Meeting: **Local Pension Board**

Date/Time: **Wednesday, 8 February 2023 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Mrs A. Smith (0116 305 0589).**

Email: **Angie.Smith@leics.gov.uk**

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 26 October 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 October to December 2022 - Quarter Three.	Director of Corporate Resources	(Pages 9 - 20)
6.	Pension Fund Valuation - Consultation Results, Final Assumptions and Results	Director of Corporate Resources	(Pages 21 - 96)
7.	Development of the Net Zero Climate Strategy	Director of Corporate Resources	(Pages 97 - 142)
8.	Pension Fund - Business Plan and Budget 2023/24	Director of Corporate Resources	(Pages 143 - 166)
9.	Pension Fund Continuous Improvement Report	Director of Corporate Resources	(Pages 167 - 176)

10.	McCloud Remedy Progress Report	Director of Corporate Resources	(Pages 177 - 186)
11.	Pension Fund Training Update	Director of Corporate Resources	(Pages 187 - 198)
12.	Risk Management and Internal Controls	Director of Corporate Resources	(Pages 199 - 220)
13.	Any other items which the Chairman has decided to take as urgent.		

TO:

Employer representatives

Mrs. R. Page CC
Cllr. V. Riyait
Mr. R. Shepherd CC

Employee representatives

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

Leicestershire County Council PENSION FUND

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Wednesday, 26 October 2022.

PRESENT

Mrs. R. Page CC (in the Chair)

Ms. C. Fairchild
Mr. M. Saroya
Mr. R. Shepherd CC

39. Minutes

The minutes of the meeting held on 17 August 2022 were taken as read, confirmed and signed.

40. Question Time.

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

41. Urgent items.

There were no urgent items for consideration.

42. 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.

No declarations were made.

It was noted that Councillor Deepak Bajaj was no longer a Member of the Board, and a replacement was awaited from Leicester City Council.

43. Pension Fund Administration Report July to September 2022 - Quarter Two.

The Board received a report from the Director of Corporate Resources on governance areas including the administration of Fund benefits, the performance of the Pensions Section against its Performance Indicators (PIs). A copy of the report marked ‘Agenda Item 5’ is filed with these minutes.

The Board noted it had been a challenging quarter, in particular for the PIs outlined at Appendix A to the report, namely death benefits and notifications meeting 78% of a 90%

target, and retirement benefit notifications meeting 88% of a 92% target. However, PI targets for customer feedback remained strong.

It was reported that resources were now in place in order to help the Pensions Team meet its targets. Additional resource had been allocated to resolve outstanding retirement benefits work, having recently completed pension and taxations statements.

The Board noted that general workloads remained level in all areas. It was noted that September-end saw just over 1,600 aggregations pending, and a training exercise was planned to help reduce these numbers. It was also noted that the Pensions Helpdesk was working well and allowed colleagues in other areas to concentrate on targeted work without interruptions.

Monitoring of the volume and type of calls had been undertaken, with the Helpdesk opening hours being adjusted accordingly to 9.00am to 2.00pm, with no negative feedback from customers having been received. Also, FAQs pages on the website were being developed to which members would be redirected to find out information. A suggestion by a member to have a voice message directing callers to the website would be taken away for consideration.

Board Members were informed of two new Internal Dispute Resolution Procedure (IDRP) Stage 2 appeals, for which the independent person had not upheld the complaints for both. It was a possibility that both cases would be taken to the Pensions Ombudsman by the complainants. It was noted that an earlier case had been resolved, allowing the member to claim benefits in full.

Board Members were further informed of workload pressures through the production of annual benefits statements for over 35,000 active members. However, all work had been completed within statutory deadlines with only seven members not receiving statements.

It was noted that many thousands of lines of data were being input on McCloud, and whilst the service had managed to digitise a lot of comparisons via computers, there would still be many cases requiring manual intervention. To assist with data input, two new pension assistants had been recruited, initially for six months following which the position would be reviewed.

Board Members' attention was drawn to the outstanding admission agreements outlined in the report, with the three most high-risk cases. It was noted that the outstanding issue with Ingeus was close to resolution with a joint tender with the City and County councils, and the outstanding issue with Cucina had been completed.

In reference to the online training tool for members, the Board asked the Director of Corporate Resources to extend their thanks to Hymans Robertson who had taken on board feedback from members on the online training tool. Hymans were working on a revised frontline solution and Members' comments had formed part of the revised package.

RESOLVED:

That a link be included to the Local Pension Board agendas and minutes be included on the Pension Fund's website in order to provide scheme members with an insight on the work undertaken by the Board.

44. Pension Fund Valuation - Funding Strategy Statement and Indicative Whole Fund Results.

The Board received a report from the Director of Corporate Resources on key policy changes in the Leicestershire Local Government Pension Scheme (LGPS) draft Funding Strategy Statement (FSS), the indicative whole fund valuation results, and the proposed change to the CPI assumption. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

Board Members were informed that the valuation took place every three years as a statutory obligation, the purpose of which was to set employer contribution rates for a three-year period. The FSS has been taken to Hymans Robertson. It was reported there had been no major changes to the document, but where there were changes these were highlighted at Point 8 in the report:

With regard to Appendix A, Point 2.3, which set out proposals on how to deal with contribution rates, it was noted that there were now employers in surplus. The FSS also made more explicit the prepayment of contributions, early retirement on ill-health grounds, the Fund’s risk register as part of the FSS, and climate risk.

The Board was informed that there were several assumptions used in the calculation of Fund Valuation. One key area under consideration was that the CPI inflation rate had been rising and the markets were unstable. Set at 2.7% CPI the rate was being kept under close review, as it was believed the rate could be revised based on the current financial situation for the Country but would need to be a fair and balanced change before consideration was given to paying any money back to employers. Indicative rates were being worked upon and it was expected that employers would be consulted with from November 2022 with queries considered and a report to the Board late February / March 2023, ready for implementation in April 2023.

RESOLVED:

That the report be noted.

45. Pension Fund's Strategies and Policies

The Board received a report from the Director of Corporate Resources on the annual update of the Pension Fund’s current strategies and policies, which covered any new policies that had been introduced or amendments that had been made. A copy of the report marked ‘Agenda Item 7’ is filed with these minutes.

It was noted that the update was provided as it was the responsibility of the Board to assist the Administering Authority as Scheme Manager to ensure the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS).

The Board noted the current policies as outlined in the document, and the introduction of the Net Zero Climate Strategy (NZCS). Members noted the consultation timeline through the process of the Strategy, for which the outcome of engagement and draft NZCS would be presented to the Local Pension Committee on 18 November 2022. Following a formal period of consultation, the final NZCS would be presented to the Committee in March 2023.

It was further noted that the updated FSS, as considered by Local Pension Board at agenda item 6, would be presented to the Local Pension Committee on 18 November 2022.

Board Members attention was drawn to the new draft Cyber Policy. The draft policy had been developed by Fund officers and the County Council's Technical Security Officer, to ensure that the Fund could demonstrate that robust governance arrangements were place and to provide assurance that risks were well managed. The document covered two sections: cyber issues relating to systems and cyber issues relating to staff, adopting other County Council policies where required.

RESOLVED:

That the report be noted.

46. Pensions Dashboard Programme

The Board received a report from the Director of Corporate Resources, which provided details of the Pensions Dashboards Programme (PDP) and a position update with regards to the Fund. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

The Board were informed the national PDP was intended to provide a single, secure port of call for individuals to access their pension history in one place, which would eventually include their State Pension. The PDP was made up of a framework of systems, and it was intended there would be multiple dashboards available to users, including one developed by the Money and Pensions Service. Members noted there would be checks and balances in place to provide assurance that GDPR and legislation would be adhered to, and National Cyber Security Centre criteria applied.

Pensions schemes would be placed, or 'onboarded' in three stages. Larger schemes, such as the County Council's, would be uploaded between April 2023 and September 2023, with medium and small schemes placed from October 2024 to 2026.

Board members were informed that information would be as accurate as possible, and where there was doubt about an identity, a partial match would be returned. Employers would also be contacted to emphasise the importance of providing timely information to meet legislation requirements, with data of new scheme members being available within three months of joining the fund.

Members assumed that there would be an increase in calls to the helpline and asked if the dashboard added value to the pensions process. Officers responded that raising awareness and getting people to think about their pensions earlier was good and would eventually become the norm moving forward with the benefit of people being able to delve into their own information to calculate pensions, thus releasing calls to the pension helpline.

RESOLVED:

That the report be noted.

47. Risk Management and Internal Controls.

The Board received a report from the Director of Corporate Resources, which informed 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. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Board Members were informed there were no changes to any of the risk scores on the register reported to the last meeting of the Board, though there were some updates to existing risks, the details of which were outlined at Point 5 in the report.

Board Members were informed that a report on the AVC provider would be brought to a meeting of the Board in early 2023.

RESOLVED:

That the report be noted.

48. Dates of Future Meetings.

RESOLVED:

That future meetings of the Board are scheduled to take place on:

Wednesday 8 Feb 2023 10am
Wednesday 26 April 2023 10am
Wednesday 2 August 2023 10am
Wednesday 18 October 2023 10am

10.00 – 11.18am CHAIRMAN
26 October 2022

LOCAL PENSION BOARD – 8 FEBRURY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT
OCTOBER to DECEMBER 2022 - QUARTER THREE

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the main administrative actions in the third quarter period from October to December 2022. The report covers governance areas including administration of Fund benefits and 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 99,000 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, namely 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 quarter are included as Appendix A.

5. KPIs on customer feedback remain strong and all business process KPIs improved well, compared to the previous quarter.

Governance – Service Delivery

General Workloads

6. The tables show the volumes in each work area during the months October to December 2022.

7. The Pensions Manager has included a RAG rating to each work area to highlight which areas are below target, close to target, or good or better than target.

8. The rating compares the cases that can be processed to the maximum target number of cases at month end. This is designed to assist Officers identify the work areas that require the greatest immediate attention.

Target	**Rating**
Below target	▼
Close to target	►
Good or better than target	▲

October 2022

Area	**Cases completed** (calculated and checked) in the period	**Cases that require more information** (cases that are on hold)	**Cases that can be processed** (cases that can be worked on)	**Total cases**	**Maximum Target Number of Cases at Month End**	**Rating**
Preserved Benefits	218	271	1037	1308	900	▼
Retirement Options	296	193	114	307	300	▲
Retirements Paid	204	434	93	527	300	▲
Deaths	131	143	55	198	200	▲
Refunds	119	261	48	309	400	▲
Pension Estimates	68	24	86	110	250	▲
Transfers in	78	149	116	265	200	▲
Transfers out (excluding interfunds out) *	39	10	31	41	100	▲
Aggregations	67	185	1471	1656	900	▼

New starters set up**	824	n/a	n/a	n/a	n/a	n/a

November 2022

Area	**Cases completed** (calculated and checked) in the period	**Cases that require more information** (cases that are on hold)	**Cases that can be processed** (cases that can be worked on)	**Total cases**	**Maximum Target Number of Cases at Month End**	**Rating**
Preserved Benefits	234	300	1196	1496	900	▼
Retirement Options	260	174	94	268	300	▲
Retirements Paid	218	455	83	538	300	▲
Deaths	125	165	41	206	200	▲
Refunds	113	132	101	233	400	▲
Pension Estimates	82	30	54	84	250	▲
Transfers in	67	147	120	267	200	▲
Transfers out (excluding interfunds out) *	43	17	11	28	100	▲
Aggregations	145	188	1544	1732	800	▼
New starters set up**	1220	n/a	n/a	n/a	n/a	n/a

December 2022

Area	**Cases completed** (calculated and checked) in the period	**Cases that require more information** (cases that are on hold)	**Cases that can be processed** (cases that can be worked on)	**Total cases**	**Maximum Target Number of Cases at Month End**	**Rating**
Preserved Benefits	134	282	1270	1552	900	▼
Retirement Options	199	199	86	285	350	▲

Retirements Paid	134	464	71	535	350	▲
Deaths	88	161	55	216	200	▲
Refunds	31	226	58	284	400	▲
Pension Estimates	60	20	35	55	250	▲
Transfers in	65	140	106	246	200	▲
Transfers out (excluding interfunds out) *	26	12	9	21	100	▲
Aggregations	108	182	1604	1786	700	▼
New starters set up**	1255	n/a	n/a	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.

9. The main point to note was Aggregations remain the priority with more officers now trained and able to work on this area. Officers have reviewed the aggregation process and are developing new task workflow processes. Aggregations numbers will be reviewed through the January to March 2023 quarter.

Governance – General

Complaints – Internal Disputes Resolution

10. 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.

11. In the third quarter period there were two new IDRP Stage 2 appeals.

Both cases are with the independent person who considered these at Stage 2 of the IDRP process.

Breaches Log

12. 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.

13. There were no material breaches reported for the quarter.

McCloud and Dashboards

14. The Board requested McCloud is a standing item at each quarterly report.

15. There is a separate report to the Local Pension Board covering the position on McCloud.

16. There has been no specific technical work in the quarter on Dashboards. However, the ongoing data quality checks for McCloud are also contributing to the data improvement requirements for Dashboards. It is likely this will continue throughout 2023.

Governance – Audit

17. During the quarter there were three Internal Audit reports received.

Pension Contribution Bandings

To check the accuracy of the annual contribution banding exercise.

Sample payroll groups were identified, and 70 cases tested. To improve good governance, evidence of cases checked by payroll colleagues during the annual testing of contribution bandings will be retained.

Pension Contribution Calculations

To check contribution payments into the Fund from other employers in the Fund are accurate, timely and coded correctly.

There were no issues highlighted regarding the accuracy, timeliness or coding. However, in one month there was a small delay in posting two employer contributions to Fusion due to a resource issue, which has been resolved with the Service delivery manager.

Pension Transfers in and out of the Fund

To check the calculation and process of transfers in and out of the Fund.

All cases tested were correct. There were no recommendations on the results of the Pension Transfer calculations in and out of the Fund.

Governance - Regulations

18. There were no new Regulations implemented in the October to December quarter.

19. The Pensions Manager understands there is likelihood of a consultation regarding retrospective changes to widower's benefits. It is expected the consultation will commence in 2023 and the Pensions Manager will bring a report to the Board detailing this, once available.

Governance – Valuation

20. During the quarter the Fund Actuary calculated the whole Fund funding position and the indicative individual employer rates. Officers wrote to all the employers detailing their indicative rate, the consultations on the Funding Strategy Statement and Investment Strategy Statement and the AGM. To avoid duplication, a separate report on the Valuation is included later in the Board meeting agenda.

Governance – The Pensions Regulator Code of Practise

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

22. The new code is now expected in early/mid 2023 and will shortly be sent to Parliament for review. It is likely to include some changes and additions that Funds will need to comply with.

23. Officers and The Fund's Actuary will compare the current codes and the new single code via a "gap" analysis.

Governance – Employer Risk

24. Fund Officers continue to regularly review employer risk. Where there are outstanding admission agreements or bonds, these are reported to the Board each quarter. Whilst this is regularly monitored, employer risk work continues to expand and resources available are stretched.

25. The Pensions Manager reviewed this area of risk and created a new role in the Pension Section, primarily assisting with Pension Fund employer risk and dealing with certain legal aspects. The successful candidate is now in post and a handover of cases is taking place from Legal Services to Pensions, with the intention to complete the handover by the 28 February 2023.

26. 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.

27. 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.

28. 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.

29. There were a number of new admissions start on the 1 August 2022. At the time of writing the report, 25 January 2023, several cases remain outstanding.

30. Total Swim that started prior to 1 April 2022, was signed in the quarter.

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**
Bradgate Education Partnership (in house staff) to Caterlink	Admission Agreement and Bond	Pass-through 1 August 2022	Capital Cost Bond of £80,000 3 years	Admission agreement has been agreed by all parties. Awaiting final confirmations in order to issue final engrossments.	High
Bradgate Education Partnership/ Leicestershire County Council (LTS) to Caterlink	Admission Agreement and Bond	Pass-through 1 August 2022	Capital Cost Bond of £28,000 3 years	Admission agreement has been agreed by all parties. Awaiting final confirmations in order to issue final engrossments.	High
Leicester City Council (Mellor School) to Caterlink	Admission Agreement and Bond	Pass-through 1 August 2022	Capital Cost Bond of £33,000 3 years	Draft admission agreement circulated. Caterlink have approved. Awaiting approval from Leicester City before final engrossments can be circulated. Officers continue to chase Leicester City Council.	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
				Members have been written to explaining the delay.	
Beacon Academy to Churchill Services	Admission Agreement and Bond	Pass-through 1 September 2022	Capital Cost Bond of £26,000 3 years	Admission agreement has been agreed by all parties. Awaiting final confirmations in order to issue final engrossments.	High
Hastings High School to Coombs Catering	Admission Agreement and Bond	Pass-through 10 July 2022	Capital Cost Bond of £16,700 5 years	Draft Admission agreement has been agreed by all parties. Final engrossments issued.	High
MEAD Education Trust/ Leicestershire County Council to Compass	Admission Agreement and Bond	Pass-through 1 August 2022	Capital Cost Bond of £9,000 3 years	Officers are preparing the draft admission agreement to be circulated.	High
North Warwickshire and South Leicestershire College/ Leicestershire County Council to Aramark	Admission Agreement	Pass-through 1 October 2022	n/a	Draft admission agreement sent and awaiting approval from all parties.	High
Leicestershire County Council and City Council to Ingeus	Admission Agreement	Pass-through 9 April 2022 1 member (split role covers City and County) – the member has been written to.	n/a	Joint tender by County and City. Ingeus have confirmed their Legal team are reviewing the draft admission agreement. Draft admission agreement received with amendments. Amendments have been reviewed and draft admission agreement recirculated for approval.	High
Leicester City Council (Granby	Admission Agreement	Pass-through 1 August 2022	n/a	Draft admission agreement has been circulated.	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
School) to Caterlink				Final engrossments have been circulated. Admission agreement signed by Caterlink. Continuing to chase City Council. Members have been written to explaining the delay.	
Leicester City Council (St Barnabas School) to Caterlink	Admission Agreement	Pass-through 1 August 2022	n/a	Draft admission agreement has been circulated. Final engrossments have been circulated. Admission agreement signed by Caterlink. Continuing to chase City Council. Members have been written to explaining the delay.	High
Chief Constable to Mitie Care	Bond (previously set at £190,000)	n/a	£300,000	Officers continue to chase completion.	Medium/ Low
North West DC to SLM	Bond (previously set at £135,000)	n/a	£300,000	Officers continue to chase completion.	Medium/ Low
Odyssey Education Trust (Humberstone Primary School) to Caterlink	Bond	n/a	Capital Cost Bond of £27,000 3 years	Officers continue to chase completion Bond has been signed and received by the Trust and County Council. Awaiting the signed document from Caterlink and the Bank.	Low
Ashby Hill Top Primary to Coombs Catering	Bond (previously not required but member turned aged 55)	n/a	£24,000	Draft bond agreement has been sent out for approval. Officers continue to chase for completion of the bond.	Low
City Council to East West	Bond (previously	Pre April 2019	Capital Cost Bond of	Officers emailed East West explaining why a bond is	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
Community Centre Ltd	not required but member turned aged 55)		£16,000 3 years	required and a response was provided stating that this needed to be taken to a Committee Meeting in October. Officers continue to chase for completion of the bond.	
MET to Taylor Shaw (Elior)	Bond	n/a	Capital Cost Bond of £12,000 3 years	Officers continue to chase for completion of the bond.	Low
LIFE MAT to Total Swim	Bond	n/a	Capital Cost Bond of £4,000	Bond agreement has been approved and awaiting signed agreement.	Low

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

- LIFE Multi Academy Trust to Total Swim 2021 Contract – Admission Agreement (backdated to 07/06/2021)
- Lutterworth Academy Trust to Cucina 2022 Contract – Admission Agreement (backdated to 08/04/2022)
- Learning Without Limits Academy Trust to FreshStart 2023 Contract – Admission Agreement

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

32. The Pensions Manager collated feedback from the Board on the Fund's on-line knowledge and understanding training tool and reported this back to the provider.

