main committee	Fully Compliant
Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of the governance arrangements	Fully Compliant
Publicity	
That the administering authority 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	Fully Compliant. A copy of this statement has been sent to all employing authorities.

C TAMBINI
DIRECTOR OF CORPORATE RESOURCES
8 AUGUST 2022

GLOSSARY

A list of acronyms used within the report has been provided below:

AGM	Annual General Meeting
AVC	Additional Voluntary Contribution
CETV	Cash Equivalent Transfer Value
CIPFA	The Chartered Institute of Public Finance and Accountancy
CRR	Climate Risk Report
DLUHC	Department for Levelling Up, Housing and Communities
ESG	Environmental, Social and Governance
FCA	The Financial Conduct Authority
FSS	Funding Strategy Statement
FTE	Full Time Equivalent
IDRP	Internal Disputes Resolution Procedure
IFRS	International Financial Reporting Standards
ISS	Investment Strategy Statement
KPIs	Key Performance Indicators
LAPFF	Local Authority Pension Fund Forum
LGIM	Legal and General Investment Management
LGPS	Local Government Pension Scheme
LIBOR	London Interbank Offered Rate
LPB	Local Pension Board
LPC	Local Pension Committee
NAV	Net Asset Value
RI	Responsible Investing
SAB	LGPS Scheme Advisory Board - England and Wales
TCFD	Taskforce on Climate-related Financial Disclosures

Appendix A

Manager Summary-Total Fund
Leicestershire CC Pension Fund
for Period Ended 31st March 2022