33. The provider welcomed the feedback and is actively working through several improvements to enhance the training for the next release.

34. A training report is included later in the Board agenda.

<u>Recommendation</u>

35. 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 October to December 2022

Officers to Contact

Ian Howe
Pensions Manager
Telephone: (0116) 305 6945
Email: Ian.Howe@leics.gov.uk

Declan Keegan
Assistant Director of Strategic Finance and Property
Telephone: (0116) 305 6199
Email: Declan.Keegan@leics.gov.uk

APPENDIX A

Quarter - October to December 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%	90%	►	88%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	97%	▲	99%
Pension payments made within 10 working days of receiving election	95%	98%	▲	95%	Experience of dealing with Section - rated at least good or excellent	95%	90%	►	90%
Death benefits/payments sent to dependant within 10 working days of notification	90%	96%	▲	78%	Establish members thoughts on the amount of info provided - rated as about right	92%	91%	►	99%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	100%
Good or better than target	▲				Email response - understandable	95%	97%	▲	100%
Close to target	►				Email response - content detail	92%	99%	▲	100%
Below target	▼				Email response - timeliness	92%	90%	►	91%

Agenda Item 6

LOCAL PENSION BOARD – 8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION – CONSULTATION RESULTS, FINAL ASSUMPTIONS AND RESULTS

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the results of the consultations on the draft Funding Strategy Statement (FSS) and draft Investment Strategy Statement (ISS), the final assumptions used in the valuation and the whole fund results.

Background

2. Each Local Government Pension Scheme (LGPS) administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all Funds in England and Wales have a valuation carried out as of 31 March 2022.

3. The major purpose of the actuarial valuation is for the actuary to set employer contribution rates 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).

4. As part of the valuation Officers must review and update the Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). The FSS underpins the Fund policies and includes a table detailing the Fund's framework for setting contribution rates for differing employer groups. The ISS underpins the Fund investment policies.

5. As part of the valuation process, in December 2022 employers were written too, detailing the FSS and ISS highlighting any changes. They were invited to make comments in writing to officers during a period of consultation on both documents by the 15 January 2023.

6. A timetable of the valuation process is included in the report.

Funding Strategy Statement (FSS)

7. The Actuary and Fund Officers worked collaboratively on the Fund's FSS. Officers used this opportunity to review the "style and presentation" of the FSS, with the intention of making this easier to navigate for all parties.

8. The new style FSS, attached as Appendix A to this report, comprises two main sections, a core section and four appendices.

9. Much of the information in the new style draft FSS remains the same as the Fund's previous FSS, but for ease the key changes are highlighted in yellow. These are detailed as follows;

    a) Contribution reductions (Point 2.3). This sets out the Fund's proposal on how to deal with long-term employers, not covered by the stability mechanism, especially for those well-funded employers.

This is designed to protect the Fund but also aims to be reasonable with the employers.

- **Employers less than 100% funded**: Pay the higher of the current rate in payment or the newly calculated rate, to increase their funding level.

- **Employers between 100% and 110% funded**: Pay a rate that falls between the existing rate in payment and the new primary rate, subject to a floor of the new primary rate, to continue to build up their funding level.

- **Employers between 110% and 120% funded**: Pay new primary rate only, to maintain their funding level.

- **Employers above 120% funded**: Pay the new primary rate, with some reduction via negative secondary rate, to gradually reduce their funding level down.

Short-term employers, typically admission bodies, are subject to different rules. In general, these bodies will pay their new Primary rate with any surplus or deficit spread over their time horizon.

    b) Prepayment of contributions (Point 2.9). There is no change to the Fund's current approach for the prepayment of contributions, however this is now more explicit in the FSS.

    c) Early retirement on ill-heath grounds (Point 3.2). There is no change to the Fund's current approach to ill health risk mitigation, however this is now more explicit in the FSS.

    d) Risk and control – For best practice the FSS now includes a link to the Fund's risk register (Appendix C – C1). The risk register will continue to be reviewed by Officers.

e) Employer covenant assessment and monitoring (Appendix C – C6). There is no change to the Fund's current approach, however this is now more explicit in the FSS.

f) Climate risk and TCFD reporting (Appendix C – C7). This makes the Fund's approach more explicit in the FSS.

g) The Fund has updated the assumptions applied at cessation following an employer's exit from the Fund (Appendix D – D5). This proposed change moves away from a gilts-based cessation for employers exiting the Fund with no guarantor.

Consultation replies (FSS)

10. There were only a very small number of replies from employers on the FSS and all related to a wider general understanding of the document. No employers made suggested changes to the FSS. The draft FSS will be presented to the Local Pension Committee in March 2023 for approval.

Investment Strategy Statement (ISS)

11. The ISS details the Fund's investment strategy. It is periodically reviewed at least every three years in line with the valuation.

12. The Local Pension Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payment from the Fund. Decisions affecting the Fund's ISS are taken with appropriate advice from the Fund's advisers.

13. The Local Pension Committee makes decisions based on a long-term investment strategy with regular reviews, usually annually in the form of the asset allocation review. This is with the aim to maximise investment returns of the Fund whilst maintaining an acceptable level of risk.

Consultation replies (ISS)

14. There were no replies from employers on the ISS. The draft ISS will be presented to the Local Pension Committee in March 2023 for approval.

Net Zero Climate Strategy

15. In addition to the FSS and ISS consultations, the Fund prepared a Net Zero Climate Strategy, and a consultation took place with all relevant stakeholders that closed on the 5 February 2023. The Fund employers were informed about this in writing.

16. The Strategy looks to address the risk of climate change to the Fund by reducing its carbon emissions whilst maintaining investment returns. A separate report to the Local Pension Board covers this. Officers are working

through the results of the consultation and will provide a summary to the Local Pensions Committee in March 2023.

Assumptions – June 2022

17. There are several assumptions used in the Fund Valuation. These were taken to the Pension Committee on the 10 June 2022 and were provisionally approved for the 2022 Fund Valuation. However, they remained under review given the ongoing financial uncertainty and rising inflation in 2022, and the CPI assumption was raised slightly from 2.7% to 2.9% and taken to Committee on the 18 November 2022 for approval.

18. The final assumptions used in the valuation are detailed in the following table.

Assumption	**Approach**
Future investment return	4.4% p.a. Based on the Fund's agreed 75% prudence level; the Fund's investment strategy has a 75% likelihood of achieving annualised return of 4.4% pa over the next 20 years.
Benefit Revaluation and Pensions Increase	2.9% p.a. Based on the annualised (average) CPI outcome modelled over the next 20 years
Salary Increases	0.5% above 2.9% CPI inflation
Longevity	A long-term trend of 1.5% annual improvements
Others	Model using the Leicestershire Fund data and based on the Club Vita analysis

19. The Fund aims to have employer funding levels around 110%. This is designed to provide a buffer against significant shocks in the markets.

20. These assumptions will be presented to the Local Pension Committee in March 2023 for approval.

Indicative Whole Fund Result

21. Using the assumptions detailed above the indicative funding position for the whole Fund improved from 89% at the 31 March 2019 valuation, to 105% at the 31 March 2022 valuation.

22. This is a welcome improvement, driven in the main by higher-than-expected investment return. Over the three-year valuation period (between 2019 and 2022) the expected investment return was 11.8%, but the actual investment return was 34.3% (a difference of 22.5%), impacting on the funding position positively by £867m. However, it is important to note this is not a guide for future investment growth.

23. The improved whole Fund funding position has generally improved individual employer funding positions too. Individual employer rates have been calculated and all employers were written to in December 2022 with their individual indicative rates (April 2023 to March 2026). The methodology detailed in the FSS and highlighted in point 9 of this report was used to establish employer rates for the long-term employers.

24. A small number of employers contacted Officers in December 2022 after receiving their rates, but only for a broader understanding of the valuation.

25. No employer has requested a recalculation of their rates.

26. Five of the largest employers requested revised calculations to help them decide whether to make payment of all their secondary rate as cash in 2023/24. The Fund Actuary is working through these cases, but it is important to note early payment does not guarantee lower rates in future and brings its own element of risk. This will be raised with these employers before they make a final decision.

27. The Pension Fund AGM took place on the 12 December 2022 and the Fund Actuary attended virtually to provide a presentation on the valuation. All the employers were invited and were provided the opportunity to discuss their individual rates with the Actuary and Officers. Only a very small number of employers attended in person and no valuation questions were raised during or after the meeting.

Timeline

28. The latest valuation timeline is detailed as follows.

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 – **done**
August/September 2022	Review selected employer's financial health	Pension Section – **done**
September 2022	Review proposed key policy changes to the Funding Strategy Statement	Committee – **Meeting cancelled due to the Queen's passing. Will now be taken to November Committee**
September/October 2022	Calculate Whole Fund results	Hymans Robertson - **done**
October/November 2022	Whole Fund valuation results	Board/Committee – **done**
November 2022	Investment Strategy Statement Draft Funding Strategy Statement (full)	Committee – **done**
November 2022 (through to January 2023)	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 – **done**
January 2023	Changes to Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers – **done**
February/March 2023	Final assumptions and Funding Strategy Statement and Investment Strategy Statement finalised	Committee/Board – **current stage**
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

29. It is recommended that the Board notes;

a) The revised Funding Strategy Statement which will be presented to the Local Pension Committee for approval in March 2023;

b) The revised Investment Strategy Statement that will be presented to the Local Pension Committee for approval in March 2023;

c) The final assumptions that will be presented to the Local Pension Committee for approval in March 2023;

d) The 105% indicative whole fund valuation result.

Equality and Human Rights Implications

30. There are no equality or human rights implications arising from the recommendations in this report.

Appendix

Appendix A – Fund's Draft Funding Strategy Statement
Appendix B – Fund's Draft Investment Strategy Statement

Background Papers

Local Pension Board Report 26 October 2022 – Pension Fund Valuation – Funding Strategy Statement and Indicative Whole Fund Results

Officers to Contact

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Leicestershire County Council Pension Fund

Funding Strategy Statement

~~September~~ November 2022

DRAFT

Contents

1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Leicestershire County Council Pension Fund (the Fund).

The Leicestershire County Council Pension Fund is administered by Leicestershire County Council, known as the administering authority. Leicestershire County Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for Leicestershire County Council to prepare a FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact ian.howe@leics.go.uk.

1.1 What is the Leicestershire County Council Pension Fund?

The Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.
- where appropriate, ensure fairness between employers and between different generations of tax-payers.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at [link].

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Leicestershire County Council Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer total contributions are calculated and set by the Fund actuary and are required to be expressed under the regulations via two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – an adjustment to the total contribution rate to allow for the current funding position of the employer's past service benefits.

The primary rate also includes an allowance for the Fund's administration expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios (as detailed in Appendix D). The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	**Local authorities, police, fire**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target[2]	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	75%	75%	75%	75%	75%	75%
Maximum time horizon[3]	17 years	15 years	17 years	17 years	Average future working lifetime, if less	Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	Local authorities, police, fire	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Secondary rate (deficit)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: Reductions may be permitted by the administering authority - see section 2.3 below				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

[1] Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The Fund's policy on pass-through employers is detailed in Appendix E.

[2] See Appendix D for further information on funding targets.

[3] Maximum time horizon applies only to Primary contribution rates and may be set lower at the administering authority's discretion. Secondary contributions (where a deficit exists) are set by spreading the deficit over an appropriate period as determined by the administering authority, which will be shorter.

2.3 Contribution reductions

Where an employer has a surplus, as calculated by the Fund actuary on the appropriate funding basis, a reduction in contribution rate may be permitted by the administering authority.

The following framework will be used as a guide, and the administering authority has discretion.

Employer funding level	Total contribution rate
Less than 100% funded	Employer pays a contribution rate to increasing their funding level
Between 100% and 110%	Employer pays a contribution rate to continue to build up their funding level to between 110% and 120%
Between 110% and 120%	Employer pays a contribution rate to maintain their funding level between 110% and 120%
Greater than 120% funded	Employer is allowed to benefit from a contribution rate reduction, to gradually reduce their funding level down to 120%, where applicable

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased subject to agreement by the administering authority.

The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Local authorities, police & fire.
Maximum contribution increase per year	+2% of pay
Maximum contribution decrease per year	-2% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.5 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in Appendix G. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.6 What is pooling?

The administering authority does not currently allow employers to enter into a funding pool except under specific circumstances. Where an employer is participating in the Fund under a pass-through admission agreement this employer will be pooled with the letting authority. Similarly, when an academy joins an existing multi-academy trust (MAT) within the Fund, the funding positions are pooled together. In both situations the funding position of the individual employers are no longer tracked separately.

The Fund's policies on pass-through employers and academies are detailed in Appendix E and Appendix F respectively.

2.7 What are the current contribution pools?

There are currently no contribution pools in the Fund with the exception of MATs and pass-through employers who are pooled with the respective letting authority.

2.8 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate or extended time horizon. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.9 Prepayment of contributions

The Fund permits the prepayment of employer contributions in specific circumstances.

Employer contributions

- The Fund will consider requests from employers to make payment of their employer contributions early.
- Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount and the value of cash the Fund holds.

Employee contributions

- The Fund will not usually consider requests to allow payment of employee contributions early.
- In exceptional circumstances, Officers may consider this on a case-by-case basis.

Prepayment of contributions does not guarantee improved investment benefits and any detriment is at the employer's own risk.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees but when spread, the employer will need to pay for the lost investment return.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation, but for higher risk employers or breaches of the "ill health allowance" the Fund may require immediate payment of this funding strain.

To mitigate this, employers may choose to use external insurance made available by the Fund (which is currently provided through Legal & General).

- **TABs** – the Fund's admission agreement requires TABs to take out ill-health liability insurance (IHLI).
- **Other employers** – IHLI is offered to all other employers. This is not mandatory but is strongly recommended for smaller and mid-size employers.

If an employer insures against the risk of ill-health retirements, there will be a reduction to the employer's contribution rate that is the equivalent to the external insurance premium rate.

In the event of an ill health early retirement:

- **Insured employers –** will be invoiced for the funding strain cost which they pay to the Fund. The employer then claims this cost back via the insurance contract.
- **Uninsured employers –** the Pension Manager reviews cases each quarter and the employer may be asked to make an additional payment towards the funding strain.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy's contribution rate (where not joining an existing MAT) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the Fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

The Fund's full policy on academy participation is detailed in Appendix F.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

Passthrough admissions

The Fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The Fund's policy on passthrough is detailed in Appendix E.

Non-passthrough admission

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA), where an employer with no active members had been participating in the Fund as a deferred employer (see below).

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

After an employer without a guarantor has left the scheme and paid off the deficit in full or settled the surplus (calculated using assumptions in place at the time of leaving) future risk then sits with the remaining Fund employers.

The Fund actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and will be invoiced to the employer on completion of the cessation valuation (or in certain cases may be deducted from the cessation surplus or added to the cessation deficit).

The Fund's cessation policy is detailed in Appendix H.

7.3 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA).
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy on employer flexibilities on exit is set out section 3.2 of the cessation policy in Appendix H.

7.4 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond the DDA/DSA they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at the formal valuation.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis at the formal valuation.

7.5 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is set out within section 3.3 of the Fund's cessation policy in Appendix H.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Funds' actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a* ***clear and transparent fund-specific strategy*** *identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible***
- *ensure the Fund meets its* ***solvency and long-term cost efficiency*** *objectives*
- *take a* ***prudent longer-term view*** *of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The Fund's consultation process during a valuation year includes issuing a draft version of the FSS to participating employers, highlighting the key changes, and inviting employers to attend an open forum. Draft employer valuation results will be issued alongside the draft FSS. Employer feedback from this process will be considered, and any changes incorporated within the final version of the FSS that will be approved by the Fund's committee prior to the end of the valuation year.

A3 How is the FSS published?