Market Value: £5.8bn

	Benchmark	Incep Date	Market Value (£m)	Weight %	QTR			Year To Date			1 Year			3 Year			5 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Growth Assets	**LCC - Total Growth Assets**	**Mar-16**	**3500.0**	**60.8**	**-0.9**	**-2.2**	**1.4**	**14.6**	**10.5**	**4.1**	**14.6**	**10.5**	**4.1**	**12.3**	**10.5**	**1.8**	**9.0**	**8.4**	**0.6**	**11.8**	**11.2**	**0.6**
Total Equity Fund ex Hedge	***Client Weighted Index***	***Mar-16***	***2572.1***	***44.6***	***-3.4***	***-2.8***	***-0.6***	***10.5***	***11.3***	***-0.8***	***10.5***	***11.3***	***-0.8***	***10.6***	***11.7***	***-1.1***	***8.3***	***9.1***	***-0.9***	***11.9***	***12.6***	***-0.7***
L&G Total Passive Equity Fund	Client Weighted Index	Mar-16	976.5	16.9	-2.3	-2.1	-0.2	10.4	11.3	-0.8	10.4	11.3	-0.8	10.2	10.3	-0.1	8.1	8.2	-0.1	11.6	11.7	0.0
L&G UK Equity Fund	FTSE All Share Index	Dec-13	209.8	3.6	0.0	0.5	-0.5	12.5	13.0	-0.5	12.5	13.0	-0.5	6.0	5.3	0.6	5.0	4.7	0.3	5.8	5.5	0.2
L&G North American Equity Fund	FTSE World N America Net Index	Dec-13	366.1	6.4	-2.1	-2.1	0.0	19.7	19.7	0.0	19.7	19.7	0.0	15.9	15.7	0.2	12.3	12.2	0.1	15.0	15.0	0.0
L&G Japanese Equity Fund	FTSE Japan Net Index	Dec-13	74.0	1.3	-3.6	-3.5	-0.1	-2.4	-2.3	-0.1	-2.4	-2.3	-0.1	6.4	6.5	-0.1	5.1	5.2	0.0	8.5	8.6	-0.1
L&G European Equity Fund	FTSE Dev Europe ex UK Net Index	Dec-13	149.5	2.6	-7.2	-7.2	0.0	6.2	6.2	0.0	6.2	6.2	0.0	8.0	8.0	0.1	5.9	5.9	0.0	7.5	7.2	0.3
L&G Pacific Ex Japan Equity Fund	FTSE Dev. Asia Pacific x Japan Net	Mar-13	76.2	1.3	2.8	2.6	0.2	2.2	1.7	0.5	2.2	1.7	0.5	8.2	8.0	0.2	6.2	6.0	0.2	8.4	8.4	0.0
L&G Emerging Markets Equity Fund	FTSE Emerging Net	Dec-13	100.9	1.8	-2.5	-2.5	0.0	-3.6	-3.5	-0.1	-3.6	-3.5	-0.1	5.5	5.6	-0.1	5.4	5.3	0.0	7.6	7.3	0.2
LGPSC Global Eq Active Multi Mgr Fund	FTSE All World Index	Feb-19	513.6	8.9	-2.3	-2.4	0.2	13.1	12.8	0.3	13.1	12.8	0.3	14.8	13.9	0.9				13.5	13.7	-0.2
LGPSC EMM Eq Active Multi Mgr Fund	FTSE All World Emerging Market Index	Jul-19	191.4	3.3	-9.3	-2.5	-6.8	-10.8	-3.3	-7.5	-10.8	-3.3	-7.5							1.1	3.9	-2.9
LGPSC AW Eq Climate Multi Factor Fund	FTSE AW Climate Bal Com Factor Net	Dec-20	890.7	15.5	-3.9	-4.0	0.1	14.9	14.6	0.3	14.9	14.6	0.3							14.4	14.2	0.3
Total Targeted Return Fund	***SONIA 3 Month + 4%***	***Mar-16***	***488.2***	***8.5***	***7.2***	***1.1***	***6.1***	***12.0***	***3.9***	***8.1***	***12.0***	***3.9***	***8.1***	***9.9***	***4.2***	***5.7***	***5.8***	***4.4***	***1.5***	***6.1***	***4.4***	***1.7***
Aspect Capital Partners Fund	SONIA 3 Month + 4%	Dec-13	184.2	3.2	20.0	1.1	18.9	25.6	3.9	21.6	25.6	3.9	21.6	12.5	4.2	8.2	6.5	4.4	2.1	7.7	4.4	3.3
Pictet Fund	SONIA 3 Month + 4%	Sep-15	150.2	2.6	-2.7	1.1	-3.8	4.4	3.9	0.4	4.4	3.9	0.4	5.9	4.2	1.6	3.7	4.4	-0.6	5.0	4.4	0.6
Ruffer Fund	SONIA 3 Month + 4%	Dec-13	153.7	2.7	4.3	1.1	3.2	6.5	3.9	2.6	6.5	3.9	2.6	11.5	4.2	7.3	6.9	4.4	2.6	7.0	4.4	2.6
Total Private Equity Fund	***FTSE All World Index***	***Mar-16***	***439.6***	***7.6***	***6.0***	***-2.4***	***8.4***	***48.1***	***12.8***	***35.4***	***48.1***	***12.8***	***35.4***	***28.1***	***13.9***	***14.3***	***21.1***	***11.0***	***10.2***	***21.8***	***14.4***	***7.4***
UK Private Equity Fund - Catapult (L)	FTSE All World Index	Mar-16	0.6	0.0	4.6	-2.4	7.0	17.6	12.8	4.8	17.6	12.8	4.8	9.3	13.9	-4.5	24.6	11.0	13.6	30.2	14.4	15.9
Oseas Private Equity Fund - Adams Street (L)	FTSE All World Index	Mar-16	401.2	7.0	5.8	-2.4	8.3	48.6	12.8	35.8	48.6	12.8	35.8	28.1	13.9	14.3	21.1	11.0	10.2	21.7	14.4	7.3
LGPSC Private Equity Fund	FTSE All World Index	May-19	6.4	0.1	6.0	-2.4	8.4													26.8	5.1	21.6
Aberdeen Standard Private Equity Fund	Absolute Return +7.5%	Sep-19	31.4	0.5	7.0	1.8	5.1	39.1	7.5	31.6	39.1	7.5	31.6							30.2	7.5	22.7
Total Income Assets	**Client Weighted Index**	**Mar-16**	**1636.7**	**28.4**	**1.7**	**1.8**	**-0.1**	**10.7**	**8.8**	**1.8**	**10.7**	**8.8**	**1.8**	**5.1**	**5.2**	**0.0**	**5.5**	**5.3**	**0.2**	**7.1**	**5.3**	**1.8**
Total Infrastructure Fund	***SONIA 3 Month + 4%***	***Mar-16***	***447.3***	***7.8***	***5.5***	***1.1***	***4.5***	***16.1***	***3.9***	***12.1***	***16.1***	***3.9***	***12.1***	***7.8***	***4.2***	***3.5***	***6.7***	***4.4***	***2.3***	***9.4***	***4.4***	***5.1***
JPMorgan Infrastructure Fund	SONIA 3 Month + 4%	Jun-16	105.9	1.8	0.0	1.1	-1.1	6.1	3.9	2.2	6.1	3.9	2.2	6.9	4.2	2.7	6.8	4.4	2.4	6.5	4.3	2.2
IFM Global Infrastructure Fund	SONIA 3 Month + 4%	Dec-13	131.4	2.3	4.7	1.1	3.6	22.8	3.9	18.8	22.8	3.9	18.8	10.9	4.2	6.7	12.1	4.4	7.8	14.0	5.9	8.1
KKR Global Infrastructure Fund	SONIA 3 Month + 4%	Mar-16	41.8	0.7	8.9	1.1	7.8	18.7	3.9	14.8	18.7	3.9	14.8	19.1	4.2	14.9	14.5	4.4	10.2	19.2	4.4	14.8
Stafford Timberland Fund (L)	SONIA 3 Month + 4%	Mar-16	133.5	2.3	10.8	1.1	9.7	18.0	3.9	14.0	18.0	3.9	14.0	4.5	4.2	0.3	3.0	4.4	-1.3	4.8	4.4	0.5
Infracapital Infrastructure Fund	Absolute Return +7.5%	Nov-17	25.0	0.4	1.3	1.8	-0.5	14.4	7.5	6.9	14.4	7.5	6.9	2.3	7.5	-5.2				6.2	7.5	-1.3
LGPSC Infra Core/Core+	CPI +3.5%	Dec-21	9.7	0.2	-0.9	0.6	-1.5													-0.9	0.6	-1.5
Total Property Fund	***MSCI UK Monthly Property Index (GBP)***	***Mar-16***	***488.3***	***8.5***	***4.6***	***5.4***	***-0.8***	***19.3***	***23.7***	***-4.4***	***19.3***	***23.7***	***-4.4***	***7.2***	***8.4***	***-1.2***	***8.2***	***8.4***	***-0.2***	***8.1***	***7.6***	***0.5***
Colliers Pooled Property	MSCI UK Monthly Property Index (GBP)	Mar-16	18.5	0.3	1.6	5.4	-3.8	7.5	23.7	-16.2	7.5	23.7	-16.2	-1.9	8.4	-10.3	1.1	8.4	-7.3	0.7	7.6	-6.9
Colliers Direct Property Fund	MSCI UK Monthly Property Index (GBP)	Mar-16	117.5	2.0	4.9	5.4	-0.5	16.1	23.7	-7.6	16.1	23.7	-7.6	8.2	8.4	-0.1	9.3	8.4	0.9	9.3	7.6	1.7
La Salle Property Fund	MSCI UK Monthly Property Index (GBP)	Dec-13	279.1	4.8	4.8	5.4	-0.6	23.5	23.7	-0.2	23.5	23.7	-0.2	8.7	8.4	0.3	9.4	8.4	1.0	10.8	5.5	5.3
Kames Capital Property Fund	MSCI UK Monthly Property Index (GBP)	Mar-15	22.5	0.4	2.4	5.4	-3.0	14.9	23.7	-8.8	14.9	23.7	-8.8	3.4	8.4	-4.9	5.6	8.4	-2.8	6.1	8.3	-2.1
Kames Capital II Property Fund	MSCI UK Monthly Property Index (GBP)	Nov-16	50.7	0.9	4.8	5.4	-0.5	15.4	23.7	-8.3	15.4	23.7	-8.3	5.8	8.4	-2.6	6.4	8.4	-2.0	6.6	8.5	-1.9
Total Emerging Market Debt Fund	***JP Morgan EMBI Glb Diversified GBP***	***Jan-14***	***119.5***	***2.1***	***-8.5***	***-7.4***	***-1.1***	***-5.9***	***-3.0***	***-2.9***	***-5.9***	***-3.0***	***-2.9***	***-2.5***	***-1.1***	***-1.4***	***-0.9***	***0.1***	***-1.0***	***5.0***	***2.8***	***2.3***
LGPSC Global Active EMM Bond Multi Mgr Fund	JP Morgan EMBI Glb Diversified	Dec-20	119.5	2.1	-8.5	-7.4	-1.1	-5.9	-3.0	-2.9	-5.9	-3.0	-2.9							-6.9	-6.7	-0.3
Total Global Credit Private Debt	***Client Weighted Index***	***Mar-16***	***359.8***	***6.2***	***0.9***	***1.5***	***-0.6***	***9.1***	***4.6***	***4.4***	***9.1***	***4.6***	***4.4***	***4.7***	***4.7***	***0.1***	***4.8***	***4.7***	***0.1***	***6.2***	***4.7***	***1.5***
Christofferson Robb & Company Fund - CRF3 (L)	Absolute Return +7.5%	Dec-17	25.4	0.4	0.8	1.8	-1.0	14.5	7.5	7.0	14.5	7.5	7.0	8.1	7.5	0.6				10.3	7.5	2.8
Christofferson Robb & Company Fund - CRF5	Absolute Return +8.5%	Mar-22	8.1	0.1																0.7	0.3	0.4
M&G DOF Fund	SONIA 3 Month + 4%	Mar-16	83.1	1.4	1.2	1.1	0.1	14.3	3.9	10.4	14.3	3.9	10.4	0.3	4.2	-3.9	1.6	4.4	-2.7	4.6	4.4	0.2
Partners Group Private Debt Fund	SONIA 3 Month + 4%	Mar-16	236.0	4.1	1.0	1.1	-0.1	6.6	3.9	2.7	6.6	3.9	2.7	4.4	4.2	0.2	4.0	4.4	-0.3	4.4	4.4	0.1
LGPSC PD Low Return 2021	7% IRR	Oct-21	2.4	0.0	-1.3	1.3	-2.6													-1.3	1.3	-2.6
LGPSC PD High Return 2021	13% IRR	Dec-21	4.8	0.1	-5.9	0.6	-6.5													-5.9	0.6	-6.5
LGPSC Global Active MAC Fund	**SONIA 3 Month + 4%**	**Apr-21**	**222.0**	**3.9**	**-4.8**	**1.1**	**-5.9**													**-3.5**	**4.1**	**-7.6**
Total Protection Assets	**Client Weighted Index**	**Jan-14**	**456.7**	**7.9**	**-5.7**	**-5.5**	**-0.2**	**1.2**	**1.6**	**-0.4**	**1.2**	**1.6**	**-0.4**	**2.6**	**2.9**	**-0.4**	**2.8**	**2.9**	**-0.2**	**8.8**	**8.6**	**0.1**
Aegon (formally Kames) Index-Linked Fund	FTSE All Stocks Index Linked Index	Dec-13	246.1	4.3	-5.5	-5.5	0.0	4.7	5.1	-0.4	4.7	5.1	-0.4	3.3	3.2	0.1	3.2	3.1	0.1	9.1	8.7	0.3
Aegon Short Dated Inv Grade Bond Fund	SONIA 3 Month +1.25% (GBP)	Mar-21	84.8	1.5	-1.5	0.5	-1.9	-1.2	1.5	-2.6	-1.2	1.5	-2.6							-1.2	1.6	-2.7
LGPSC Investment Grade Credit Fund	LGPSC Corp Index	Mar-20	125.7	2.2	-7.0	-6.7	-0.3	-5.2	-4.9	-0.3	-5.2	-4.9	-0.3							0.5	2.0	-1.5
Cash Fund	**SONIA 3 Month**	**Mar-16**	**116.0**	**2.0**	**0.0**	**0.2**	**-0.1**	**0.1**	**0.2**	**-0.2**	**0.1**	**0.2**	**-0.2**	**1.2**	**0.4**	**0.9**	**0.9**	**0.4**	**0.5**	**0.8**	**0.4**	**0.4**
Aegon (formally Kames) Currency Hedge Fund	**SONIA 3 Month**	**Mar-16**	**51.8**	**0.9**																		
Leicestershire CC Pension Fund ex Hedge(Gross)	**Client Weighted Index**	**Mar-16**	**5709.5**	**99.1**	**-0.4**	**-1.0**	**0.6**	**12.1**	**9.3**	**2.9**	**12.1**	**9.3**	**2.9**	**9.3**	**8.1**	**1.2**	**7.4**	**7.0**	**0.5**	**10.1**	**8.7**	**1.3**
Leicestershire CC Pension Fund ex Hedge (Net)	**Client Weighted Index**	**Mar-16**	**5709.5**	**99.1**	**-0.5**	**-1.0**	**0.5**	**12.0**	**9.3**	**2.7**	**12.0**	**9.3**	**2.7**	**9.1**	**8.1**	**1.0**	**7.1**	**7.0**	**0.2**	**9.7**	**8.7**	**1.0**
Leicestershire County Council Pension Fund (Gross)	**Client Weighted Index**	**Mar-16**	**5761.3**	**100.0**	**-0.6**	**-1.3**	**0.7**	**11.6**	**8.9**	**2.8**	**11.6**	**8.9**	**2.8**	**9.4**	**8.2**	**1.3**	**7.8**	**6.9**	**0.9**	**10.1**	**8.6**	**1.5**
Leicestershire County Council Pension Fund (Net)	**Client Weighted Index**	**Mar-16**	**5761.3**	**100.0**	**-0.7**	**-1.3**	**0.6**	**11.4**	**8.9**	**2.6**	**11.4**	**8.9**	**2.6**	**9.2**	**8.2**	**1.1**	**7.5**	**6.9**	**0.7**	**9.8**	**8.6**	**1.2**

PF = Portfolio Return BM = Benchmark Return ER = Excess Return

Total Fund Benchmark

CLIENT SPECIFIC:

3.50	FTSE All Share Index	4.50	FTSE All Stocks Index Linked Index
6.00	FTSE World N America NetTax (UKPN)	2.50	50% ICE BofAML Ster Non-Gilt (ex-EMM issues)& 50% ICE BofAML Global Corporate Index (ex-GBP and emerging market issues) hedged to GBP
1.25	FTSE Japan NetTax (UKPN)		
2.50	FTSE Dev Europe ex UK NetTax (UKPN)	0.50	SONIA 3 Month +1.25%
1.25	FTSE Dev Asia Pac ex Japan NetTax (UKPN)		
1.00	FTSE Emerging NetTax (UKPN)	9.75	SONIA 3 Month + 4%
7.50	FTSE All World Index	10.00	MSCI UK Monthly Property Index (GBP)
4.00	FTSE All World Emerging Market Index	4.00	SONIA 3 Month +4%
15.00	FTSE AW Climate Balanced	2.50	JP Morgan EMBI Glb Diversified
5.75	FTSE All World Index	1.05	Absolute Return+8%
7.50	SONIA 3 Month + 4%	6.30	SONIA 3 Month +4%
		2.00	Absolute Return +7%
		1.15	Absolute Return +13%

*Note that equity assets are hedged

Notes:
Q1 2022: Investment into Christofferson Robb & Company Fund (CRF5) from 16th March 2022 to be measured against Absolute Return +8.5%. Total Fund benchmark updated from 1st January 2022. SONIA 1 Month benchmarks changed to SONIA 3 Month from 1st January 2022.
Q4 2021: Investment into LGPSC Infra Core/Core+, LGPSC PD Low Return 2021, LGPSC PD High Return 2021. December's data for these investments is not available until March, so we will 'lag' the data for these by 3 months going forwards.
All returns are in GBP

Lagged Portfolios:
Adams Street: Data is on a quarterly lag
Catapult: Data is on a quarterly lag
M&G DOF II: Data is on a quarterly lag
Christofferson Robb & Company: Data is on a 1 month lag
JP Morgan Global Credit Fund: Data is on a quarterly lag
Stafford Timberland: Data is on a quarterly lag
LPSC Private Equity, Private Debt and Infrastructure: Data is on a quarterly lag

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Agenda Item 8

LOCAL PENSION BOARD – 17 AUGUST 2022

REPORT OF THE LOCAL PENSION BOARD

ANNUAL REPORT 2021/2022

Purpose of the Report

1. The purpose of this report is to seek the Board's approval of the appended Annual Board Report Fund for the financial year 2021/2022.

Background

2. The Public Service Pensions Act 2013 requires the establishment of Local Pension Boards to assist local authorities with the effective management of local pension funds. The Department for Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) has issued regulations and reporting guidelines concerning the implementation of Local Pension Boards.

Annual Report

3. As part of the Fund's Independent Governance Review undertaken in 2020 a recommendation was for the Board to write an Annual Report as best practice. The report provides a summary of the work carried out by the Board, covering the period from April 2021 to March 2022.

4. The Chairman and the Vice-Chairman of the Board have considered the report and welcome any further comments for inclusion from Board Members.

5. The Annual Report will go to the Local Pension Committee on 9 September 2022 and to the Pension Fund Annual General Meeting on 12 December 2022.