The FSS is emailed to participating employers. Summaries are issued to members and a full copy is included in the Fund's annual report and accounts. Copies are freely available on request and is published on the administering authority's website.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Investment Strategy Statement, governance strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at [URL].

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund.

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency

2 provides information to the Government Actuary's Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

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5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

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Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is {{link to be added to the final version - URL [link]}}.

Details of the key fund-specific risks and controls are set out in the risk register at www.politics.leics.gov.uk

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole Fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in bonds. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.

C3 Demographic risks

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Buy-out employers in the stabilisation mechanism to permit contribution increases. Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the Fund actuary and amend strategy.

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C5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

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C6 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Assessment of key financials and comparison with Fund Actuary's assessment of pension risks	Regular monitoring (at triennial valuation, or more regularly where necessary)
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	On admission Fund considers letting authority covenant, contract length and potential capital costs risk.	Regular monitoring (at triennial valuation, or more regularly where necessary)
Designating employers	Employers made aware of LGPS risks and encouraged to take ill-health insurance	Assessment of employer rates at triennial valuation

The outcome of any assessments may be a factor considered when setting employer contribution rates.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has carried out in-depth asset liability modelling to stress test the funding and investment strategies against possible future climate scenarios. The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (eg global climate policy changes).

Further details on how the Fund manages climate risks is set out in the Fund's climate policy at [URL]

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Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns									
		Cash	**Index Linked Gilts (medium)**	**Fixed Interest Gilts (Medium)**	**UK Equity**	**Overseas Equity**	**Property**	**A rated corporate bonds (medium)**	**RPI inflation expectation**	**17 year real govt yield (RPI)**	**17 year govt bond**
10 Years	16th %ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-0.6%	-0.1%	2.4%	-1.7%	1.1%
	50th %ile	1.8%	0.2%	1.1%	5.7%	5.6%	4.4%	1.6%	4.1%	-0.5%	2.5%
	84th %ile	2.9%	2.4%	2.4%	11.6%	11.7%	9.5%	3.2%	5.7%	0.7%	4.3%
20 Years	16th %ile	1.0%	-1.5%	0.7%	1.7%	1.5%	1.4%	1.1%	1.6%	-0.7%	1.3%
	50th %ile	2.4%	0.1%	1.5%	6.2%	6.1%	5.0%	2.1%	3.1%	1.0%	3.2%
	84th %ile	4.0%	1.9%	2.2%	10.6%	10.8%	8.9%	3.2%	4.7%	2.7%	5.7%
40 Years	16th %ile	1.2%	-0.3%	1.5%	3.2%	3.1%	2.6%	2.0%	1.1%	-0.6%	1.1%
	50th %ile	2.9%	1.2%	2.3%	6.7%	6.5%	5.5%	3.1%	2.4%	1.3%	3.3%
	84th %ile	4.9%	3.1%	3.5%	10.2%	10.2%	8.8%	4.4%	3.9%	3.2%	6.1%
Volatility (5 yr)		2%	7%	6%	18%	19%	15%	7%	3%		

D3 What financial assumptions were used?

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 75% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.4% pa applies. This is based on a there being a 75% likelihood that the Fund's assets will achieve future investment returns of 4.4%pa over the 20 years following the 2022 valuation date.

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If an employer is funded on the low risk exit basis, a lower discount rate may apply – see section D5 below.

Future investment returns and discount rate (for setting contribution rates)

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate at the end of the funding time horizon.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate (at end of funding time horizon)
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low-risk exit basis	Employer approaching cessation (excluding TABs)	0.5%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the Fund

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 75% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.4% pa applies. This is based on a there being a 75% likelihood that the Fund's assets will achieve future investment returns of 4.4%pa over the 20 years following the 2022 valuation date.

If an employer is funded on the low risk exit basis, a lower discount rate may apply – see section D5 below.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's Economic Scenario Service (ESS) model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Since the valuation date, the risk of high inflation persisting for longer than consensus expects has increased, primarily driven by tight labour markets and ongoing inflationary wage rises. Due to these factors, an 'inflation protection' margin of 0.2% pa has been to the 2022 ESS valuation assumption. The updated assumption is therefore 2.9% pa.

Salary growth

The salary increase assumption at the latest valuation has been set to CPI plus 0.5% pa plus a promotional salary scale.

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D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other Demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

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Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485	488	0.00	0.00	0.00	0.00
25	117	0.17	320	322	0.00	0.00	0.00	0.00
30	131	0.20	227	229	0.00	0.00	0.00	0.00
35	144	0.24	178	179	0.10	0.07	0.02	0.01
40	150	0.41	143	144	0.16	0.12	0.03	0.02
45	157	0.68	134	135	0.35	0.27	0.07	0.05
50	162	1.09	111	111	0.90	0.68	0.23	0.17

55	162	1.70	87	88	3.54	2.65	0.51	0.38
60	162	3.06	78	78	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	423	280	0.00	0.00	0.00	0.00
25	117	0.10	285	189	0.10	0.07	0.02	0.01
30	131	0.14	239	158	0.13	0.10	0.03	0.02
35	144	0.24	206	136	0.26	0.19	0.05	0.04
40	150	0.38	171	114	0.39	0.29	0.08	0.06
45	155	0.62	160	106	0.52	0.39	0.10	0.08
50	160	0.90	135	89	0.97	0.73	0.24	0.18
55	163	1.19	101	67	3.59	2.69	0.52	0.39
60	170	1.52	81	54	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Where there is a guarantor the following exit basis will apply:

- **Admission bodies (TABs)** – where the liabilities will be passed back to the letting authority on exit, the contractor exit basis will apply (see below)
- **Other employers** - in specific circumstances an exiting employer may have a guarantee provided by another employer within the Fund or by a parent company etc. If the Fund is satisfied with the covenant of this guarantee the liabilities may be calculated on the ongoing basis.

Contractor exit basis

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.

Low risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate used for calculating the funding position will be higher than the ongoing funding basis, specifically that there is a 90% likelihood that the Fund's assets will achieve future investment returns over the 20 years following the date of the calculation.
- The CPI assumption is based on Hymans Robertson's ESS model plus an 'inflation protection' margin of 0.2% pa. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022, giving an overall CPI assumption of 2.9% pa.~~.~~

Appendix E – Passthrough policy

Policy on passthrough

Effective date of policy	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a passthrough basis.

In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the Fund.

Contractors are still permitted to enter the Fund under non-passthrough admissions as detailed in Section 5.3 of the FSS. This policy does not apply in these cases.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the Fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the passthrough arrangement.
- To outline the process for admitting new contractors into the Fund

1.2 Background

Employees outsourced from local authorities, or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

This may be achieved by offering affected employees membership of an alternative broadly comparable scheme. However this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Passthrough is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the contractor's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the Fund on a passthrough basis. Each case will be treated on its own merits, but in general:

- Pass through is the preferred approach for the admission of all new contractors to the Fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts (the letting authority).
- The contractor's pension contribution rate is set equal to the contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, under its passthrough arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and the contractor will have the ill health insurance in place, usually as a requirement of the admission agreement.
- The contractor will not be required to obtain a full indemnity bond but may be required to obtain a capital cost bond to cover strain potential costs for those members age 55+. This is assessed on a "case by case" basis.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations or Fund recharges. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass though agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will typically be set equal to the total employer contribution rate payable by the letting authority. This means that the contractor's contribution rate will change when the letting authority rate changes.

Alternatively, the administering authority may wish to pursue a fixed rate with the contractor (subject to the agreement of the letting authority).

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a passthrough basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the Fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a passthrough arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains, augmentations or professional fees at the end of the contract. If the contractor does not pay, it becomes the letting authority's liability.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

The details of any risk sharing agreements should be shared with the administering authority to ensure the correct funding treatment is applied. There may be additional actuarial, legal and professional fees to administer such agreements for which the letting authority and/or the contractor would be liable to pay.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authorities' FRS102 / IAS19 disclosures.

The letting authority and contractor should seek approval from their auditor of the proposed accounting treatment in the first instance.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this passthrough policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Post commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the Fund. NB, the letting authority must ensure that the commercial contract is also signed.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a passthrough agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the Fund?"

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Appendix F – Academies policy

Effective date of policy	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the FSS, new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the Fund's current approach is to treat all academies within a MAT as a single employer (effectively operating as a funding pool where all pension risks are shared).
- academies must consult with the Fund prior to carrying out any outsourcing activity.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation.

3 Policies

3.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below)..

3.2 Multi-academy trusts

Asset tracking

The fund's current policy is to pool assets (and liabilities) of all the academies within a MAT. Once an academy joins a MAT the individual asset share of that academy is merged into the MAT and no longer tracked individually.

Contribution rate

The MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the Fund and all membership experience is shared across the MAT (ie full cross-subsidy exists).

Any transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the Fund, the MAT's contribution rate may be revised by the Fund actuary to allow for impact of the transferring academy joining.

Academies leaving a MAT

If an academy(ies) leaves a MAT, it is not generally possible (or practical) to identify the ex-employees of the transferring academy, therefore all deferred and pensioner members will remain with the MAT. The notional funding position of the transferring academy will be removed from the MAT before being transferred. This calculation will be carried out under the same principles as new academy conversions (as described below and per section 5.2 of the FSS).

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before the academy transfers. Liabilities relating to the transferring academy's former employees (ie members with deferred or pensioner status) remain with the MAT.

Transferring academies will be allocated an asset share based on the estimated funding level of the MAT's active members, having first allocated the MAT's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's asset share, capped at a maximum of 100%.

The MAT's estimated funding level will be based on market conditions on the day before the transfer.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB were one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the Fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.4 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the Fund preference that academies do not seek to consolidate.

Where a direction has been granted the Fund does not generally accept academy consolidations into the Fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the Fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's admissions / pass-through policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

The fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

- Contribution policy
- Cessation policy

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Appendix G – Contributions reviews

Policy on contribution reviews

Effective date of policy	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation.
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation.
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation.
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation.
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security).
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring.
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

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Appendix H – Cessation policy

Policy on cessations

Effective date of policy	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 - Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the administering authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-

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   (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
   (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
  b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

DRAFT

3 Policies

On cessation, the administering authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis[1]	Shared between other fund employers
Colleges & Universities	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Contractor exit basis[2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the Fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

Spreading the exit payment could increase the cost due to lost investment return in the period.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

DRAFT

- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.

ii. No exit credit will be payable to any admission body who participates in the Fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/letting authority and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the pension manager, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

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4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original letting authority or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.

- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.

- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.

- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

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LEICESTERSHIRE COUNTY COUNCIL PENSION FUND INVESTMENT STRATEGY STATEMENT

Effective: tbc 2023
Next review: tbc 2024

Contents

1. Introduction and background

The Local Government Pension Scheme ("LGPS"), of which Leicestershire County Council Pension Fund ("the Fund") is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement ("ISS" or "Statement"). This is the Investment Strategy Statement ("ISS") of the Fund, which is administered by Leicestershire County Council, ("the Administering Authority"). The ISS is composed in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

In preparing the ISS the Fund's Local Pension Committee ("the Committee") has consulted with such persons as it considered appropriate. The Committee acts on the delegated authority of the Administering Authority.

The previous ISS, which was approved by the Committee on 26th February 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's latest available Funding Strategy Statement dated, and Net Zero Climate Strategy.

The remaining parts of this statement will cover the following; policies for investments, asset allocation, risks, and our approach to pooling which will appear in the following order.

- Governance
- Fund Objectives
- Fund Management
- Asset Allocation
- Risks
- Asset Investment Pooling
- Responsible Investment

2. Governance

Leicestershire County Council, as the administering authority, has delegated responsibility for the management of the Fund to the Local Pension Committee (the Committee). The Committee has responsibility for establishing an investment policy and its ongoing implementation.

Members of the Local Pension Committee have a fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are the members of the Fund who are entitled to benefits (pensioners, previous and current employees) and the employing organisations. Other key stakeholders are the beneficiaries of the employing organisations services, for example local Council tax payers.

Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills take decisions affecting the Fund. The Members of the Committee do receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive. This is documented within the Fund's Training Policy.

The Chief Financial Officer of Leicestershire County Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, issues of compliance with internal regulations and controls, budgeting and accounting.

3. Fund Objectives

The primary objective of the Fund is to provide pension and lump sum benefits as and when they fall due for members or their dependents.

The funding position will be reviewed triennially through an actuarial valuation, or more frequently as required. Payments will be met by employer contributions, resulting from the funding strategy, employee contributions or financial returns from the investment strategy.

The Funding Strategy Statement and ISS are therefore inextricably linked. The latest Funding Strategy Statement can be found at:
https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/fund-admin-and-guidance/pension-fund-and-finance

The Committee believes in a long-term investment strategy with regular reviews, usually annually in the form of the asset allocation review. This is with the aim to maximise investment returns of the Fund whilst maintaining an acceptable level of risk.

The Committee sets an investment strategy that focuses on the suitability of investments based on factors including, but is not limited to:

- The level of expected risk
- Outlook for asset returns
- Liquidity and cashflow

The Fund has a number of investment beliefs that are taken into account when agreeing an asset allocation policy.

- The long term nature of LGPS liabilities allows for a long term approach to investing.
- Liabilities influence the asset structure; funds exist to meet their obligations.
- Risk premiums exist for certain investments, taking advantage of these can improve investment returns.
- Markets can be inefficient, and mispriced for long periods of time, therefore there is a place for active and passive investment management.
- Diversification across investments with low correlation reduces volatility, but over diversification is both costly and adds little value.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Climate change presents a material risk to financial markets. The Fund supports a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner. The Fund will consider the impact of climate change in both its asset allocation and individual investment decisions.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise from market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor.

4. Fund management

The Committee aims to structure the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is set for each employer to meet the cost of future benefits accruing. The Fund considers the employers covenant to meet liabilities. The Fund will work in partnership with these employers where their ability to meet liabilities may be in question in order to protect other Fund employers from the consequences of default.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed annually. Information available from several sources, including the triennial actuarial valuation, will be used to guide the setting of the investment strategy, however, the strategy does not look to match assets and liabilities in such a way that their values move in a broadly similar manner. Asset / liability matching in this way would lead to employers' contribution rates that are too high to be affordable, so there will inevitably be volatility around the funding level (i.e. to ratio of the Fund's assets to its liabilities).

It is recognised that the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit have a role to play in the setting of investment strategy. As the Fund matures it is possible that a more defensive investment strategy will be adopted, whereby a lower level of return is considered an attractive 'trade off' as it should be achieved at a lower level of volatility. These issues do not currently have a material influence on the investment strategy adopted.

In general terms the investment strategy approved will be a blend of asset classes that are diverse enough to dampen some volatility (e.g. if equity markets fall, other assets may rise or fall less significantly), without being so diverse that the strategy becomes unmanageable and costly. Expected long-term returns, levels of volatility and correlation in the performance of different asset classes will all have a role to play in setting the strategy.

By their very nature investment markets are unpredictable and it is impossible to have any certainty around future returns and volatility, so the setting of any investment strategy cannot be more than an imprecise way of arriving at an 'appropriate' split of assets. However, as investment strategy is the biggest driver of future investment returns, it is important that sufficient time is spent in designing and implementing a strategy that is sensible for the Fund.

The Fund's actual allocation is monitored by Fund officers and the Committee on a regular basis to ensure it does not notably deviate from the target allocation.

5. Asset Allocation

5.1 Investing in a variety of asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. These asset classes are only examples of the types of investments that may be held and are not intended to be an exhaustive list. The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis. The Committee also seeks and considers written advice from the Fund's investment advisor annually when reviewing the strategic asset allocation (SAA) and when reviewing potential investment decisions.

The Fund's SAA is scheduled to be reviewed annually, usually at the January meeting of the Local Pension Committee. The latest SAA is set out below. As far as is practical and cost-effective, attempts will be made to maintain an actual asset allocation that is close to the target strategy. This will be supported by the Fund's formal rebalancing arrangements which are also set out below.

Growth	**2022 SAA**	**SAA rebalance range**	**Liquidity***	**Long term expected volatility**
Listed Equity - Active and Passive	42.00%		Liquid	High
Targeted Return Funds	7.50%		Liquid	Medium
Private Equity	5.75%		Illiquid	High
Asset Group: Growth sub total	55.25%	+ / - 2.5%; 52.75% - 57.75%		High
Income	**2022 SAA**	**SAA rebalance range**	**Liquidity***	**Long term expected volatility**
Infrastructure	9.75%		Semi liquid	Medium
Global credit - private debt / CRC	10.50%		Illiquid	Low / medium
Property	10.00%		Semi liquid	Medium
Global Credit - liquid MAC	4.00%		Liquid	Medium
Emerging market debt	2.50%		Liquid	Medium
Asset Group : Income sub total	36.75%	+ / - 2%; 34.75% - 38.75%		Medium
Protection	**2022 SAA**	**SAA rebalance range**	**Liquidity***	**Long term expected volatility**
Inflation linked bonds	4.50%		Liquid	Low / medium
Investment grade (IG) credit	2.50%		Liquid	Low / medium
Short dated IG credit	0.50%		Liquid	Low
Active currency hedge collateral	*0.50%*		*n/a*	
Asset Group : Protection sub total	8.00%			
Protection sub total exc hedge	7.50%	+ / - 1%; 6.5% - 8.5%		Low / medium
Cash	0.00%	n/a		

* under normal market conditions, semi liquid applies where the asset class includes open and closed ended vehicles

Long term expected volatility is based on 20 year volatility metrics as at 30 June 2022 in GBP for listed asset classes. In some cases where exact matches are not available a best available fit has been used.

5.2 Framework for rebalancing

This formalisation and development of a framework will provide greater control over when and how rebalancing decisions are taken. The following ranges have been set as points at which rebalancing should take place.