Recommendation

6. The Board is asked to approve its Annual Report for 2021/22.

Appendices

Appendix - Pension Board Annual Report

Equality and Human Rights Implications

None Specific

Officers to Contact

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Democratic Services Officer
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LOCAL PENSION BOARD ANNUAL REPORT

What is the Local Pension Board

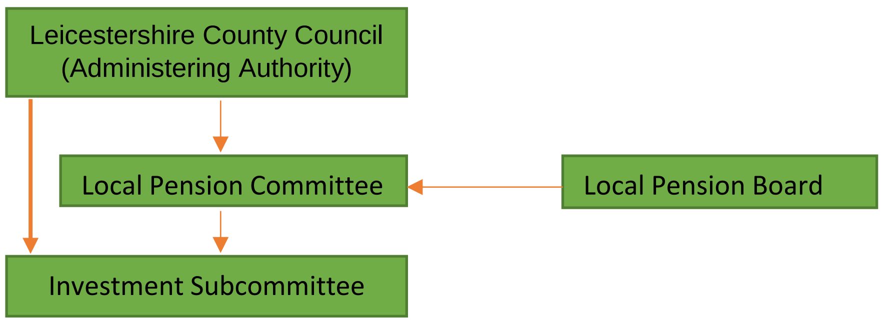
The Local Government Pension Scheme (LGPS) Regulations ("the Regulations") established Leicestershire County Council as the administering authority for the Leicestershire Pension Fund, with responsibility for managing and maintaining the Fund.

The Regulations further required that Leicestershire County Council in its capacity as administering authority established a Local Pension Board. It's purpose is to assist the Administering Authority in:-

- securing compliance with the Regulations, 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
- ensuring the effective and efficient governance and administration of the LGPS

While the Local Pension Board was established by the County Council it does not sit within the typical arrangements that apply to local authority committees, including those that apply to the Local Pension Committee. Instead, the Board operates outside of the usual local authority committee structure and serves an advisory and compliance role for the Fund as set out within its Terms of Reference. The Board cannot be delegated to carry out the functions and responsibilities that legally pertain to the administering authority, however, they do perform activities to support the Local Pension Committee and can escalate issues with the Committee and the Pensions Regulator where it expresses concern.

The structure of the Fund is set out below.



The Local Pension Board is comprised of;

- Three scheme member representatives,
- Three employer representatives
- One substitute scheme member representative.

Details of how the Members of the Local Pensions Board are appointed can be found in the **terms of reference.**

As at 31 March 2022 the Board is constituted of the following members:-

Employer Representatives	Scheme Member Representatives
Mrs. Rosita Page CC - Chairman *Leicestershire County Councillor*	**Ms. Caroline Fairchild – Vice Chairman**
Mr. Richard Shepherd CC *Leicestershire County Councillor*	**Ms. Ruth Gilbert**
Cllr. Deepak Bajaj *Leicester City Councillor*	**Mr. M. Saroya**
	(Vacancy for Scheme Member Reserve Representative)

While there is no statutory obligation for the Local Pension Board to publish a report, it is recognised as best practice for the Board to report on its activities for the year and its future plans.

The Public Service Pensions Act 2013 requires an administering authority to publish information about its Local Pension Board, this is included on the County Council's Website, and as part of the Governance Compliance Statement within Leicestershire Pension Fund's Annual Report.

Foreword by the Chair of the Local Pension Board

On behalf of the Local Pension Board I am delighted to be able to present the third Annual Report of the Local Pension Board of the Leicestershire Pension Fund. This report covers the period from 1 April 2021 to 31 March 2022, to align with the Fund's Annual Report.

As a defined benefit scheme for our 99,000 Members the Leicestershire Pension Fund pays scheme members a retirement income based on salary and the number of years worked for the employer. The Fund invests contributions made by employers into long term investments, and though the market will always fluctuate investment performance does not affect Members pensions. As of 31 March 2022 the Fund contained £5billion of assets.

Throughout the year we have complimented the Administering Authority, ensuring compliance with the Public Service Pensions Act, the LGPS Advisory Board, the Chartered Institute of Public Finance and Accounting and The Pensions Regulator.

I was particularly pleased to note the Fund achieved a 'green flag' rating for all areas of the Government Actuary Departments Section 13 report that related to fund valuations as of 31 March 2019. This denotes there were no material issues that required remedial action.

The Board has not got any concerns about the Leicestershire Pension Fund or its Administration.

We will continue to support the Pensions Manager, and we are confident he will continue to administer the Fund efficiently and effectively despite ongoing pressures..

I would like to place on record the Board's appreciation for the support and transparent advice of the officers.

To keep the Annual Report succinct it is difficult to reflect the variety of issues we have considered during another busy year. F ind out more about I have attached a link. Please click **here.**

Despite the continual challenges , I am looking forward to another successful year ahead

Mrs. R. Page CC

Chairman of the Local Pension Board

Member Attendance

The Board has met on four occasions during the year and attendance has been positive with employer and employee representatives freely giving their time and commitment.

	24 May 2021	23 August 2021	8 November 2021	16 Feb 2022
Mrs. R. Page	✓	✓	✓	✓
Mr. R. Shepherd	✓	✓	✓	✓
Cllr. D. Bajaj *Appointed March 2022*				
Ms. C. Fairchild	✓	✓	✓	✓
Ms. R. Gilbert	✓	✓	x	✓
Ms. D. Haller *Resigned November 2021*	x	x	x	
Mr. M. Saroya *Reserve Representative to December 2021 - Elected Board Representative December 2021*	Substitute for Ms. D. Haller	x	Substitute for Ms. D. Haller	✓

The Board held four meetings during the year. Which have covered the following:

- **Pension Fund Administration Reports –** The Board was updated at each meeting on the performance of the Pension's Section against its performance indicators. Including updates on breaches, complaints and appeals.
- **Risk Management and Internal Controls –**The Board was updated at each meeting on the risk management and internal controls of the Fund.
- **Additional Voluntary Contributions** – The Board considered concerns regarding the Fund's Additional Voluntary Contribution provider the Prudential.
- **Funding Strategy Statement Employer Risk and Exits –** The Board supported changes to the Funding Strategy Statement following regulation changes to employer risk and exits and proposed changes to the Fund's policy on Employer Risk**.**
- **Cyber Risk –** The Board monitored the impact of cyber risk on the Pensions Section.
- **Continued Improvements and Systems –** The Board was updated at each meeting on the continuous improvements of the Pension Section**.**
- **Internal Audit work conducted during 2020-21 and Audit plan 2021-22 –** The Board welcomed the outcome of the 2020-21 audit report which resulted in positive assurance grading with no high importance recommendations.
- **Funding Updates –** The Board received a Funding Update as at 31 March 2021 from the mid-valuation.
- **Pension Fund Policies –** Training, Administration and Communications, Distribution of Death Grant, Over and Underpayment policy, Conflict of Interest Policies- before seeking approval from the Local Pension Committee

- **Responsible Investment Update –** A report on the Fund's progress of its 2021 Responsible Investment Plan. The Board noted the Fund supported engagement, rather than exclusion, as it was more compatible with the Fund's fiduciary duty.
- **Member Self Service –** The Board received an update on improvements to the Self-Service system following training received
- **LGPS Scheme Advisory Board's Good Governance Review** – Update reports to meetings on progress towards the Good Governance Phase 3 Report.
- **LGPS Central Joint Committee and Annual General Meeting Update** – The Board received an update on the work of LGPS Central the Fund's asset pool, through the Fund's role as co-owner of the company and as a recipient of its investment services.

Breaches

The Board has a responsibility to report any matter that appears to be materially significant.

The Pensions Manager, in agreement with the Chair of the Board self-reported a material breach to the Pensions Regulator in May 2021 due to delays in paying retirement benefits to the Fund's AVC paying scheme members, resultant from the Prudential (the Fund's AVC provider) delay in providing the Fund with accurate and timely data. The Pension Regulator requested an improvement plan by 30 June 2021 which were largely completed with a marked improvement. The Board agreed to continue to monitor the issue.

The Board wrote to four employers throughout the year in concern of outstanding bond or admission agreements. As a result, agreements were reached, and no breach was reported

There were no other significant issues of concern raised with, or by the Board, throughout the year. Furthermore, no issues were escalated to the Local Pension Committee.

Highlights

Below is a selection of highlights of the items considered this year:-

Additional Voluntary Contributions

The Board scrutinised the Prudential, the Fund's Additional Voluntary Contribution (AVC) provider, following concerns raised by the Pensions Manager that they had breached service standards. Following a report on the matter we remained concerned due to delays in service and their lack of communication with members affected, following the migration of their systems. As a result we agreed to write to Prudential, setting out nine points and questions along with our concerns over the problems it could cause for members in receiving funding in a timely manner, inviting them to attend a meeting on the 23 August 2021.

We were pleased to note following our meetings and letter to Prudential, affected member cases had progressed, though we agreed to continue to monitor the situation.

Risk Management and Internal Controls

Throughout the year we continued to review the risk register at each of our meetings and were pleased to note changes had been made to the risk register arising from comments regarding Claim Management Companies, the 2016 cost cap, and its link to the McCloud case, and their inclusion within the report.

We continued to monitor employer risks including outstanding bond and admission agreements, having been made aware that 14 scheme members did not receive an annual benefit statement due to delays with two employers following TUPE transfers from existing Fund employers. We noted that once the admission agreements had been signed the scheme members would receive their annual benefit statement, and were assured that the delays were due to the employers, not administration of the Fund. We agreed to write to employers where appropriate to remind them of their duties.

We further supported the Fund's approach to not allow reviews of employer contributions, from employer requests, outside of the usual Fund valuation process. In exceptional cases where a Fund employer experienced genuine financial difficulty, we acknowledge the need for the Fund to look to review the contribution rate if it were to increase the chance of repayment. The risk would first be considered alongside risk to other Fund employers and would be assessed to consider putting additional security in place, which we agreed was fair.

Business Plan and Budget

Prior to the Budget and Business Plan's consideration and approval by the Local Pension Committee the Board scrutinised the report. We questioned the significant pressure on the Pension Section resultant from upcoming pieces of work over business as usual, which included the Fund's actuarial valuation, the pensions dashboard project, McCloud, the Good Governance project and the Pensions Regulator new Code of Practice.

The Pension Manager assured us that any issue with capacity would become apparent by the end of April when the Section received data from its employers and could clarify how many queries needed to be resolved ahead of the 31 August annual benefit statements statutory deadline, and that the management team would continue to monitor the situation.

Admission Agreements Transfers Out

The Pensions Manager regularly updated us regarding scheme member requests to transfer out to non-public service schemes. The Board recognised the conflict between scheme members who wished to transfer quickly, versus the Scheme

Manager wishing to undertake sufficient due diligence. We were pleased to note the level of due diligence that the Fund undertook provided security for members before transfers were completed.

However we raised concern that even some Financial Conduct Authority approved schemes were not always in the best long-term interests for scheme members. While the Pensions Section was not aware of any scam activity within the Leicestershire Fund, we noted the importance of remaining vigilant, a theme we will continue to revisit.

Ultimately, we would encourage any scheme member considering transferring out to consider the costs, risks and loss of benefits involved, and to take independent financial advice as necessary.

Looking ahead to 2022/23.

The Board will maintain oversight of the Fund and continue to receive regular reports on admin, governance and risk. We will continue to receive reports on the ongoing actuarial valuation where appropriate.

It is clear that there are a lot of policies, initiatives and schemes in the pipeline outside of the Fund's control which we will monitor and support implementation of given the impact it may have on already heavy administration pressure. This will involve the Government's Pension Dashboard scheme, the impact of McCloud, the Scheme Advisory Board's Good Governance report, as well as a deep dive on the Pension Regulator's new code of practice, where we will review the Fund's compliance.

Training

The Fund's **Training Policy** was adopted in November 2019, and refreshed March 2022 and applies to all members of the Local Pension Committee, Local Pension Board and senior officers involved in the management and administration of the Fund. The Training Policy has regard to relevant codes of practice and guidelines issued by the Pensions Regulator, CIPFA, the training needs of the Committee and Board and the Fund's current priorities.

The 2013 Public Service Pension Act requires that members of Local Pension Boards have an appropriate level of knowledge and understanding in order to carry out their role. Any individual appointed to a local pension board must be conversant with;

• The regulations of the Local Government Pension Scheme, including historical regulations and transitional provisions, to the extent that they still affect members; and

• any document recording policy about the administration of the scheme Local Pension Board members must also have knowledge and understanding of;

• the law relating to pensions, and

• such other matters as may be prescribed in other legislation

The degree of knowledge and understanding required by Board members is appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Local Pension Board. The Leicestershire Pension Fund is committed to supporting Local Pension Board members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance.

Members of the Board complete self-evaluation forms on an annual basis assessing their knowledge in terms of General Understanding, Funding and Pension Administration. A personal Training Plan is then developed for each Member based on the results of these assessments and is supplemented, where appropriate, to cover matters arising in the course of managing the Fund as part of reports to the Board and following meetings delivered by officers or the Fund's providers such as the Actuary and independent adviser.

The Board undertook a comprehensive knowledge review and training programme in May. This provided each Member with a thorough information base to build upon.

The attendance log for training undertaken following Board Meetings is as follows:

	Joint Board and Committee Training 1 June 2021	**Hymans Robertson Actuarial Valuation 23 August 2021**	**Admission Agreements and Full Transfers Out 6 January 2022**	**LGPS Conference Topics Update 16 February 2022**
Mrs. R. Page	✓	✓	✓	✓
Mr. R. Shepherd	✓	✓	✓	✓
Vacant Leicester City Council				
Ms. C. Fairchild	✓	✓	✓	✓
Ms. R. Gilbert	✓	✓	✓	✓
Mr. M. Saroya	✓	**Apol**	✓	✓

Given there have been a number of recent changes both within the LGPS, and externally in the broader pension's environment all Local Pension Board Members are encouraged to complete Hymans Robertson Aspire online training and other external training as held by the Scheme Advisory Board, Local Government Association, Hymans Robertson as well as LGPS Central.

In November 2021 the Fund introduced online training via the Fund's Independent Advisor Hymans Robertson. Members are recommended to complete certain topics on the Hymans Aspire Training depending on their knowledge/understanding. Progress within the modules is as follows.

	An Introduction to the LGPS	LGPS Governance and Oversight Bodies	Administration and Fund Management	Funding and Actuarial Matters	Investments
Mrs. R. Page	P	P	P	P	P
Mr. R. Shepherd	S	P	P	P	P
City Council Vacancy					
Mr. M. Saroya	C	S	S	P	S
Ms. C. Fairchild	C	C	C	C	C
Ms. R. Gilbert	C	C	S	C	C

S – Subscribed

P – In progress

C - Completed

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LOCAL PENSION BOARD - 17 AUGUST 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MCCLOUD REMEDY REPORT

Purpose of the Report

1. To provide an update to the board regarding progress in respect of preparations for the implementation of the 'McCloud' remedy for Leicestershire County Council Pension Fund.