Asset Group	2022 Strategic Target	Rebalance range
Growth	55.25%	+/- 2.5% (52.75% - 57.75%)
Income	36.75%	+/- 2 (34.75% - 38.75%)
Protection	7.50%	+/- 1% (6.5% - 8.5%)

There will be an element of judgement that will be exercised when deciding on rebalancing as not all eventualities can be prepared for. Examples can include extreme market movements in parts of the portfolio that mean rebalancing may not be possible or preferred.

Rebalancing decisions will take place quarterly on receipt of a full fund valuation from the Fund's third party valuation consolidator. However, decisions cannot be made purely on quarter end valuations due to:

a. Not all asset classes are valued regularly, some asset classes, especially private markets will therefore lag the more liquid public market valuations and as such judgement will need to be exercised so as not to rebalance more often than necessary.

b. Rebalancing is not always possible when the underweight or overweight is wholly or partially in illiquid areas of the portfolio. For example, you cannot divest from closed ended private equity funds (illiquid) to reinvest into listed equity quickly. In reality, a fund like the LCCPF with a mature Private Equity portfolio may await distributions from Private Equity investments and reinvest into listed equity if all other areas were also within the rebalancing range.

c. In order to not have to rebalance too regularly officers will consider rebalancing only when the asset classes have a rebalancing variance that is material to their target weight. Re balancing asset classes may be appropriate whilst the asset group is within the SAA rebalance range.

d. Even for liquid assets there is a cost to transitioning positions that has a material impact upon performance.

e. Timing of capital calls and distributions for certain investments is uncertain and therefore requires an element of judgement.

f. Market conditions may delay allocation changes.

Where the variance to the rebalance range (the variance) exists within an asset class that is liquid and can redeployed to an existing manager with little risk, officers may conduct internal due diligence or where economic or market conditions / size of the change dictate request advice from the Fund's investment advisor.

Changes required to rebalance will be agreed by the Director of Corporate Resources following consultation with the Chair of the Local Pension Committee. It is the role of the officers and the Fund's investment advisor to be mindful of liquidity requirements when advising on rebalancing decisions.

Changes will be reported to the next Committee meeting. Where asset groups are outside of rebalance ranges and partial or no action has been taken an explanation will be provided at the next Committee meeting.

5.2 Target Asset Allocation

The Fund's current 2022 strategic asset allocation has a target return c5.9% this is consistent with the draft Funding Strategy Statement. Based on the latest actuarial valuation as at the 31st March 2022, the expected return of this portfolio allocation is 6.5% p.a. with an 75% likelihood of achieving a return of 4.4% pa which is consistent with our Funding Strategy.

5.3 Restrictions on investment

Restrictions are based on the strategic asset allocation policy which is described in section 5 above.

In line with the Regulations, the Strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

5.4 Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

The managers of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

6. Risks

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. Officers, investment consultants and for relevant assets LGPS Central manage, measure, monitor and (where possible) mitigate the risks being taken, in order that they remain consistent with the overall level of risk that is acceptable to the Committee. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The overall risk is that the Fund's assets are insufficient to meet its liabilities. The Funding Strategy Statement calculates the value of the Fund's assets and liabilities and with the triennial valuation sets out how any difference in value will be addressed.

The principal risks affecting the Fund are set out below. They are grouped into three areas, funding risks, asset risk and other risk. The Fund's approach to managing these three types of risks are explained after each section.

6.1 Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost to the Fund of providing benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and / or investment managers, possibly compounded by financial contagion, resulting in an increase in the cost of meeting the Fund's liabilities.

6.1.1 How we manage funding risks

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set after considering expected future returns from the different asset classes and considers historic levels of volatility of each asset class and their correlation to each other. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

The Committee also seeks to understand the assumptions used in any analysis, so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

6.2 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance ("ESG") – The risk that ESG related factors incorporating climate risk may reduce the Fund's ability to generate the long-term returns.

- Manager underperformance - The failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

6.2.1 How we manage asset risks

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target.

The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

The Fund is currently cashflow positive, in that contributions from employees and employers are larger than benefits being paid. The Fund invests across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term. Whilst the fund has a growing proportion of less liquid assets we have a large proportion of highly traded liquid assets that can be sold readily in normal market conditions so that the Fund can pay immediate liabilities.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. This currency risk is managed through a variable currency hedging programme designed to take account of both the risks involved with holding assets that are not denominated in sterling and the perceived value of overseas currencies relative to sterling.

Details of the Fund's approach to managing ESG risks are set out later in this document within section 8.1.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing multiple investment managers and by having a large proportion of the Fund's equities managed on a passive basis. The Committee assess the investment managers' performance on a regular basis and will take steps, including potentially replacing one or more of the managers, if underperformance persists.

The Committee also recognises that individual managers often have an investment 'style' that may be out-of-sync with market preference for prolonged periods, and that this could lead to lengthy periods of underperformance relative to the relevant benchmark. If the Committee remain convinced by the quality of the investment manager, and the fact that their views remain relevant, underperformance will not necessarily lead to their replacement.

6.3 Other provider risk

- Transition risk - The risk of incurring costs in relation to the transition of assets between managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

6.3.1 How we manage these other risks

The Committee expects officers to monitor and manage risks in these areas through a process of regular scrutiny of the Fund's investment managers and audit of the operations it conducts for the Fund. In some cases, the Committee will have delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace an investment manager should serious concerns exist.

The Fund monitors risks to the Fund, the specific risks are included and set out in the Fund's Funding Strategy Statement.

7. Pooling

Government instigated 'pooling' of pension fund investments in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme assets. Pension funds formed their own groups, and eight asset pools were formed, which are now all operational.

The Fund is a participating scheme in the LGPS Central Pool (Central). The proposed structure and basis on which the LGPS Central Pool operates was set out in the July 2016 submission to Government. The Fund is part of the LGPS Central pool with the objective that the pooled investments can expect to benefit from lower investment costs and the opportunity to access alternative investments on a collective basis. As a local authority-owned and Financial Conduct Authority registered investment manager, the pool company, LGPS Central Limited is required to provide governance, transparency and reporting to give the Fund assurance that its investment instructions are being carried out appropriately.

The LGPS Central Pool consists of the LGPS funds of: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire.

Collective investment management offers the potential for substantial savings in investment management fees, increased opportunities for investor engagement and access to a shared pool of knowledge and expertise.

The eight administering authorities of the pension funds within the LGPS Central Pool are equal shareholders in LGPS Central Limited. LGPS Central Limited has been established to manage investments on behalf of the Pool and received authorisation from the Financial Conduct Authority in January 2018.

As time has progressed the Fund has 'pooled' significant portion of assets over a number of investment mandates. These investments are reviewed regularly by the Local Pension Committee alongside other investment mandates.

7.1 Assets to be invested in the Pool

The Fund's intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. LGPS Central has been operating since 1st April 2018.

The Fund transitioned its first assets to Central, as part of the Global Equity Active Multi-Manager Fund, at the end of February 2019. As at June 30th 2022 the Fund has invested or committed to invest in eleven LGPS Central products.

As LGPS Central becomes a mature business the pace of pooling will inevitably slow with new products launched less often.

8. Responsible Investing

8.1 Overview and background

Responsible investment is an approach to investment that aims to incorporate environmental including climate risk, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. Responsible Investment is a core part of the Fund's approach to investment decisions. The Committee consider the Fund's approach to ESG in two key areas:

- Sustainable investment / environmental and social factors – considering the financial impact of environmental including climate risk, social and governance (ESG) factors on its investments.

- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

In combination these two matters are often referred to as 'Responsible Investment', or 'RI' and this is the preferred terminology of the Fund.

8.2 Principles for Responsible Investment (PRI)

The Principles for Responsible Investment are recognised as the global standard for responsible investment for investors with fiduciary responsibilities. The Fund declares its support for the PRI and it's 6 principles listed below.

> "*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).*
>
> *We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*
>
>> *Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.*
>>
>> *Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.*
>>
>> *Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.*

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles."

The Fund is aware of RI duties and ultimately aim to balance its approach with the cost to LGPS employers, who in the main are providing social and environmental services to the local population.

8.4 The Fund's ESG approach

As institutional investors, the Fund has a duty to act in the best long-term interests of its beneficiaries. In this fiduciary role, the Fund believes that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time. The Fund produces an annual RI plan with progress updated at each Committee meeting and ensures the Fund's RI progress. The plan is developed in conjunction with the specialist RI team at LGPS Central.

The Fund believes that it will improve its effectiveness by acting collectively with other likeminded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting along. The Fund uses its membership of the Local Authority Pension Fund Forum, alongside LGPS Central to assist it in pursing engagement activities.

The Committee takes RI matters seriously and will not appoint any manager unless they can show evidence that RI considerations are an integral part of their investment decision-making processes. To date, the Fund's approach to RI has largely been to delegate this to their underlying investment managers as part of their overall duties.

The Fund does not exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defense industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

8.3 Responsible Investing and LGPS central

The Fund's investments that LGPS Central manages and advises upon are subject to Central's Responsible Investment and Engagement (RI and E) Framework. This Framework incorporates the investment beliefs and responsible investment beliefs of the eight funds within the LGPS Central Pool. The RI and E framework can be found at:

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

Critical to the framework is Central's Investment and RI beliefs, which the Committee has endorsed and is 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: 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.

- Climate change: Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible.

- 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.

- Corporate governance and cognitive diversity: Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- Fees and remuneration: The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs. Contributing to national initiatives that promote fee transparency such as the LGPS Code of Transparency is supportive of this belief.

- Risk and opportunity: Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

LGPS Central is a signatory to the PRI and as such the Fund's investments via Central will be in line with the principles outlined earlier in this report. In addition, there is a pipeline of Fund transitions to Central, as well as a number of advisory mandates which benefit from Central's RI approach and resource.

It is expected that the Fund's ability to invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that result from being part of the pool.

To broaden its stewardship activities, LGPS Central appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues and executing the LGPS Central Voting Principles, which have also been approved by the Fund (see below).The funds outside of Central's direct management will be transitioned over a period of years. This could be for an extended period of time, due to the cost implications of a transition. The Fund has access to RI resource and expertise provided by Central which we will assess and help guide the Fund's approach to RI whilst funds are transitioned to Central, further to the below section.

8.5 The exercise of rights (including voting rights) attaching to investments

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The instruction of shareholder voting opportunities is an important part of responsible investment. The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For Fund assets managed by the former, votes are cast in accordance with LGPS Central's Voting Principles, to which the Fund contributes during the annual review process.

For Fund assets managed by appointed external managers, votes must be cast in line with industry best practice as set out in the accepted governance codes. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The results of engagement and voting activities are reported to the Local Pensions Committee on a quarterly basis.

8.6 Climate Change

The Fund believes that climate change presents a material risk to financial markets. For this reason, the Fund takes an evidenced based approach to risks and opportunities posed by climate change.

The Fund has developed a Net Zero Climate Strategy (NZCS) setting out how it intends to manage both the risks and opportunities of climate change, and how it intends to integrate climate change into its broader strategy, asset management and approach to engagement.

The NZCS sets out the Fund's support of a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner. The Fund will consider the impact of climate change in both its asset allocation and individual investment decisions.

The NZCS includes targets set in line with the Paris Agreement to achieve Net Zero by 2050, with an ambition for sooner. Delivery and monitoring of these targets are reported annually to the Local Pension Committee. The NZCS is subject to review at least every three years.

Alongside the NZCS the Fund produces annual reports in line with recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD), which set out recommendations for more effective climate-related disclosures that could promote more informed investment decisions, and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposure to climate risk.

Prepared by:
Chris Tambini

For and on behalf of the Local Pension Committee of the Leicestershire County Council Pension Fund.

LOCAL PENSION BOARD – 8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DEVELOPMENT OF THE NET ZERO CLIMATE STRATEGY

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the development of the Net Zero Climate Strategy and feedback received during the first public engagement on draft targets and measures.

2. The report provides the Local Pension Board with the opportunity to comment on the draft Net Zero Climate Strategy.

Policy Framework and Previous Decisions

3. The Fund must follow the law and statutory guidance for preparing and maintaining its Investment Strategy Statement and must take proper advice and act prudently when making investment decisions. Subject to this, the Fund should consider any factors that are financially material to the performance of its investments, including environmental, social and governance (ESG) factors. This includes considerations over the long term, dependent on the time horizon over which the Fund's liabilities arise.

4. The appetite of the Fund for taking risk when making investment decisions is ultimately for local consideration and determination by the Local Pensions Committee subject to the aim and purpose of the Fund, to maximise investment returns within reasonable risk parameters. It is not the role of the Fund to put non-financial beliefs, such as ethical or moral considerations above those of the employers funding the pension scheme.

5. Responsible Investment is an approach to investment that aims to incorporate environmental (including climate change), social and governance factors into investment decisions, to better manage risk and generate sustainable investment returns, as set out in the Fund's Investment Strategy Statement.

6. The Local Pension Committee approves an annual Responsible Investment (RI) plan, the latest of which was approved in January 2023 and supports the above approach, with a continual focus on raising RI standards.

7. In November 2021 the Local Pension Committee agreed to commence work on producing the Fund's first Climate Strategy, recognising the systematic impact climate change could have on the Fund. In June 2022 it was agreed to engage on proposed metrics that were in line with the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change, a group with over 375 investor members with more than £45trillion in assets.

Background

8. As set out in the Fund's Investment Strategy Statement the Fund holds investments in various asset classes, which includes the world's biggest companies in sectors that include manufacturing, technology, and transport. Climate change is a systematic risk where the climate actions, or inaction, of companies can positively or negatively affect other companies, as well as the overall economy.

9. In recognition of the risk climate change poses the Fund has produced a Climate Risk Report annually since 2020. This report combines bottom-up and top-down analysis and is designed to give the Fund a view of the climate risk held throughout its entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. This enables the Fund to analyse progress against the baseline of data from previous reports, reassess the Fund's exposure to climate-related risks and opportunities, and identify further means for the Fund to manage its material risks.

10. Since the Fund's benchmark as of 31 December 2019, the Fund has shown clear progress as of 31 March 2022, which includes:

    - The carbon intensity of the Fund reduced by 26% across measurable investments.
    - The Fund's exposure to companies that own fossil fuel reserves reduced from 8.57% to 6.79% of listed equity assets.
    - Increased investment in companies whose products and services include clean technology (including alternative energy, green buildings, pollution prevention and sustainable water) from 34.16% to 38.24% within listed equity assets.

11. The Fund also recently produced its second Climate Scenario Analysis, via the services of Mercer LLC. The Climate Scenario Analysis estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios. This considers transition risk and physical risk, over a range of plausible futures over 5 to 40 years under three scenarios, rapid transition, orderly transition and failed transition. Assessing

the Fund's resilience to different climate scenarios and consider the impact of their portfolios on future climate trajectories.

12. The latest analysis undertaken on the Fund's asset allocation as at March 2022 predicts the Fund's returns are best protected in an orderly or rapid transition, in comparison to a failed transition, which could result in cumulative losses around 32% of the portfolio's value relative to the baseline. For the Fund it is clear over the medium to long term a successful transition is imperative, which it intends to support through the development of the Net Zero Climate Strategy.

Results of Engagement

13. The Local Pension Committee, at its meeting on 10 June 2022, approved a public engagement on draft targets and measures related to development of the Net Zero Climate Strategy, as well as views on engagement and divestment and offsetting.

14. The following steps were taken to ensure scheme members and Fund employers had sufficient opportunity to respond to the engagement exercise:

- Multiple emails to circa 40,000 scheme members (that the Pension Service held email addresses for) with a link to the consultation.
- The engagement was available via the Pension Fund's website and was highlighted on the main page.
- It was highlighted as part of the email that set out Members Annual Benefit Statements.
- All employers were sent Employer Bulletins highlighting the engagement and asking them to respond and share the engagement with their staff.

15. The consultation sought the views of a wide variety of stakeholders and 1025 responses were received. Of the responses received by scheme members (1004), checks were undertaken using national insurance records in order to ensure they were members of the Fund. A breakdown is below.

	Total	1025
Scheme Members	Active	424
	Deferred	177
	Pensioner/Dependants	403
Employers	9	9 (circa 35% of total Fund Membership).
Investment Managers	LGPS Central, Partners, IFM, LaSalle, Aegon, Stafford Capital	6
Other	These included those who responded as a Scheme Member, but National Insurance numbers did not match. The responses were similar to the general response rate so remained within the responses analysed.	45.

16. Respondents were overwhelmingly supportive of the targets and measures set out within the engagement. In summary:

- **Net Zero by 2050, with an ambition for sooner -** There was a high level of support for the primary measure. Of the respondents 70% agreed with the ambition. Only 18% disagreed.

- **By 2030 a 40% reduction in net carbon emissions from 2019-reported levels** of the respondents 68% agreed with the proposed target 19% disagreed.

- **By 2030 reduce the carbon intensity of the Fund's equity portfolio by 50% from 2019 reported levels.** Of the respondents 64% agreed with the proposal, with 18% disagreeing with the target.

- 67% agreed with the statement '**reduce the proportion of the Fund with fossil fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March**'. 16% disagreed.

- 62% agreed with the statement '**Increase asset coverage to 90% by 2030 (currently at 45% 2022 Est) to be analysed for WACI'**. 12% disagreed.

- 71% agreed with the statement '**Increase allocation to climate solutions (use EU taxonomy) as defined by weight in clean technology from the base 2019 weight of 34.1% by 2030'**. 12% disagreed.

- 70% agreed with the statement '**Increase our percentage of portfolio underlying companies in material sectors with net zero targets, aligned to a net zero pathway or subject to direct or collective engagement to over 90% by 2030 for listed equities, corporate bonds, and sovereign bonds'**. 13% disagreed.

- 71% agreed with the statement '**By 2030, 90% of the Fund's financed emissions to be either net zero, aligned to a net zero pathway or subject to engagement programme to bring that about'.** 13% disagreed.

- 73% agreed with the statement '**County Council and LGPS Central targeting net zero by 2030 for their operations**'. 12% disagreed.