Background

2. When the government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension Schemes had been discriminated against because the protections do not apply to them.

The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud Judgement' after a member of the Judges' Pension Scheme involved in the case.

When the LGPS changed from a final salary to a career average pension scheme in 2014, members who were within ten years of their Normal Pension Age (usually 65) on 1st April 2012 were provided with a protection called the 'underpin'. When a protected member takes their pension, the benefits payable under the career average and final salary schemes are compared and the higher amount is paid.

The government will need to provide younger members with a protection equal to the underpin protection provided to older members in order to remove the discrimination.

Whilst the ruling is not expected to affect the amount of many members' pension benefits, the process of collating and uploading the data to identify these cases, much of it manual work, is likely to be extremely time consuming.

The legislation that introduces the McCloud remedy is expected to come into force from 1st October 2023 and will be retrospectively applied back to 1st April 2014 in England and Wales.

Actions Taken

3. When the new scheme rules were introduced in 2014, Officers decided that there would no longer be an automatic need to gather service data, i.e. hours changes and any breaks in service, for example periods of unpaid maternity leave, and instead would only request this information in the event that there was a risk that an underpin calculation would need to be performed. For cases without an underpin, hours and service breaks in respect of membership after 1st April 2014 would not impact on pension benefits.

However, the judgement meant that it would now be necessary to gather all this information retrospectively, and Officers issued a bulletin to employers on 1st September 2020 instructing them that they would need to provide details of any changes to hours or breaks in service during the period 1st April 2014 to 31st March 2022, split over three submissions. The initial report in respect of the period April 2014 to March 2020 was due to be submitted by 31st March 2021, with the following two tax years to be provided at a later date. The Scheme Advisory Board had produced standard templates to be used for these exercises.

Officers decided to only request details of breaks for periods of 30 days or more. This was agreed by the Pensions Manager. It is our view that breaks will generally have minimal effect on establishing an entitlement to an underpin and the recording of numerous breaks of a few days will only add to an already onerous exercise.

Data has been received for:

1st April 2014 to 31st March 2020: 136 employers out of a total 200.

1st April 2020 to 31st March 2021: 119 employers out of a total 200.

It is likely that many of the employers that have not returned data will have no scheme members that are deemed in scope for this exercise. This will be established as part of the exercise to collect the remaining data. It will also be the case that employers will not be able to provide all the missing data, because they may no longer exist, because of a change in payroll providers, or possibly for other reasons.

Action will shortly begin to contact those employers where data is expected to be provided individually for an update.

Data received in respect of 1st April 2021 to 31st March 2022 is currently being collated and an update on this will appear in a subsequent report.

Initial testing of data loading highlighted an error in the interface tool provided by our system suppliers (Heywood) that caused existing data to be overwritten. A small number of records were affected by this and were all corrected.

A meeting was held with the system supplier and changes to the interface tool were made. Subsequent testing was positive and demonstrated that the issue had been resolved. However, whilst this was being investigated, the project was put on hold.

Following on from the discussions regarding the issue with the interface tool, Heywood developed a ‘McCloud Dashboard’ that allowed an assessment of the integrity of the data prior to loading. This means that issues such as overlapping dates, or incomplete data entries were highlighted prior to being uploaded. Use of this dashboard has been incorporated into our process and is currently being tested. Once testing is complete, the loading of data can begin, initially in small batches.

Risks/Issues

4. It is unclear how long this project will take. Officers are expecting that the tools provided to automate the loading of the data will only be effective for updating some records, i.e. where only a single employment is held on Altair. Where multiple records are held it will be unlikely that there will be a unique field to enable automated matching and so a large amount of manual intervention will be required, meaning increased resource will be required.

There are areas of this exercise where national guidance is still awaited. These include instructions how to treat cases where the employer states that data cannot be provided, and also whether members with more than one record who had previously elected to keep those records separate will have a further option to join those records together. If that option is made available then further resource will be required to deal with the extra work that will be generated.

An initial action plan has been created and is available in the appendix. This will remain under review, and the Local Pension Board will be kept updated on progress towards implementation of the remedy, and any further national developments.

Given the size, complexity and risk of this project an Internal Audit exercise was undertaken and signed off in June 2022. The main recommendations raised were:

Recommendations	Actions Taken / To Take
Consider planning resources for scenarios with or without automated solution	Resources continue to be monitored as the project progresses. It has been expected throughout the project that there will be a significant amount of manual adjustments to make to member records and this will be factored into planning.
Discuss availability of any	An additional member of staff has been

internal IT resource to help utilise the automated solution	appointed to boost IT resource, initially on a casual basis, but as the project progresses this will be reviewed
Document all activities required in an action plan	Action plan created and the initial version is available in the appendix of this report. This will be reviewed regularly as the project continues.
Periodic review of access of Pensions 'Sharepoint' site to maintain integrity of data	The Sharepoint site is limited to Pensions staff only and is reviewed every time a member of staff joins or leaves the section
Any local decisions regarding how to address the requirements of the project should be formally documented and submitted to senior management for review and agreement.	Local decision around collating breaks in service is mentioned in this report.
Establish a procedure for addressing any instances of missing data or non-receipt of requested information from employers	Reminder was sent to employers regarding the final deadline and also to provide any outstanding data in employer bulletin 8 dated 22nd June 2022. Action will shortly begin to contact employers individually for an update. Awaiting national guidance where employers are unable to provide some or all required data.
Introduce validation routines to provide assurance over the integrity of all data received	A data validation dashboard has been created in Altair's 'Insights' reporting tool and all received data will be fed through this to establish any issues with data. However, employers have a responsibility to ensure that their data is accurate and in the correct format.
Maintain regular formal contact with Systems supplier	Regular contact was made with Heywood when initial issues with interface tool were identified and throughout the creation and testing of the revised version. This was also the case when the Insights Dashboard was being developed and tested. McCloud is a regular topic in meetings with the Heywood Client Relationship Manager and issues are raised in this forum.

Officers are also preparing for a national ‘Pensions Dashboard’ exercise which will enable individuals to access all of their pensions information from all pension schemes, online in one place. This will require data to be cleansed and prompt receipt of data from employers to enable compliance with the requirements of the exercise. It is also likely to require the same personnel that have been assigned to the McCloud project. At this stage, work has not begun on this exercise, but it could the case in the future that this will impact on the progress of the McCloud project.

The McCloud project has already been added to the Fund Risk Register (item 16), which is included elsewhere on today’s agenda.