17. Within the engagement exercise the Fund also asked the following questions:

- 'With regard to carbon offsetting, what approach do you think the Fund should adopt? Please select all that apply'. Only 13% of respondents felt there should be no offsetting. 'Only offsetting if it removes carbon from the atmosphere' received the most support (42%). Both 'only natural offsetting such as trees' and 'offsetting acceptable if economically best option' received 26% support.

- ‘Which of the following most closely describes your view on whether the Fund should follow a policy of divestment or engagement?’ Views on engagement and divestment were less clear cut than previous questions. 35% preferred engagement, to 31% preferring divestment. However, a relatively large number (22%) were neutral on this view compared to the rates for this type of response to earlier questions in the engagement.

18. Respondents were also allowed to submit free text message comments during the engagement. As an example, the first question on “Net Zero by 2050, with an ambition for sooner” contained 527 open comments, of which 253 were supportive and recognised the importance of setting as ambitious targets as possible.

19. For the Board’s information key themes raised throughout the free text message comments related to the following points, which have been set out alongside the Fund’s response. Where possible the Fund integrated issues and concerns into the draft NZCS, which included emphasis on the limiting factors on the Fund, why climate risk is so important for the Fund to consider, and simplification of some of the targets. The Fund’s general response to some of the main points raised are included below:

Feedback Theme	**Fund Response**
The Fund should set more ambitious targets.	At this point in time, it is unclear to officers how setting more ambitious targets can be achieved given the lack of data outside of the equities asset class to measure the Fund. The Fund is working with LGPS Central to increase asset coverage, in line with secondary measures which should help the Fund set more ambitious targets in the future. The Fund will commit to reviewing these targets at least every three years, with a view to bringing targets forward where the data supports the change. The targets will be monitored annually to ensure progress is made. The Fund is looking to make continual progress regarding decarbonisation. The Fund has focused on equities and the resulting scope 1 and 2 emissions due to the data currently available. The Fund did not want to delay initial action due to limited data availability. These targets will be expanded across the Fund’s investment portfolio in line with an implementation plan that is in development.
Climate Change is not the Fund’s concern	Climate risk is a key consideration for the Fund due to its diversified investments across geographies and industries. Why this is important is set out in more detail in the draft NZCS at Appendix A.
Not Achievable	The Fund considers the targets to be achievable, however this will ultimately be subject to the caveats and limitations set out within the draft NZCS, for example, the reliance on international governmental commitments. However, the Fund will continue to work with partners and investment managers to progress decarbonisation from its 2019 benchmark level.

Feedback theme	Fund Response
Divest from top 200 fossil fuel companies and then engage with other investments.	The Fund notes the view but does not currently propose to undertake overarching divestment. This is because divestment has no impact on world's carbon footprint and in some cases, divesting will remove 'green' investment exposure from the Fund. No company is insulated from the economic impact of extreme global warming. Engagement is therefore more compatible with our fiduciary duty and more supportive of RI, as it provides the opportunity to influence companies, something that is not possible if the investment is simply sold. Instead, the Fund will work with its investment managers to ensure they are taking into account forward-looking climate risk when making investment choices. The Fund will continue to take proper advice and act prudently when making investment decisions in this regard.
That investments should be focused on development of local based renewable energy, home insulation, and other solutions to climate change and/or social good/social impact.	Every investment must first achieve the return the Fund requires. The Fund is not equipped to make individual investments into local businesses and private investments need to be made through fund managers who have the necessary expertise and whose involvement avoids potential conflicts of interest. It is unlikely any commercial investment manager would specifically target Leicestershire or Rutland as a whole due to size, though they may make investments in the local area where they are attractive for financial returns. Information will be presented to the March 2023 Committee on issues in relation to 'local investing'.
Which Pathway is being targeted, what stops the fund delaying action until 2040 on Net Zero and racing to the last decade.	The Fund is aligning itself to a 1.5C pathway by 2050, the Fund is aware of the risks a less balanced pathway would cause in transition and physical risks which is set out in more detail within the draft NZCS. This is why the Fund includes 2030 interim targets to ensure progress is made at an appropriate pace. Furthermore the Fund will monitor progress annually to ensure it is making sufficient progress in line with the Paris Agreement.
Focus the Fund's engagement efforts on banks, insurance, and	The Fund will continue to expand its engagement efforts with LGPS Central to target key companies to ensure that they are managing climate risk and are setting scientifically backed net zero plan in line with initiatives such as Climate Action 100+ (which covers 165 focus companies that account up to 80% of global corporate emissions), the Transition Pathway Initiative and the Science Based Targets Initiative.

other companies.	The Fund is a member of the Local Authority Pension Fund Forum which undertakes focused engagement. This includes banks as reported in the Q2 2022 update the Fund received. One of their key engagements aims relates to new financing for the oil and gas sector, given the International Energy Agency has said that no new oil and natural gas fields are needed in the net zero pathway.

20. The engagement exercise also included questions on respondents' knowledge of the Fund's fiduciary duty and what the Fund invested in. The level of knowledge was relatively low. The Fund will pick this up as part of an action for communication with scheme members with the next review of the Administration and Communication Strategy. Work has also been undertaken to improve the information available on the Member Self Service Website.

Overview of the draft Net Zero Climate Strategy (NZCS)

21. The draft NZCS, attached at Appendix A was developed following, and inline with:

- The Institutional Investors Group on Climate Change (IIGCC), Net Zero Investment Framework
- Discussion at meetings and workshops with the Local Pension Committee.
- The response to the engagement exercise.
- The Fund's Climate Risk Report 2022 and Climate Scenario Analysis.
- Advice from the Fund's Investment Advisor, Hymans Robertson.
- Government commitments, with recognition of recently completed consultation on governance and climate risks and opportunities for the LGPS.

22. The NZCS outlines the Fund's strategic approach to managing climate risk, and proposed approach to achieving Net Zero by 2050, with an ambition for sooner. This includes some changes to the metrics and targets engaged on in order to simplify and better align the targets to the guidance provided by the Institutional Investor's Group for Climate Change.

23. The NZCS aligns with the investment belief set out in the Investment Strategy Statement that the Fund must ensure the portfolio is not overexposed to specific risk factors, ensuring it remains well-diversified across regions, technologies, and sectors. This may relate to technological risk and ensuring the Fund does not overvalue 'green' assets as part of a 'green bubble', does not have overexposure to new technology without proven track record, or be at risk from governmental policy reversals, for example.

24. The Strategy includes four key sections, further to the introduction, and general context on the Pension Fund. These sections relate to:

    - **Climate Change Risks and Opportunities**: How the Fund will further embed climate risk and opportunities considerations. This will include working with Investment Managers to ensure they have considered climate risks and opportunities.

    - **Targets and Measures**: Net Zero by 2050, with an ambition for sooner, supported by interim and secondary measures to decarbonise the Fund's portfolio and increase investment in a range of climate solutions. This also sets out the current coverage of the Fund's assets, and limitations facing the Fund.

    - **Decision Making:** How the Fund can integrate targets and measures alongside best practice within the Fund's annual Strategic Asset Allocation, the Investment Strategy Statement and any investment decisions taken. The Fund can consider a range of investment approaches to manage risk and opportunities related to climate change, where there is a credible financial basis.

    - **Stewardship Engagement and Divestment:** In line with the IIGCC the Fund believes that engagement will drive the transition for a low carbon economy. This sets out a four-step plan of evaluation, engagement, voting and divestment.

25. The Strategy sets out that progress will be monitored on a regular basis, including a commitment to continue to produce annual public reports on the Fund's Climate Risk and work undertaken with partners such as LGPS Central, the Local Authority Pension Fund Forum, Hymans Robertson, and Investment Managers to address risks and opportunities.

26. The Pension Fund as a long-term investor must take a long-term view of its approach to investments. The Fund will review the NZCS and targets at least every three years and monitor progress annually as part of the Climate Risk Report. This will be supported through other Fund documents such as the Strategic Asset Allocation, Investment Strategy Statement, Funding Strategy Statement, and risk register.

<u>Next Steps</u>

27. The Fund will continue to develop the draft NZCS by development of an implementation plan for remaining asset classes, and clear engagement thresholds through LGPS Central. The Fund is also in talks with Managers to understand their own Net Zero targets and commitments and call on them to develop them where they have not been set. This has fed into the RI Plan 2023.

28. The Committee on 18 November 2022 approved a consultation on the draft Strategy given the importance of engagement and involving its scheme

members and employers to inform them of the risks of climate change on the Pension Fund and the measures it is taking to limit any negative impact on the Fund, as well as the work being undertaken to engage with companies to tackle real world emissions. The consultation is due to close 5 February 2023.

29. The consultation has been undertaken in the same way as the previous engagement, by emailing all scheme members (active, deferred and retired) scheme members that have email addresses available (circa 40,000), emailing all employers of the Fund, advertisement on the Pension Fund website, and as part of the presentation to scheme members at the Fund’s Annual General Meeting.

30. To support the consultation the Fund also produced an eight-page summary document, given the length of the draft Net Zero Climate Strategy may act as a barrier to respondents. This is available here: https://leicsmss.pensiondetails.co.uk/documents/W0544%20Pensions%20Net%20Zero%20Fund%20Summary%20Document%2005.pdf?language_id=1

Timetable for Decisions

31. Following formal consultation on the draft Strategy it is intended that the final draft of the NZCS will be presented to the Local Pension Committee for approval in March 2023, alongside the consultation outcome report.

32. While the Local Pension Board meeting is slightly outside of the consultation timetable, the Board is invited to provide any comments for consideration.

Equality and Human Rights Implications

33. The draft Strategy recognises many human rights factors are adversely affected by climate change. While there are no direct implications from the Net Zero Climate Strategy, as part of the Fund’s approach to Responsible Investment the Fund seeks to ensure it continues to incorporate Environmental, Social and Governance issues in all areas of investment practices in line with the Principles for Responsible Investment as set out in the Investment Strategy Statement.

34. These considerations include engaging with companies through investment managers, the Local Authority Pension Fund Forum and LGPS Central to ensure they manage risks around the transition to a low carbon economy that includes key issues around labour and human rights.

Background Papers

Local Pension Committee – 18 November 2022 – Outcome of Engagement on Net Zero Climate Strategy Targets and Draft Strategy and Responsible Investing Update
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6761&Ver=4
Local Pension Committee – 10 June 2022 – Responsible Investing Update
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6759&Ver=4

Local Pension Committee – 21January 2022 - Responsible Investment Plan 2022
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6757&Ver=4
Local Pension Committee 26 November 2021 – Responsible Investing Update
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6526&Ver=4

Appendix

Draft Net Zero Climate Strategy

Officers to Contact

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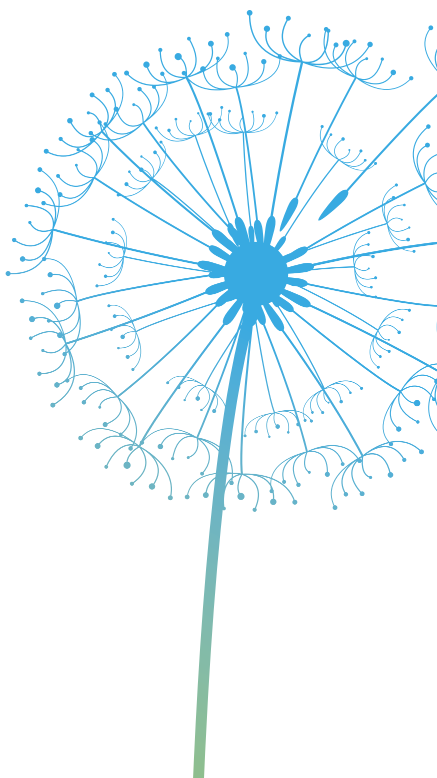
Leicestershire County Council
Pension Fund

Net Zero Climate Strategy

Draft November 2022

Table of Contents



1. Foreword

In 2022 Leicester, Leicestershire, and Rutland, along with most of England received its first red warning for extreme heat. This led to widespread impacts on people and infrastructure, affecting scheme members, employers, and the local communities they support. Scientists predict that such events are becoming more common and severe.

The Fund has a long-standing position of acknowledging the risk presented by climate change. Our Investment Managers are expected to incorporate climate risk into their decision making, and Fund level reporting has been in place since 2019. The improvement in available information provides us with the ability to set meaningful targets to manage climate risk, making this the right time to develop a comprehensive Strategy. We announced our ambition to develop a Net Zero Climate Strategy in 2021 recognising that as a long-term and global investor, climate change is among the most complex risks for our Fund. It poses a material risk to our investment returns given climate change will, and does, impact broadly across society, and the companies we invest in worldwide.

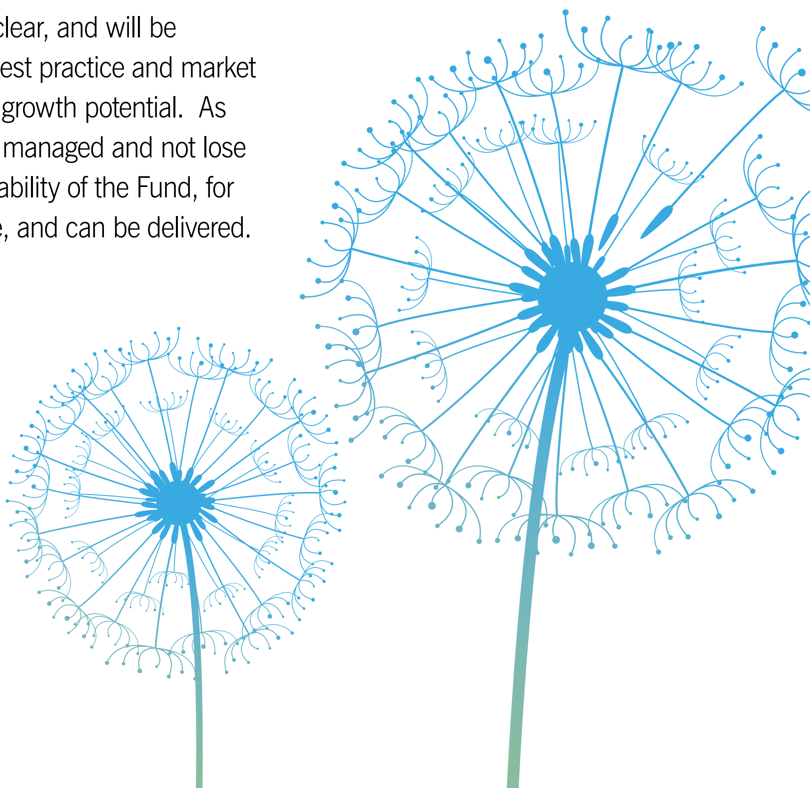
Action is required immediately, and we commit to achieve Net Zero by 2050, with an ambition for sooner, in line with the Paris Agreement. This will be achieved by driving down emissions and investing in solutions that directly contribute to, and financially benefit from the transition to a Net Zero future. We believe this approach is a realistic, action orientated strategy that will achieve the required rate of decarbonisation of the assets we hold. This is with the knowledge that we have been entrusted with our employers and scheme members valuable pension contributions and must not adversely impact employers' financial performance and prospects by increasing employer contribution rates by more than is necessary, given their own work engaging in socially positive activities in the local area.

Through the passionate response to our engagement exercise on the targets and measures within this Strategy, we can clearly see our scheme members and employers' appetite to use their contributions to help fund solutions to the climate crisis. We are not starting from scratch on this, for a number of years the Fund has kept an eye on carbon metrics while making investment decisions because of their compelling investment returns. By way of example, we have recently committed £55 million into productive forest lands, afforestation, improved forest management and natural forest restoration. This investment is not only good for the environment providing a sustainable source of low carbon materials, supporting employment in rural areas and contributing to improvements to the eco system, but it also provides a good rate of return on investment.

Despite the progress we have already made, the path is not clear, and will be developed in light of changes nationally and internationally, best practice and market monitoring to identify new investments with both green, and growth potential. As a Fund we must ensure that the drive to Net Zero is carefully managed and not lose sight of our primary purpose of ensuring the financial sustainability of the Fund, for its members. We believe these two objectives are compatible, and can be delivered.

Chris Tambini
Director of Corporate Resources

Tom Barkley CC
Chairman of the Local Pension Committee



2. Net Zero Climate Strategy at a glance

Key Stats: Leicestershire County Council's Pension Fund (the Fund) is a defined benefit pension scheme with assets under management in excess of £5.8billion (as at 30th September 2022) and invests across a wide range of asset classes to deliver returns to pay pensions and lump sum benefits. The Fund has over 100,000 members (active pensioners, deferred members, and employees) and over 200 active employers.

Why Climate Change Matters for the Fund: Almost all asset classes, sectors, and geographical regions that the Fund invests in are likely to be affected by the physical, policy or market-related consequences of climate change over the long term. Failure to consider risks and opportunities or exercise effective stewardship, will risk inferior investment performance. Ultimately any deficit would be covered by increase employers' contributions which could affect employers' ability to provide their primary function.

How this Strategy has been developed: The following measures and targets have been set in alignment with the Net Zero Investment Framework developed by the Institutional Investors Group for Climate Change. The Framework's purpose is to set a blueprint for guiding, supporting and enabling investors to make significant progress this decade, and beyond by providing both "the ambition and hugely practical guidance contained in the Framework" in the words of the Pensions Minister Guy Opperman.

This Strategy looks to align the Fund to the Net Zero Investment Framework through the following pillars of the Fund's Net Zero Climate Strategy:

i. **Climate Change Risk and Opportunities:** The view on the risks and opportunities arising from climate change, and how the Fund will look to mitigate any impact to investment returns.

ii. **Targets and Measures:** The Fund's commitments to achieve Net Zero by 2050, with an ambition for sooner, and the underlying targets and measures that will be regularly monitored and used in the Fund's risk management processes.

iii. **Decision Making:** How the Fund will integrate risk management and our commitments to decarbonise the Fund's portfolio in the Strategic Asset Allocation and investment decisions.

iv. **Stewardship, Engagement and Divestment:** How the Fund will act as a responsible asset owner. ensuring collaborative support to engage with the market via our investment managers to reach our targets.

Primary Targets

NET ZERO

by 2050:

Net Zero by 2050, with an ambition for sooner

by 2030:

Reduce absolute carbon emissions of the equity portfolio by 40%.

Reduce carbon intensity of the equity portfolio by 50%.

Secondary Targets and Measures

90%

Coverage of assets measured by 2030.

90%

Assets under management in material sectors to be classified as Net Zero, aligned or aligning by 2030.

Increase allocation to climate solutions

90%

Of the Fund's financed emissions have Net Zero targets, alignment pathway or subject to engagement by 2030.

Reduce the proportion of the Fund with fossil fuel exposure.

Leicestershire County Council and LGPS Central: Operational Net Zero by 2030.

3. Introduction

In November 2021, against a backdrop of increasing concern over the impact of climate change, the Local Pension Committee agreed that the Fund should build on its existing mitigation measures and begin development of its first Net Zero Climate Strategy. In creating this Strategy, the Fund recognises that climate change is one of the biggest threats to communities both locally, and globally. The Fund's Administering Authority, Leicestershire County Council has also recognised this urgency, setting out its own ambitious commitment to work with partners to become a Net Zero county by 2045, or before[1].

This Strategy sets out the Fund's approach to managing the risks and opportunities that arise form climate change to its investment portfolio in line with recommendations set out by the Institutional Investors Group on Climate Change Net Zero Investment Framework[2]. This Framework sets out the urgent need to accelerate the transition towards global Net Zero greenhouse gas emissions and to do the Fund's part in helping deliver the goals of the Paris Agreement. By following the Framework, the Fund will decarbonise its investment portfolio and increase investment in climate solutions, in a way that is consistent with a 1.5C Net Zero future.

UK Government Commitments

The Government has committed to reducing the UK's net emissions of greenhouse gases to zero by 2050. The Government published its Net Zero Strategy: Build Back Greener paper which set out the policies and proposals for decarbonising all sectors of the UK economy to meet its Net Zero target. The document references Government's intention to unlock the potential of £2.2 trillion held in UK pension schemes by addressing barriers to long-term investment. The Fund will monitor any developments arising from Government which may impact on the Pension Fund and how investments are managed.

Pension Fund Requirements

The rules of the Local Government Pension Scheme (LGPS) are set nationally under the Public Service Pensions Act 2013 by the Secretary of State for Levelling-Up, Housing and Communities. Decisions on the investments of LGPS funds are made locally by administering authorities, in accordance with general legal principles (fiduciary duties and public law principles) and LGPS legislation. The Fund has a fiduciary duty to ensure it can provide pension and lump sum benefits as and when they fall due for members or their dependents. The Fund's approach to this is set out within its Investment Strategy Statement, which this Strategy sits alongside.

At the point of writing this Strategy the Department for Levelling Up, Housing and Communities has begun consulting on governance and reporting of climate risks which follows the Taskforce on Climate-related Financial Disclosures (TCFD) framework. The Fund has reported under the TCFD regime as part of best practice, since 2020. The Fund will look to comply to any additional considerations that are included by the Department for Levelling Up, Housing and Communities.

What is the Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board developed the TCFD to improve and increase reporting of climate-related financial information. The recommendations of the TCFD are structured around four thematic areas that represent core elements of how companies operate: Governance, Strategy, Risk Management and Metrics and Targets. These are supported by 11 recommended disclosures that build out the framework with information that should help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities.

1 www.leicestershire.gov.uk/environment-and-planning/conservation-and-sustainability/net-zero-leicestershire
2 www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

Global Outlook

As a global investor the Pension Fund must also be aware of international policy decisions and climate pledges. For nearly three decades the United Nation has looked to bring together almost every country for global climate summits called 'Conference of the Parties' (COP). Key to this Strategy are the following outcomes:

- The Paris Agreement (COP 21). For the first-time countries agreed to work together to limit global warming to well below 2 degrees and aim for 1.5 degrees to adapt to the impacts of a changing climate. It recognised every fraction of degree of warming will result in the loss of many more lives lost and livelihoods damaged.
- The Glasgow Climate Pact (COP 26). Highlighted that the Paris Agreement was not enough to limit global warming to 1.5 degrees, and that the progress to 2030 would be crucial in limiting warming, and that the world needed to do better to keep the hope of holding temperature rises to 1.5 alive[3]. Developing countries also recognised their responsibility to support 'just transitions'[4] in developing countries.
- The outcome of Egypt's COP27 (November 2022) which looks to build on previous pledges provide follow ups to provide clarity as to where the world is and what more needs to be done.

The Fund's commitment within the Strategy is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary duties. However, it is worth highlighting that not all nations and governments have set policies or targets to reach Net Zero by 2050. For example, the largest greenhouse gas emitter, China has a commitment to reach carbon neutrality by 2060, and India has committed to Net Zero by 2070. Furthermore, of the top ten greenhouse gas emitters, only Japan, Canada and the European Union have set legally binding Net Zero commitments.

3 The COP26 outcome report set out that over 90% of the world's GDP, and 90% of global emissions were covered by Net Zero commitments which would keep warming below 2degrees, but further action was required to reach 1.5 degrees. https://ukcop26.org/uk-presidency/what-is-a-cop/ https://ukcop26.org/wp-content/uploads/2021/11/COP26-Presidency-Outcomes-The-Climate-Pact.pdf

4 A just transition is broadly interpreted as a policy approach to climate action which seeks to ensure that the benefits of a shift to Net Zero are shared, while supporting those most impacted by the change.

4. Leicestershire County Council Pension Fund

About our Fund

Leicestershire County Council's Pension Fund (the Fund) is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies.

The Fund is an open defined benefit pension scheme with over 200 employers, assets under management in excess of £5.8billion. The contributions from employers and scheme members are paid into the Fund, which is invested, from which benefits are paid at retirement. The Fund invests across a wide range of asset classes to deliver investment returns to pay pensions and lump sum benefits. This is in order to achieve the best possible investment returns that ultimately look to lessen the burden on employers contributions.

As a long-term investor the Fund's long standing position is that the integration of environmental, social and governance considerations into the investment management process improves risk-adjusted returns.

Primary Aim and Fiduciary Duty

As above the Fund's primary objective is to provide pension and lump sum benefits as and when they fall due for members or their dependents. The Pension Fund must ensure that it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets (including company shares, property and long-term government bonds) grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

Ultimately any shortfall in investment returns will be paid by employers. There is no impact to the pension benefits or contributions of scheme members.

The Administering Authority, Leicestershire County Council has delegated authority to the Local Pension Committee (Committee) to manage aims. In these matters the Committee has a fiduciary duty to act in the best interests of employers and scheme members.

This duty can be summarised as achieving what is the best for the financial position of the Fund, i.e. Investment powers must be directed to achieving what is the best for the financial position of the Fund, to ensure the Fund is able to pay benefits.

How the Fund will achieve this is set out within the Investment Strategy Statement, which also contains our approach to Environmental, Social and Governance (ESG) considerations. This sets out that the Fund does not look to make specific ESG allocations (where they are without financial basis) on behalf of Employers given the impact it could pose to contributions, who may choose to make their own ESG impact investment themselves, as socially good employers.

Impact of lower investment return on Employer Contributions.

The performance of the Fund's investments is an important element to maintain affordable employer contribution rates, the higher the long-term investment returns the more pensioner benefits that will not need to be funded by employer contributions. This is why the Fund must also consider the risk to the value of its assets from climate change.

The Fund has a key objective to manage the risk presented by climate change as a material financial matter. It is not an objective of the Fund to solve climate change, but these objectives do have significant overlap. It is a decision for individual employers how they allocate their resources.

Table 1 – Impact of lower investment returns on an average employer.

	Investment Returns	Employee Contributions	Average Annual Individual Employer Contributions (% of Payroll)	
On Target	5.9%	Set out in national legislation, based on how much scheme members are paid. No impact on contributions.	25.4%[5]	£1,000,000
Impact of reduced returns	5.4%		28.5%	£1,140,000

5 Different approaches are used to calculate contributions for different employers. If you would like more detail, please see the Funding Strategy Statement.

Governance of the Fund

National

Secretary of State
Department of Housing, Levelling Up and Communities (DHLUC), *Responsible Authority*

The Pensions Regulator
Responsible for Codes of Practice on Governance and Administration)

The Scheme Advisory Board
(Responsible for encouraging best practice, increased transparency and technical and standards issues)

As well as other relevant professional advice and guidance, Local Government Association (LGA) and CIPFA

Local

Administering Authority (Leicestershire County Council, Scheme Manager)

The Council has delegated responsibility for the Fund to the Local Pension Committee (LPC) which includes the investment policy and its ongoing implementation for the Fund.

Local Pension Committee (Decision Making Body)

Make up: Five county councillors, two city councillors, two district councillors, a representative from the universities. And three non-voting scheme member representatives.
Their Duties: They must safeguard, above all else, the financial interests of the Fund's beneficiaries. Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills to take decisions affecting the Fund. The Members of the Pension Committee do receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.
The Investment Subcommittee is a smaller sub-set of the membership of the Committee and has responsibility for appointing and monitoring the performance of fund managers. Read more here.

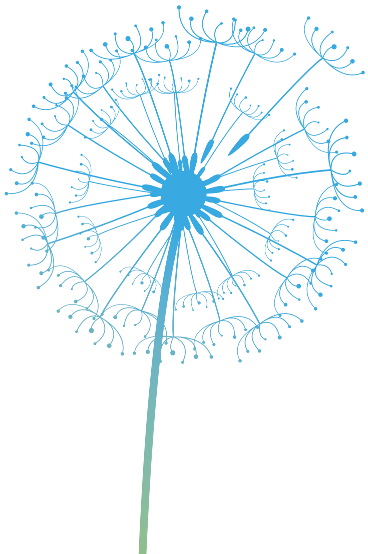
Local Pension Board

Makeup:
It is made up of equal scheme member and employer representatives.

Their Duties:
Assisting the Local Pension Committee sits in an advisory role to the Fund supporting the good governance of the scheme.
Read more here.

Supported by Officers and Fund Advisors

The Chief Financial Officer of Leicestershire County Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, issues of compliance with internal regulations and controls, budgeting, and accounting. The LPC is also advised and supported by other officers from Leicestershire County Council (Director of Law and Governance, Assistant Director of Strategic Finance and Property, Head of Pensions and Senior Finance and Legal Officers) as well as by an external Investment Advisor, Hymans Robertson.



Key Fund Documents

The Local Pension Committee approves key policies and strategies as set out below, these documents underpin the Fund's approach to ensure any decision it takes has regard to the overall risk that the Fund assets are insufficient to meet its liabilities. These documents can be found on the Member Self Service website. Key related documents are the:

- **Investment Strategy Statement:** This sets out the approach to investment that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. As part of the Investment Strategy the Fund set out its support for the **Principles for Responsible Investment** (PRI) which are recognised as the standard for responsible investment for investors with fiduciary responsibilities.
- **Funding Strategy Statement:** The purpose of this document is to establish a clear and transparent funding strategy which identifies how employers' pension liabilities are met.
- **Training Policy:** This policy sets out how the Fund supports those charged with the governance, administration, and investment decisions for the Fund.

LGPS Central ("Central")

The Fund is a shareholder and client of LGPS Central Limited, alongside eight other LGPS pension funds, the partner funds. The Fund is in the process of transitioning the management of pension assets from legacy managers to Central where appropriate.

The Committee remains responsible for deciding which asset classes it wants to be invested in and the size of the allocation, which is set out in the Fund's Investment Strategy Statement. Central invests the Fund's money into investment products that align to our agreed asset allocation. The Fund works with Central and the other partner funds to ensure the appropriate portfolio is in place to meet investment aims and ambitions in relation to climate change.

LGPS Central's Approach to Responsible Investing

The Fund's investments that Central manages and advises upon are subject to Central's Responsible Investment and Engagement (RI and E) Framework, which was approved by the Local Pension Committee, which can be viewed on LGPS Central's website. Central's three Responsible Investment & Engagement pillars are:

1. Selection

- Financially material RI factors are integrated into investment decision-making.
- External investment manager's approach to RI is assessed as part of selection and due diligence.

2. Stewardship

- Engage directly and through partnerships with the objective of improving investment outcomes over the long-term.
- Vote on all eligible shares in accordance with Central's voting principles. Linking its voting decisions to the outcomes of engagements and votes to support climate change shareholder resolutions where the resolutions support the long-term interests of clients (e.g. Leicestershire County Council Pension Fund)

3. Transparency and Disclosure

- Regular disclosure of RI activities, using best-practice frameworks where appropriate. This includes annual Taskforce on Climate-related Financial Disclosure and continuing status as signatory to UK Stewardship Code, Principles for Responsible Investment and LGPS Code of Transparency.

Current Snapshot of the Fund's Exposure to Climate Risk

To set targets and measures it is necessary to understand the Fund's current exposure to Climate Risk. The Fund utilised the services of LGPS Central and Mercer LLC to conduct a Climate Scenario Analysis of the Fund in 2020 and 2022. This analysis estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios.

In 2020, the Fund commissioned its first Climate Scenario Analysis. The analysis attempts to measure the impact to the Fund's return in several climate scenarios which resulted in implied temperatures of 2,3 and 4 degrees Celsius. In 2022, similar analysis was undertaken, this time across rapid (1.5C), orderly (1.6C) and failed (4.0C) transition scenarios. The analysis noted that the Fund's current asset allocation performs better under the orderly and rapid transition scenarios, suggesting that current positioning of the Fund performs better with alignment to the Paris Agreement targets.

Further, the Fund produces an annual Climate Risk Report The report measures the carbon metrics that the Fund will track for this Strategy. The first report analysed the Fund's holdings as at 31 December 2019, and shall be the baseline from which the Fund's emissions performance is measured against. Progress to date is indicated within the table below and compared against the wider market benchmark.

Table 2 Total Equities Carbon Footprint Metrics[6]

	2019		2022		% Difference Between 2019 and 2022	
	Pension Fund	Bench-mark	Pension Fund	Bench-mark	Pension Fund	Bench-mark
Portfolio Carbon Intensity (tCO2e/$m)	160.2	193.22	117.83	145.14	-26.45%	-24.88%
Weight in fossil fuel reserves (%)	8.57%	9.32%	6.79%	6.81%	-1.78%	-2.51%
Weight in clean tech (%)	34.16%	33.92%	38.20%	32.80%	4.08%	-1.07%

This analysis of greenhouse gas emissions provides only a snapshot, and does not take account of a companies' strategy, industry structure and other factors related to management of climate risk. This is why the Fund has set a variety of measures and targets within this Strategy.

The Fund's top five carbon intensive companies are listed below. These are not only companies exclusively related to fossil fuel, but companies that will be essential to the transition to Net Zero by 2050. For example, Taiwan Semiconductor Manufacturing Company, produces semiconductors which are used at important stages within the creation of renewable energy sources, such as the conversion of power in the plan (e.g. wind turbines) and the transmission of electricity to the power grid. The Fund must work with its partners to engage with these companies to drive down real-world emissions.

6 Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

Table 3 Total Equities largest Contributors as at 31 March 2022 to Carbon Intensity[7].

Company	Sector	Portfolio Weight (Equities)	Carbon Intensity*	Contribution to Portfolio Carbon Intensity*
HOLCIM AG	Cement	0.11%	4278.3	4.09%
LINDE PUBLIC LIMITED COMPANY	Materials	0.28%	1332.8	3.17%
NEXTERA ENERGY, INC.	Utilities	0.13%	2407.4	2.69%
SHELL PLC	Energy	0.76%	398.8	2.62%
TAIWAN SEMICONDUCTOR MANUFACTURING CO.	Info Tech	1.22%	216.0	2.27%

* This figure refers to each company's contribution to the portfolio's total carbon intensity.

7 Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

5. Climate Change Risks and Opportunities

What is Climate Change

As set out by the United Nations "Climate change refers to long-term shifts in temperatures and weather patterns. These shifts may be natural, such as through variations in the solar cycle. But since the 1800s, human activities have been the main driver of climate change, primarily due to burning fossil fuels like coal, oil and gas[8]."

Climate change doesn't just affect the weather, and ultimately can affect our health, ability to grow food, housing safety and work. The view of the Intergovernmental Panel on Climate Change believes that by limiting warming to 1.5C by 2050 the world can avoid the worst impacts of climate change.

Why does this matter for the Pension Fund?

As set out in the Investment Strategy Statement the Pension Fund holds investments in various asset classes, which includes the world's biggest companies, in sectors including manufacturing, technology and transport. Climate change presents a systematic risk where the climate actions, or inaction, of companies can positively or negatively affect another company as well as the overall economy. This includes companies that are not directly involved with fossil fuel production.

The magnitude and speed required to limit global temperature increase to 1.5C leads to climate-related risks and opportunities for the Fund as an investor. These risks can be divided into two categories, transitional risk from moving to a low-carbon economy, and physical risk that will occur as the natural world is affected. As a long-term institutional investor the Fund is particularly exposed to these risks due to its investment horizon and diversified international portfolio.

In order to make informed decisions the Fund must manage these risks alongside the other financial and environmental, social and governance considerations. By utilising the Net Zero Investment Framework it should help the Fund stay ahead of the climate risk curve to preserve value in the portfolio, and capitalise on investment opportunities, whilst understand how climate-related risks and opportunities are likely to impact the Fund's future financial position as reflected in its income statement, cash flow statement and balance sheet.

8 www.un.org/en/climatechange/what-is-climate-change#:~:text=Climate%20change%20refers%20to%20long,like%20coal%2C%20oil%20and%20g

Figure 1 Climate Related Risks Opportunities and Financial Impact (Source: Adapted from TCFD 2017)[9]

Risks

Transition Risk as society moves to a low carbon economy. Poses impact on policy, technology, markets and companies reputations. Particularly susceptible in the short and medium term to Listed Equity, Growth Assets, Energy Intensive Industry, Oil dependant sovereign issuers. Carbon intensive corporate issues.