Recommendation

5. It is recommended that the Board notes all areas of the report.

6. **Equality and Human Rights Implications**

None specific

7. **Appendix**

Action Plan

8. **Officers to Contact**

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Pensions Manager

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Declan Keegan

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Appendix - Action Plan

	Action	Responsibility	Deadline
1	Request details of hours changes and service breaks, in respect of the period 1st April 2014 - 31st March 2022 Initial Request covering 1st April 2014 - 31st March 2020 Second Request covering 1st April 2020 - 31st March 2021 Final Request covering 1st April 2021 - 31st March 2022	Pensions Team Manager (Employers, iConnect and McCloud)	 31st March 2021 30th June 2021 30th June 2022
2	Add the Altair Member Reference and Employer Reference to the received data from Employers when ALL data is received from an employer: Initially match on NI Numbers; Then match on Payroll Reference; Remaining records will need to be updated manually.	Pensions Team Manager (Employers, iConnect and McCloud)	31st March 2023
3	Load data into Altair Insights Reporting Tool for assessment Amend any data following assessment	Assistant Team Manager (Continued Improvements)	31st March 2023
4	Load data into Altair using Interface Tool Errors will need to be assessed manually Records containing concurrent data will need to be removed and assessed manually. Await national guidance regarding how to treat these.	Assistant Team Manager (Continued Improvements)	31st March 2023
5	Report on records to check for missing data Liaise with employers to establish how to obtain missing data. Await national guidance regarding how to deal with missing data.	Assistant Team Manager (Continued Improvements)	31st March 2023
6	Agree appropriate comms for members ahead of implementation date	Pensions Project Manager	1st September 2023
7	Assess current pensioners, including dependants that are in scope for this exercise to establish who is affected. Running bulk processes through altair to establish where underpin applies	Pensions Team Manager (Employers, iConnect and McCloud)	1st October 2023
8	Establish Business as Usual process for members approaching retirements or are aged 64.5 or over Assess whether any changes will be required when running benefit calculations and whether any changes will be made to comms	Pensions Project Manager	1st October 2023
9	Assess other categories of members to establish who is affected by ruling, including deferreds, trivial commutation cases. Running bulk processes through altair to establush where underpin applies	Pensions Team Manager (Employers, iConnect and McCloud)	1st October 2023

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Agenda Item 10

Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD – 17 AUGUST 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

1. The purpose of this report is to inform the Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

2. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of 'risk management and internal controls. The code states this should be a standing item on each Pension Board and Pension Committee agenda.

3. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda.

Risk Register

4. The risks are split into six different risk areas. The risk areas are.

    - Investment risk
    - Liability risk
    - Employer risk
    - Governance risk
    - Operational risk
    - Regulatory risk

5. There have been no changes to any of the risk scores since the Pensions Committee meeting in June 2022, however there are some updates on existing risks. The risk register is attached as Appendix A.

    - Risk 3 (Investments) – Failure to take account of all risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers

The Fund is developing a Net Zero Climate Strategy to consider the risk and opportunities related to climate change.

- Risk 5 (Employers) - If the Pension Fund Fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late

  Officers have implemented monthly posting with almost all the Fund employers. The few remaining employers (and new employers) will commence monthly posting. Officers are developing wider bulk calculations using the posted data and will develop a tracker to monitor monthly data loading.

- Risk 8 (Governance) – If the Funds In House AVC provider does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members

  There has been an improved service from the Fund's AVC provider over recent months. The same provider is used by the majority of LGPS Funds in the UK. Several Funds are meeting with the AVC provider, designed to build on the improvements, and to try and negate any future drop in service standard.

- Risk 12 (Operational) – If the Pension Section fails to meet the information/cyber security and governance requirements there may be a breach of statutory obligations

  Internal Audit are planning to carry out audit reviews of both the Good Governance Project and The Pension Regulators new code of practice.

- Risk 14 (Operational) - If transfer out checks are not completed fully there could be future bad advice challenges brought against the Fund.

  Internal Audit continue to review both transfers in and out of the Fund.

- Risk 16 (Regulatory) - McCloud Remedy – Increased administration.

  Internal Audit have reviewed progress on McCloud and plan to review McCloud again in future, to ensure guidance received is followed in relation to any members affected by the judgements. The Board will be kept informed on McCloud progress.

6. To meet Fund Governance best practise, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

Recommendation

7. It is recommended that the Board notes the July 2022 risk register of the Pension Fund.

Equality and Human Rights Implications

None

Appendix

Appendix A - Risk Register

Officers to Contact

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<u>Appendix - Leicestershire Pension Fund Risk Register July 2022</u>

In the Fund's register there are six risk groups. Each risk sits within a risk group.

Risk Groups

1. Investment Risk
2. Liability Risk
3. Employer Risk
4. Governance Risk
5. Operational Risk
6. Regulatory Risk

Investment Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
1	**Investments**	**Invs**	**Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates**	Poor market returns most probably caused by poor economic conditions and/ or shocks e.g. CV19.	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Chris Tambini	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	**5**	**2**	**10**	**Treat**	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns.	**4**	**2**	**8**	Bhulesh Kachra
2	**Investments**	**Invs**	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation. Lower returns will	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate Shareholders' Forum, Joint Committee and Practitioners'	**3**	**3**	**9**	**Treat**	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative	**2**	**2**	**4**	Bhulesh Kachra

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
					ultimately lead to higher employer contribution rates than would otherwise have been the case		Advisory Forum will provide significant influence in the event of issues arising. Appraisal of each LGPS Central investment product before a commitment to transition is made. Where appropriate specialist transition manager being appointed, with independent specialist oversight. Transitions are phased over time to allow capacity to be managed and lessons learned					performance will occur. Decisions regarding manager termination to consider multiple factors including performance versus mandate and reason for original inclusion. The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor closely how the company evolves Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds Each transition's approach is independently assessed with views from 8 partners sought.				
3	**Investments**	**Invs**	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when	**3**	**4**	**12**	**Treat**	Responsible investment aims to incorporate environmental (including Climate change), social and	**3**	**3**	**9**	Bhulesh Kachra

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
			policy and/or the appointment of investment managers	risks inherent within the investment.	higher employer contribution rates than would otherwise have been necessary.		setting the asset allocation. Only appointing investment managers that integrate responsible investment (RI) into their processes. Utilisation of dedicated RI team at LGPS Central and preparation of an annual RI plan , Climate Risk Report and Climate Stewardship Report. The Fund also produces an annual report as part of the Taskforce on Climate-related Financial Disclosures. The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and					governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant short term changes to the allocation. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time. The Fund is in the process of developing a Net Zero Climate Strategy to take into account the risk and opportunities				

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
							corporate responsibility.					related to climate change.				

Liability Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
4	**Liability**	**Invs**	**Assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Chris Tambini	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk	**5**	**2**	**10**	**Treat**	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates. The 2019 valuation assessed the contribution rates with a view to calculating monetary contributions	**4**	**2**	**8**	Bhulesh Kachra

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate* *Treat* *Terminate* *Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
												alongside employer percentages of salaries where appropriate. Regular review of market conditions and dialogue with the schemes biggest employers with respect to the direction of future rates. Planning for the 2022 valuation has commenced with the actuary. GAD Section 13 comparisons. Funding Strategy Statement approach to increase the fund to over 100% funded.				