Physical Risks that are likely to occurs as the natural world changes. These are more likely in the long term, for resource scarcity, extreme weather event, sea level rise. This will impact largely on Infrastructure, Property, Agriculture, Commodities and Insurance.

Opportunities

- Resource, Energy, Water and Agriculture Efficiency
- New Technologies, such as renewable infrastructure and clean transport.
- Development of goods and services
- New Markets
- Resource substitutes and diversification

Strategic Approach and Risk Management of the Fund

Financial Impact

Income Statement

- The collective impact of investment returns and Fund expenditure in a financial period

Cash Flow Statement

- Investment Returns
- Employer contributions (that would be required to rise to plug any investment return gap)
- Employee contributions (that do not change)

Balance Sheet

- Value of assets (ie. property, cash, bonds and stocks)
- Liabilities (short term, and longer term).

As set out in the table there are also opportunities that will arise from the transition to a low carbon world that have the potential to deliver good financial returns, while also being sustainable. The Fund will look to support such innovation within 'climate solutions' where they have been subject to due diligence, and fit within the Fund's investment strategy and strategic allocation targets. Crucially, the Fund must remain sensitive to the value of such opportunities.

CASE STUDY: In July 2022 the Fund committed £55million as part of the Fund's Infrastructure allocation to Quinbrook Infrastructure Partners Net Zero Infrastructure Power Fund. Quinbrook is a new Investment Manager within the Fund and is a environmental, social and governance focused, 'value add' investment manager that specialises in low carbon and renewable energy supple, storage, grid stability and related assets and businesses.

The Net Zero Power Fund focuses on decarbonisation and looks to directly support the parallel achievement of environmental, social and governance impact, and Net Zero emissions targets across the UK, US and Australia. Including looking to directly address the growing investment risk posed by power price volatility and market uncertainty by securing long-term purchase commitments from credit worthy utility, corporate and industrial customers, to create value for investors like the Fund.

Existing investment managers already manage the Fund's assets in balanced, diversified portfolios, these investments are expected to gradually decarbonise, subject to global action. This investment provides the Fund with an asset especially well aligned to the transition to Net Zero by 2050 and supports the Fund's intention to increase its investment in climate solutions, as set out within the Fund's targets and measures.

9 www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf

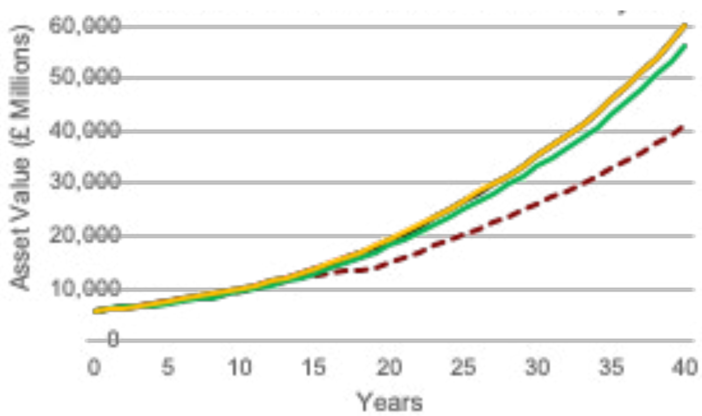
Managing Risk and Opportunities

The Fund's view of climate risk has been integrated into wider risk governance monitoring, management processes and decision making which will enable the Fund to make investments in line with a 1.5C future. This is addressed within the Investment Strategy Statement, Funding Strategy Statement and risk register of the Fund.

The Fund seeks to identify and assess climate-related risks at the total Fund, asset class and individual asset levels, alongside other investment risk factors. This will be achieved by:

- Use of tools to identify and assess climate risks facing the Fund using both top-down and bottom-up analyses. Such as the calculation of its investments' carbon emissions, carbon intensity and other targets and measures as set out within this Strategy. As well as regular climate scenario analysis that allows the Fund to better understand the financial risks that may arise over different climate scenarios, A snapshot of the latest analysis is set out in Figure 1. This shows the cumulative reduction in growth that would arise from a 'failed transition'. This takes into account both physical and transition risks in the portfolio, however, are also based on factors that are subject to considerable uncertainty.

Figure 1: Cumulative Return Projections by Climate Change Scenario on the Fund's Current Asset Allocation - 40 Year Projection



Rapid transition	Orderly transition	Failed transition
• Sudden divestments in 2025 to align portfolios to the Paris Agree goals have **disruptive effects on financial markets** with sudden repricing followed by stranded assets and a sentiment shock • **Locked-in** physical impacts	• **Early and smooth** transition • **Market pricing-in** dynamics occur smoothed out in the first 4 years • **Locked-in** physical impacts	• The world **fails to meet the Paris Agreement goals** and global warming reaches 4.3° above pre-industrial levels by 2100 • **Severe** gradual physical & extreme weather impacts • **Markets price in physical risks** of the coming 40 years over 2026-2030, and risks of 40-80 years over 2036-2040
Average temperature increase of **1.5°**	Average temperature increase of **1.6°**	Average temperature increase of **4.3°**
Shows the resilience of the portfolio to sudden repricing, triggering a market dislocation centered on high-emitting stocks	Tests exposure to the risk/opportunities from the systemic drivers of an ideal transition and locked-in physical risk	The main focus of this pathway is physical risk, results show the exposure to plausible, severe climate change impacts

Source: Mercer LLC Climate Scenario Analysis of the Fund 2022

- Identifying the most carbon intensive businesses within the Fund's portfolio which will be engaged with as part of the Annual Stewardship Plan.
- Monitoring the portfolio for climate related risks on an ongoing basis. As a primarily externally managed Fund the identification and assessment of these risks is also the responsibility of individual fund managers. These are monitored on a regular basis.

The Fund recognises that the tools and techniques for assessing climate-related risks are an imperfect but evolving discipline. The Fund will look to use the best available information to assess climate-related threats to investment performance.

Risks and opportunities will be managed through alignment with the Net Zero Investors Framework, alongside day-to-day risk management processes. The following sections set out in more detail how the Fund will manage climate risk.

Targets and Measures

- Net Zero by 2050, with an ambition for sooner, supported by interim and secondary measures to decarbonise the Fund's portfolio and increase investment in a range of climate solutions.
- Reviewing targets and measures at least every three years to reflect progress made, regulatory development, best practice and identify areas for improvement.
- How these targets and measures will be monitored and reported on to the Local Pension Committee and wider stakeholders.

Decision Making

- Integration of the targets and measures, alongside best practice within the Fund's Annual Strategic Asset Allocation review, and decision-making processes.
- Making climate aware investments and investments with managers who have due consideration for climate change risks.
- Working with the Fund's investment managers to ensure they have fully considered climate risk as part of their investment decision process.

Stewardship, Engagement and Divestment

- The Fund's approach to stewardship and engagement by working with partners such as LGPS Central and other investment managers. Including integration of climate risk into voting decisions as part of a targeted strategy to focus on high emitting companies.
- Divestment where engagement fails, or where there are concerns regarding managers or investments.

We utilise this approach to try to ensure that the approach, remains prudent, that the Fund's strong funding level is maintained and that the approach to managing climate risk is not ultimately detrimental to the Fund. The Fund will use science backed analysis and reviews of asset classes to prioritise risks to manage and mitigate based on the level of perceived threat to the Fund.

How has the Strategy and Targets and Measures been developed?

The Strategy has been aligned with the Institutional Investor's Group for Climate Change's Net Zero Investment Framework (NZIF). The Fund believes this is the most comprehensive framework currently available to investors to decarbonise investment portfolios and increase investment in climate solutions in a way that is consistent with a 1.5C Net Zero emissions future. The Framework has established a common understanding of an effective approach and methodology to drive ambitious action. The Framework supports decarbonisation of the real economy, and helps minimise the negative impacts of climate change, while encouraging investors to seize investment opportunities.

In developing the Strategy, the Fund sought independent advice from its Investment Advisor Hymans Robertson and considered the outcome of the 2022 Climate Scenario Analysis from Mercer LLC and LGPS Central that provided the Fund with a better understanding of the exposure to climate risk. As well as the latest understanding of the Fund's valuation position as of 31 March 2022 as part of the triennial valuation.

The Strategy has been shaped by scheme employers, scheme members (active, deferred, pensioner and dependants) as well as investment managers, and extensive discussion with the Local Pension Committee.

As part of the survey from July-September 2022 it was evident that scheme members and employers are really supportive of the proposed targets and measures. Of those who took part 70% supported the Fund targeting Net Zero by 2050, with an ambition for sooner[10]. More detail on the outcome of the survey, and how it was used to shape this Strategy was presented to the 18 November 2022 Local Pension Committee and can be viewed here:

Next Steps

[The Fund is consulting on this draft until 3 February 2022. Further details can be found here:

The outcome of the consultation will be reported to the Local Pension Committee in March 2023.

This Strategy should be read alongside the Fund's Investment Strategy Statement which underpins the approach to the Fund's Asset Allocation Strategy. These beliefs include the integration of Environmental, Social and Governance (ESG) factors which includes climate change. A summary of these is detailed below:

Draft Pension Investment Strategy Statement Beliefs

- The long term nature of LGPS liabilities allows for a long term approach to investing.
- Liabilities influence the asset structure; funds exist to meet their obligations.
- Risk premiums exist for certain investments, taking advantage of these can improve investment returns.
- Markets can be inefficient, and mispriced for long periods of time, therefore there is a place for active and passive investment management.
- Diversification across investments with low correlation reduces volatility, but over diversification is both costly and adds little value.
- Climate change presents a material risk to financial markets. The Fund supports a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise from market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor.

10 Results of those who stated strongly agree/tend to agree, based on 1025 respondents

6. Targets and Measures

As set out above the Fund has set targets in line with the NZIF, which aligns with the Paris Agreement, UK Government's Net Zero commitment and the Taskforce for Climate Related Financial Disclosures. The Fund has set 31 December 2019 as its baseline to compare future progress against as the first year it began reporting on climate risk. To calculate a reduction of emissions produced by the companies in the Fund's investment portfolio emerging industry standards have been used.

2050:

Net Zero, with an ambition for sooner.

This is the Fund's long-term ambition and is supported by the following targets and measures which sets the basis for how the Fund engages and makes future decisions on asset allocation to drive the transition to Net Zero for the Fund, and the wider economy.

2030:

Achieve a 40% reduction in absolute carbon emissions for the Equity portfolio.

2019	2022	2030
203k	162k	122k

An interim target to reduce the Equity portfolio's (shares in listed companies attributable to the Fund) absolute carbon emissions by 40%.

At this point this target covers 45% (£2.3billion) of the Fund's total assets, which covers investments in some of the world's top carbon emitters. Asset coverage will be expanded in future years.

2030:

Halve the carbon intensity of the Equity portfolio.

2019	2022	2030
160.2	117.83	80

An interim that that measures the carbon emissions produced by underlying companies, divided by their (tCO2e/$M), and measuring it based on the holding size within the Fund (Weighted Average Carbon Intensity)

This target also currently covers 45% of the Fund's total assets, and will be expanded in future years.

The Fund commits to embedding these three primary targets by integrating and embedding climate change considerations into decision-making processes and into stewardship, engagement and divestment with asset managers and companies they invest in. These are supplemented by the following targets and measures.

Why 2050: Climate change is a systemic risk. The Intergovernmental Panel of Climate Change have stated that to keep global warming to 1.5°C by 2100, emissions must reach Net Zero in 2050. It is therefore imperative that the Pension Fund assess its portfolio's resilience to different climate scenarios and consider the impact of their portfolios on future climate trajectories.

The 2022 Climate Scenario Analysis suggests that the Fund's current investment strategy fares better under transition scenarios that are more closely aligned to 1.5°C outcome by 2100. It is therefore important that the Fund works towards a successful transition.

As of writing this Strategy, to set an earlier date would require a more proactive Strategy compared to this document, which is already considered ambitious, our Investment Advisor Hymans Robertson Advised the Fund that an earlier date could potentially "increase execution costs and risk". The Fund commits to reviewing these targets every three years with a view to set more ambitious targets where appropriate, and where the Fund has more comprehensive sight of carbon emissions and intensity of its other asset classes.

Secondary Targets and Measures

Reduce

the Fund's exposure to fossil fuel reserves.

2019 Benchmark	2022
8.57%	6.79%

Increase

the Fund's exposure to 'climate solutions'.

2022 Benchmark	2022
34.16%	38.82%

These figures only relate to exposure within the total equities portfolio, this equates 45% of the total Fund.

The Fund will reduce the percentage of its assets invested with companies that own fossil fuel reserves. A higher exposure is an indicator of higher exposure to stranded asset risk.

This measure currently does not consider the level of fossil fuel exposure to the Fund, just whether a company has some. Thus, it spans renewable operators and companies which are making the transition away from fossil fuel reliance.

As industry standard definitions become available this target will be refined.

The Fund commits to:

- Monitor and review the Fund's fossil fuel exposure and consider any adjustments that may be requres.
- Look to limit fossil fuel exposure where new mandates are entered into.

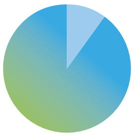
The Fund will increase its investment to companies who derive revenue from 'climate solutions' which are activities (such as renewable energy) that are in line with the transition to carbon neutrality by 2050.

As with the fossil fuel measure, this does not consider the exposure level of a company, just whether the company receives some revenue from climate solutions.

The Fund will look to follow the MSCI definition for measurement of climate solutions, given there is no industry agreed standard definition.

The Fund commits to:

- Consider specialised investment products as opportunities arise. Such as inclusion of climate-related objectives within new investment mandates and investments in alternative asset classes such as renewable energy.



2030:

90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.

This target provides a forward-looking measure that the Fund can use to understand emission projections of the portfolio, by allowing the Fund to see of its investments in material sectors (industries such as mining, metals and construction which are largely the highest impact companies) are aligned, or aligning to their Net Zero pathway.

The Fund will work with LGPS Central to set alignment targets, which will be based on criteria by Climate Action 100+ Net Zero Company Benchmark[11] and the Transition Pathway Initiative, in line with the Institution Investors Group Framework. The data from these initiatives can be used as a key measure of companies progress on climate action and the move to achieve Net Zero emission by 2050 or sooner, in line with the goals of the Paris Agreement. For example, the Framework identifies high impact companies should fulfil the following six criteria within the Climate Action Benchmark.

Figure 2: Criteria to assess the Paris-alignment of companies[12].

The Fund will review alignment annually through the Fund's Climate Stewardship Report, including whether additional criteria can be incorporated where feasible and data is available, such as through the Science Based Targets Initiative[13].

11 www.climateaction100.org/net-zero-company-benchmark/
12 www.iigcc.org/media/2021/12/NZIF_IIGCC-Target-Setting-Guidance.pdf
13 https://sciencebasedtargets.org/

2030:

90% of the Fund's financed emissions are classified as achieving Net Zero, aligned or aligning, or subject to an engagement programme to build that about.

This target focuses on increasing the percentage of the Fund's financed emissions that are subject to engagement, with the ultimate aim of driving alignment to Net Zero for companies to achieve Net Zero, or align, or on the path to aligning, in order to drive real world decarbonisation.

The Fund currently engage with companies that are some of the worst carbon emitters within the Fund's Equity of the Fund's Equity portfolio's financed emissions. These are companies that the Fund includes within its Stewardship Plan.

As with the previous target the Fund is working with LGPS Central to develop alignment targets, and how these can be measured through initiatives such as Climate Action 100+ and the Transition Pathway Initiative, in a way that will provide assurance they are setting credible science-based Net Zero transition plans.

This data will be used to help shape what action is taken through the approach to, including voting against Boards and Directors where companies are not making sufficient progress , this is further set out within: Stewardship, Engagement and Divestment.

2030:

Increase asset coverage measured to 90%

Overall Asset Class Coverage	
2022	2030
45%	90%

This measure will enable the Fund to extend its targets for interim measures in line with the ambition for the Fund to be Net Zero by 2050, and enable the Fund to look at setting more ambitious targets.

The Fund is currently only able to measure the equities asset class which is the Fund's biggest asset class. The Fund is working with LGPS Central on a timeline to analyse the other asset classes the Fund holds. Limitations that currently exist are expanded on within the Current Coverage and Limitations section.

Operational targets:

Leicestershire County Council, and LGPS Central Net Zero operations by 2030.

Leicestershire County Council Pension Fund is administered by Leicestershire County Council and uses its office facilities. Leicestershire County Council has committed to address climate change through its 2030 Net Zero Council Action Plan.

The Fund will also commit to call on LGPS Central, as an organisation partly owned by the Fund, to target Net Zero for its own operations by 2030.

Current Coverage and Limitations

The Fund's 2022 Climate Risk Report shows that it is clear the Fund has already progressed from the 2019 benchmark, but that there is a long journey ahead. The Fund will monitor this data annually for indication whether it remains in line with targets set.

The Fund recognises that the tools and techniques for assessing climate related risks in investment portfolios are an imperfect but evolving discipline. The Fund has used the best available information via LGPS Central to assess climate-related threats to investment performance at the time of developing this Strategy. However, some key limitations are as follows:

- **Asset Coverage**

As of 2022 this Strategy only covers the Equity portfolio, circa 45% of the Fund's total assets. As set out within the targets above the Fund will set key milestones to include further assets. These are currently not included due to a lack of mutually agreed metrics in the wider investment world. LGPS Central is in the process of procuring tools to help the Fund, and partners build on their understanding on climate risk for asset classes which at this point do not have sufficiently complete and comparable data to facilitate carbon risk metrics analysis, and thus data required to set comparable targets, to that of the Fund's equity holdings.

While the Fund cannot measure all assets reliably, by utilising the Fund's risk management processes, and targets and measures set out in this Strategy the Fund will ensure new investments are in line the set view on climate risk.