Employer Risk

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
5	**Employer**	**Pens**	**If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late** **This includes data at year-end**	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge and employers that change payroll systems so require new reporting processes	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations Failure to meet statutory year-end requirements	Ian Howe	Training provided for new employers Guidance notes provided for employers Amended SLA and communication and administration guide distributed to employers making IConnect a statutory requirement by 31/3/2022) Year-end specifications provided Employers are monthly posting	**3**	**3**	**9**	**Treat**	Inform the Local Pension Board annually Continued development of wider bulk calculations Implemented automation of certain member benefits using monthly data posted from employers Pensions to develop a monthly tracker for employer postings	**3**	**2**	**6**	Ian Howe
6	**Employer**	**Pens**	**If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected**	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set	Ian Howe	Pension Section provides employers with the annual bandings each year. Pension Section provides employers with contributions rates (full and	**4**	**2**	**8**	**Treat**	Pension Officers check sample cases at year-end Pension Officers to report major failings to internal audit before the annual audit process	**4**	**1**	**4**	Ian Howe

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
					than necessary		50/50) Internal audit check both areas annually and report their findings to the Pensions Manager					Major failings to be reported to the Pensions Board				
7	**Employer**	**Invs**	**Employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer CV19 may reduce some employer's income so they are unable to make payment	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	Ian Howe	Receipt of contributions is monitored, and late payments are chased quickly. Communication with large commercial employers with a view to early view of funding issues. Internal Audit review on an annual basis and report findings to the Pensions Manager	**2**	**4**	**8**	**Treat**	Late payers will be reminded of their legal responsibilities.	**2**	**3**	**6**	Declan Keegan

Governance

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
8	**Governance**	**Pens**	**If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members**	The Fund must offer AVCs as per the Regulations Prudential implemented a new administration system in November 2020 Covid lockdown restrictions and home working	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Ian Howe	Written to all active scheme members with AVCs Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Weekly list of outstanding cases sent to the Prudential for priority	**3**	**3**	**9**	**Treat**	Reported the delayed payment of benefits (due to the Prudential's delays) as a material breach to the Pensions Regulator Prudential attended a meeting with the Local Pension Board Prudential working through an improvement plan Prudential engage with Fund Officers positively to quickly resolve issues A national meeting with LGPS Funds and the Prudential is being organised to develop continued improvements	**3**	**1**	**3**	Ian Howe
9	**Governance**	**Pens/Invs**	**Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates. Risk to the Fund of insolvency of an individual employer. This will	Ian Howe/ Declan Keegan	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	**5**	**2**	**10**	**Treat**	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates. Include employer risk profiling as part of the Funding Strategy Statement	**4**	**2**	**8**	Ian Howe and Declan Keegan

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
					ultimately increase the deficit of all other employers.							update. To allow better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers. Ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy				
10	**Governance**	**Invs**	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions	**3**	**3**	**9**	**Treat**	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	**2**	**2**	**4**	Bhulesh Kachra

Operational

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
11	**Operational**	**Pens**	**If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong.**	From 2018 the pensions section has had responsibility for GMPs creating the need to ensure that this is accounted for in the pensions increases	Overpaying pensions (i.e. for GMP cases pension increases are lower) Reputation	Ian Howe	Checking of HMRC GMP data to identify any discrepancies. Internal Audit run an annual Pensions Increase result test and provide an annual report of findings	3	3	9	**Treat**	Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	2	1	3	Ian Howe
12	**Operational**	**Pens**	**If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations.**	Pensions database now hosted outside of LCC. Employer data submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users.	Diminished public trust in ability of Council to provide services. Loss of confidential information compromising service user safety. Damage to LCC reputation. Financial penalties.	Ian Howe	Regular LCC Penetration testing and enhanced IT health checks in place. LCC have achieved PSN compliance. New firewall in place providing two layers of security protection in line with PSN best practice.	5	2	10	**Treat**	Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place. Liaise with Audit to establish if any further processes can be put in place in line with best	5	1	5	Stuart Wells

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
												practice. Good governance project and the expected TPR new code of practice to include internal audit reviews of both areas. Report the findings to the Board.				
13	**Operational**	**Pens**	**If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong**	Human error when setting up immediate payments or calculating a pension System failures Unable to meet weekly deadlines	Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly Over or under payments	Ian Howe	Benefit Team Tracker process Benefits checked and authorised by different Officers Additional Assistant Team Manager resource provided Training provided to new staff Benefits are checked by a colleague Figures are provided to the member so they can see the value and check these are correct	**5**	**2**	**10**	**Treat**	A more automated one-off payment process in place Officers re-engineered the retirement process Monitor the structure of the Pension Section to resource the area sufficiently Officers requested further system security checks on immediate payments (bank account checks) Officers to develop an Insights report to identify discrepancies between administration and payroll sides of the	**5**	**1**	**5**	Ian Howe

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
												system Ongoing officer training notes Continued develop the workflow tasks Funds over and under payment policy				
14	**Operational**	**Pens**	**If all the transfers out checks are not completely fully there could be future bad advice challenges brought against the Fund's pension administration** **There are some challenges being lodged from Claims Management Companies on historic transfers out**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers	Reputation Future bad advice claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	Ian Howe	TPR checks Follow LGA guidance Queries escalated to Team Manager then Pensions Manager	**3**	**3**	**9**	**Treat**	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity Further escalation process to external Legal Colleagues Signed up to The Pension Regulator's national pledge "To Combat Pension Scams" National changes potentially forthcoming for checks on the receiving scheme's arrangements Internal audit review of both transfers in and out of the Fund.	**3**	**2**	**6**	Ian Howe
15		**Pens**	**Failure to identify**	Late or no	Overpayments or	Ian	Faraday monthly	**3**	**3**	**9**	**Treat**	Moved to 6 monthly	**3**	**1**	**3**	Ian

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
	Operational		**the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity**	notification of a deceased pensioner. Fraudulent attempts to continue to claim a pension	financial loss Legal cases claiming money back Reputational damage	Howe	reporting process of UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes					checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors				Howe

Regulatory

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
16		**Pens**	**The resolution of the McCloud case and 2016 Cost Cap challenge could**	Mr McCloud winning his appeal on age discrimination on	Ultimate outcome on both McCloud and the cost cap are currently	Ian Howe	Guidance from LGA, Hymans, Treasury	**3**	**3**	**9**	**Treat once details are**	Employer bulletin to employers making them aware of the current situation on	**2**	**3**	**6**	Ian Howe

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate* *Treat* *Terminate* *Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
	Regulatory		**increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	public sector pension schemes and the protection afforded to older members during the move to career average benefits, followed by Government losing their right of appeal. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful	unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs						**confirmed**	McCloud Await proposed resolution from the employment tribunal Assisting the LGA on the employer McCloud data template (missing hours April 2014 to date) and the wider project No statutory deadline to be set for completion of the work Team set up in the Pension Section to deal with McCloud casework Data being received from the employers and loaded into the administration system System provider to resolve current data loading issues Internal Audit review to ensure guidance received is followed in relation to any members affected by the				

Risk no	Risk Area	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
												judgement. Internal Audit review of progress to date. Report to the Board on McCloud and further updates will be provided				
17	Regulatory	Pens	**The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service**	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications Timing of the national exercise (April 2024) potentially conflicts with McCloud (October 2023)	Ian Howe	Initial data cleaning started Contract made with the system provider on building the data link	3	3	9	**Treat once final details are confirmed**	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements	3	2	6	Ian Howe

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	Pension Section <£50k Investments Losses expected to be recovered in the short term
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Pension Section £50k-£250k Minimal effect on budget/cost Investments Some underperformance, but within the bounds of normal market volatility
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Pension Section £250k - £500k Small increase on budget/cost: Handled within the team/service Investment Underperformance by a manager requiring review by the Investment Sub-committee
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Pension Section £500-£750k. Significant increase in budget/cost. Service budgets exceeded Investment Underperformance of significant proportion of assets leading to a review of the Investment or Funding strategy

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers	Pension Section >£750k Large increase on budget/cost. Investment Employer contributions expect to increase significantly above Funding Strategy requirement

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

Impact					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1	**2**	3	4	5
	Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/Likely	Almost certain

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)