- **Global Limitations**

As referenced previously what the Fund can accomplish is partially reliant on the global economy. Where countries have set alternative Net Zero targets, the Fund will struggle to ensure companies based in those countries target earlier dates. For example, the largest greenhouse gas emitter, China has a commitment to reach carbon neutrality by 2060, and India has committed to Net Zero by 2070. Furthermore, of the top ten greenhouse gas emitters, only Japan, Canada and the European Union have set legally binding Net Zero commitments.

The Fund will try to mitigate these issues through its approach to decision making and stewardship.

- **Scope 3 Emissions Reporting**

The targets currently only relate to Scope 1 and 2 emissions. Incorporating Scope 3 emissions into climate metrics is challenging. The Fund recognises the picture can be quite different allowing for Scope 3 emissions, and that the measurement of material Scope 3 emissions across several sectors is highly inconsistent. The Fund is aware the International Investors Group for Climate Change is developing further expectations and guidance on measurement of Scope 3 emissions and that the UK Government may produce its own guidance on how best to report this as part of the LGPS Taskforce for Climate Financial Disclosures consultation. The Fund will assess progress and incorporate Scope 3 where it helps the management of climate change risk.

Offsetting

It is generally accepted that neither society nor individual investors will be able to completely decarbonise. Residual emissions will need to be "offset" by assets that absorb and lock away greenhouse gasses. These include assets such as Timberland, which the Fund has holdings in, which has the lowest carbon intensity amongst asset classes. The Fund's investment in Timberland helps balance more emissions-intensive sectors within its portfolio. This asset class also has potential to generate verified carbon credits for additional value.

It is not proposed to purchase offsets at Fund level at this stage, however the Fund may wish to review how it deals with the carbon credits generated through investment in Stafford Capital's Timberland Carbon Offset Opportunities Fund, as indicated below. This could provide the Fund with a further tool to mitigate climate risk if required in future years.

Primarily, the Fund supports and will engage with companies to reduce their own real-world emissions.

CASE STUDY: In July 2022 the Investment Subcommittee agreed a £55million investment in Stafford Capital Carbon Offset Opportunities Fund invests in 80% greenfield (65% afforestation and 15% reforestation) and 20% brownfield (improved forest management) gives the Fund an opportunity to obtain or sell carbon offsets generated. While retaining these would improve the Fund's carbon metrics, ultimately it would not reduce transition risk of the Fund's other underlying assets. The Fund agreed to instead sell the offsets for positive financial return.

The price of carbon credits is expected to continue to rise, which may affect companies the Fund invests in who choose to purchase carbon credits. The Carbon Offset Opportunity fund provides the Fund with the option to financially benefit, thus reducing exposure of the financial risk elsewhere.

The Fund is aware Phase 2 of the Net Zero Investor Framework will assess appropriate use of offsetting in specific sectors, the Fund will use their findings to inform any future approach.

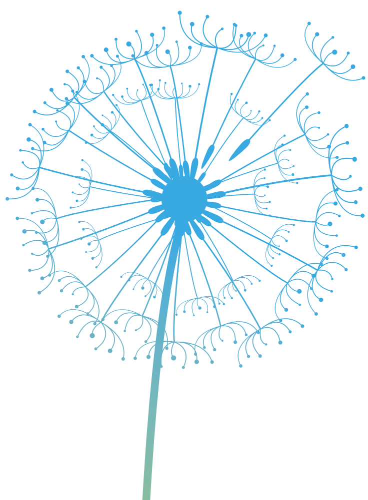
Reviewing, Monitoring and Transparency

The Fund will review and update the targets and measures at least every three years. The Fund will look to review this more regularly in light of any significant regulatory or scientific developments. Progress will be reported annually as part of the Climate Risk Report.

The Fund will strive to use the best available information to assess climate-related threats to investment performance and progress towards its targets. The Fund is committed to working with LGPS Central to continue to improve the disclosures made in this area. The Fund commits to the following transparency and disclosure as part of regular reporting to the Local Pension Committee.

Quarterly	**Yearly**	**Biennial**	**Triennial**
Responsible Investment Update	Responsible Investment Plan	Climate Scenario Analysis	Pension Fund Valuation.
Summary Valuation including update on investment manager performance.	Climate Risk Report Report on Taskforce on Climate related Financial Disclosures, and Climate Stewardship Report		Review of Net Zero Climate Strategy
Risk Register	Strategic Asset Allocation		
	Reporting via the Fund's Annual Report		

The Fund will always look to publish Fund information publicly as far as possible in line with the Local Government Act 1972 Access to Information: Exempt Information schedule.



7. Decision Making

Strategic Asset Allocation

In order to achieve its targets, the Fund must embed its approach throughout its Strategic Asset Allocation (SAA) and Investment Strategy Statement. These set out the Fund's high-level process for allocating across different investment opportunities in order to achieve long-term objectives that is considered annually by the Local Pension Committee.

The SAA process ensures the Fund maintains an appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. This will be supported by the Fund's actuarial valuation and climate scenario analysis, every three years to ensure capital assumptions are informed by a realistic assessment of climate risks and opportunities.

In practice the Fund will consider a range of alternative investment approaches to manage risk and opportunities related to climate change, where there is a credible evidence base. These may include the following:

- Working with the Fund's Investment Advisor to utilise the climate scenario analysis to create a realistic assessment of climate-related risks and opportunities on the Fund portfolio.
- Reviewing and developing investment mandates to increase alignment with the Fund's commitment to Net Zero by 2050, with an ambition for sooner. This may include use of supplemental standard financial objectives to achieve the Fund's ambitions such as:

  - CO_2e/\$m invested (at least scope 1 and 2)

  - Climate solutions allocation as a percentage of a portfolio

  - Forward looking metrics that capture the transition potential of an asset
- Identifying variants of asset classes that use more systematic approaches to reduce carbon intensity and increase exposure to climate solutions.

Whilst taking these factors into account the Fund must also ensure the portfolio is not overexposed to specific risk factors. Ensuring it remains well-diversified across regions, technologies, and sectors and not over exposed to the risk of policy reversals, for example.

The Fund believes this approach will not only strengthen the Fund's resilience to climate risk but ensure the financial return of the Fund is preserved.

The Fund believes in minimal use of exclusions where it is aligned with the Fund's investment beliefs. Exclusions should be justified on financial grounds, on the basis of potential for significant financial risk, and/or where there is an expectation of improved financial returns.

Investment Manager Selection

The Fund assesses material climate-related risks and opportunities, alongside other relevant factors as part of the investment manager selection process. Potential managers that do not share what they do in relation to climate risk and responsible investment or share the Fund's view on the importance of integration of environmental, social and governance considerations, or the people, processes and systems to deliver on these convictions will not be chosen.

Following the move to asset pooling that majority of the Fund's investment managers are appointed and managed by LGPS Central. Central also integrate responsible investment factors into its decision-making and are committed to being active stewards of the companies in which they invest.

The Committee, after seeking proper investment advice, will agree specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation to the Fund. It will further look to manage risk and opportunities related to climate change, through the following methods where appropriate and the financial case is attractive:

- Consideration of alternative asset classes, including investment managers dedicated to renewable energy infrastructure.
- Investment mandates and benchmarks that specify climate-related objectives and performance objectives are clearly defined in line with the Strategic Asset Allocation.
- Use of passive index funds with low-carbon, high climate solution alternatives to standard benchmarks like MSCI World or FTSE 100. Subject, to replacement benchmarks demonstrating similar financial characteristics to standard equivalents

CASE STUDY: Equity – LGPS Central Climate Multi Factor Fund

The Fund has already transitioned £775million to LGPS Central's All World Equity Climate Multi Factor fund which incorporates three key climate change considerations: carbon emissions, fossil fuel reserves and green revenues. The fund integrates responsible investment criteria by tilting towards companies that are taking a proactive approach to environmental factors.

Importantly the investment also presented as a financially attractive investment opportunity due to financial return expected, and it's low cost as a passively managed fund.

To date the Climate Multi Factor fund has demonstrated a track record of generating better carbon metrics compared to the broad market indices. As at 30 June 2022, the weighted average carbon intensity of the fund is 62.5% lower than its corresponding broad market index.

Manager Monitoring Process

The Fund's Investment Managers should take into account any climate related risk when making their investment decision. The Fund will work with managers to ensure that these risks are being assessed and addressed. As a wholly externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund and those appointed by LGPS Central. Fund officers are having regular discussions with investment managers regarding reporting of climate metrics and will continue to do so including the Fund's interim targets once they are approved.

The Fund has established processes for in-depth manager monitoring. It receives quarterly reports from all Investment Managers that are presented to the Local Pension Committee. At the point a manager refuses to engage, does not provide credible evidence or reasoning to why they are failing financially on environment, social or governance factors the Fund has the power to replace an investment manager.

8. Stewardship, Engagement and Divestment.

Stewardship is defined by the Financial Reporting Council as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries

Depending on the asset class, there are various stewardship tools. The most important for the Fund at this stage are as follows:

- Engaging directly with current or potential portfolio companies, across all asset classes
- Collaborative engagement
- Voting at shareholder meetings
- Filing shareholder resolutions/proposals
- Engagement with policy makers and standard setters
- Engagement with the media to promote stewardship goals.

Engagement is the active dialogue with a specific and targeted objective. It is intended to put the stewardship role into effect. The underlying aim of engagement is to preserve and enhance the value of assets on behalf of the Fund and its beneficiaries. Informing the approach below, officers have held important regard for the widespread debate in relation to engagement versus divestment, which tends to polarise and dominate debate as seen in the varied response from the survey with scheme members and employers.

Engagement versus Divestment

The Fund questioned scheme members and employers view on engagement versus divestment. Respondents to the Fund's survey were split in their view of divestment and engagement, 35% (337) preferred engagement, with 31% (295) preferring divestment. 22% (215) preferred neither, with the 132 remaining respondents not expressing a view.

From analysis of the open comments on the question it is clear engagement and divestment is a divisive topic. The Fund has looked to take this into account in the approach set out below.

The Fund views engagement and divestment as proven and necessary elements of an effective approach to stewardship; and they should not be seen as mutually exclusive.

The Fund's Approach to Stewardship

The Fund sees stewardship activities as an important aspect of the Fund's approach to managing Environment, Social and Governance (ESG) risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activity. As set out in its four step plan below. This is supported by the Fund's investment beliefs within the Fund's Investment Strategy Statement.

The Fund has been a long-standing member of the Local Authority Pension Fund Forum (LAPFF) which engages directly with companies on behalf of the LGPS on a range of ESG issues. Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and LAPFF. The Fund also devises an annual Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

The Stewardship Plan monitors engagements with a focus list of investee companies that face a high level of climate risk and are of particular significance[14] to the Fund's portfolio.

There is a significant focus from a UK regulatory perspective on the use of engagement to advance companies' transition towards net-zero and the UK's climate goals given that these goals cannot be achieved through divestment alone. Effective stewardship is also considered to be best practice for institutional investors and is a key element of the Net Zero Investors Framework.

The Fund delegates its active engagement to LGPS Central, and other appointed investment managers and will work with them to communicate the Fund's stewardship priorities, to understand their practices and intentions and to monitor their activities. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). In practical terms the Fund has a four step plan for how it conducts stewardship activities.

Step 1: Evaluation

In line with the targets to increase the percent of the carbon emissions produced by underlying companies that are Net Zero, aligned, or subject to an engagement companies will be evaluated against the Climate Action 100+ Company Benchmark Indicators and the Transition Pathway Initiative[15]. These approaches were developed to allow asset owners to evaluate focus company action and the level of ambition in tackling climate change within portfolio, among the other criteria used when assessing stocks. For example:

- The Transition Pathway Initiative provides measures such as Management Quality ratings, which can be used to rate the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition[16].
- While CA100+ publishes a company assessment containing factual information about the company. The assessments indicate how the company performs against each relevant metric, as well as against each sub indicator and indicator. The Fund can use this to help it measure which companies are Net Zero, aligned, or subject to an engagement programme to bring that about.

This analysis will be utilised to understand how companies are taking steps to manage their own climate risk, and the level to which it covers the Fund's investments.

14 Perceived level of climate risk considering carbon risk metrics, weight of the company in the Fund, ability to leverage investor partnerships
15 www.climateaction100.org/net-zero-company-benchmark/
16 www.transitionpathwayinitiative.org/methodology

Step 2: Engagement

The Fund further supports the engagement objectives of the Climate Action 100+ initiative, that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement and disclose effectively using the TCFD recommendations. Either through membership of Local Authority Pension Fund Forum or through LGPS Central. The Fund has several partners that engage investee companies on climate risk.

The Fund will continue to work with partners to engage with companies to set Net Zero 2050 emissions targets and provide verifiable evidence of how that will be achieved in the short, medium, and long term.

Step 3: Voting

The instruction of shareholder voting opportunities is an important part of climate stewardship and will align with engagement activities. The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For Fund assets managed by the former, votes are cast in accordance with LGPS Central's Voting Principles, to which the Fund contributes during the annual review process.

LGPS Central's Voting Principles incorporate climate change, for example by looking to influence companies by voting against the Chair and other relevant directors or resolutions (including remuneration) at companies where their response to the risks and opportunities presented by climate change are materially misaligned with the Paris Agreement.

For Fund assets managed by appointed external managers, votes must be cast in line with industry best practice as set out in the accepted governance codes. The results of engagement and voting activities are reviewed by the Local Pensions Committee on a quarterly basis, via voting reports and the LGPS Central Quarterly Stewardship Update.

Another powerful tool are shareholder resolutions. Filing a resolution at a company meeting allows investors to escalate engagement on a particular issue. This ensures an issue is on the agenda for the Company and requires the company to publicly respond to the investors' asks. The Fund's partners regularly take lead on such resolutions, which often are climate related.

Step 4: Divestment

Divestment is the process of selling in part, or in full, an investment and can be achieved by the Fund in multiple ways, including:

- Reducing the strategic allocation to a specific asset class, for example high emissions asset classes.
- Reducing or eliminating the allocation to a specific investment manager, for example if they fail to integrate ESG factors effectively.
- Delegating decisions to divest individual portfolio companies to investment managers

Divestment can be considered a capital allocation decision and, if the transition of investment portfolios is completed by capital allocation alone, it will do little to support real-world decarbonisation directly. Facilitating the transition to net-zero in the real economy will require investors to actively support decarbonisation efforts through effective stewardship and engagement.

Due to this the Fund does not support blanket divestment at this time, given this can overlook the fact that risks and opportunities might often lie in the same sectors, for example within the oil and gas industry, some utilities with coal plants are also major developers of renewable energy.

The Fund looks to reduce its exposure to fossil fuel and expects Managers to view climate risk as a material factor. Where this is the case it is expected Managers would choose a company that is better aligned to decarbonisation within high emitting sectors, all else being equal, given their view of medium to long-term risk of companies. Taking a forward-looking approach avoids short-termism, which could ultimately reduce the predictability of long-term returns.

Ultimately this will improve the Fund's environmental measures, whilst maintaining the diversification that supports the long-term nature of the Investment Strategy Statement.

Without further policy measures by governments, the Fund unilaterally divesting holdings is unlikely to contribute to the decarbonisation of the real economy, which the Fund will continue to advocate with its investment managers to create a more sustainable economy.

The Fund expects its Investment Managers to escalate stewardship through voting and engagement over time. Where such engagements are unsuccessful, the Fund believes divestment should follow as a means of risk management, however this will be dependent on:

- Individual companies starting point.
- The sector, given different sectors would take longer to decarbonise than others, which have their own pathways for reduction. The Fund would look to support businesses that decarbonised roughly in line their sector pathways. Where they were not keeping up or were not committed would be the point to which the Fund and Managers look to divest.
- Those companies that may not have the resources to achieve decarbonisation.
- As part of the escalation of engagement to persuade decarbonisation.

The Fund's extensive selection criteria and processes for appointing investment managers should reduce financial and climate related risks to the Fund. In addition the Fund will monitor on a regular basis the integration of climate-related risks into the portfolio management, and to understand their engagement activities. Where there are concerns, Managers can be invited to Investment Subcommittee meeting to be questioned on investment performance and approach to climate risk.

At the point a manager refuses to engage, does not provide credible evidence or reasoning to why they are failing financially on environment, social or governance factors the Fund has the power to replace an investment manager.

9. Glossary

Term	Definition
1.5 degrees	The 1.5 °C target is the goal of the Paris Agreement, which calls for countries to take concerted climate action to reduce greenhouse gas emissions in order to limit global warming. Scientists believe limiting warming to 1.5 degrees would reduce the worst impacts of climate change.
Absolute carbon emissions	Also known as 'financed emissions', are absolute tons of CO2 for which the Fund is responsible from its underlying investments.
Asset Classes	An asset class is a grouping of investments that exhibit similar characteristics. The Fund invests in various asset classes such as: - Equities – Refers to money invested in a company by purchasing shares of the company in the stock market. - Bonds – Are issued by governments and corporations when they want to raise money. Investments in bonds are paid periodic interest payments. - Infrastructure – Investments contain physical assets such as bridges, roads, highways and energy. - Property – Investments in real estate. There are also less traditional asset classes such as Timberland which relates to investment in productive forestry and managed natural forests.
COP (Conference of the Parties)	A series of United Nations climate change conferences. The goal of which is to review progress made by the United Nations Framework Convention on Climate Change to limit climate change.
CA100+	Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Clean Technology	Companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.
Climate Solutions	Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.
Decarbonisation	The process by which the Pension Fund will look to encourage countries, companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.
Carbon Intensity	A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1 and 2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.
Clean Technology	Companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Term	Definition
Climate Solutions	Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.
Decarbonisation	The process by which the Pension Fund will look to encourage countries companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.
Fossil Fuel Reserves	The weight of the Pension Fund’s portfolio invested in companies that own fossil fuel reserves.
Greenhouse gases	Atmospheric gas emitted from all activities that involve burning of fossil fuels. These accumulate in the atmosphere and trap heat from the Earth’s surface, increasing warming (known as the greenhouse effect)
Investment Manager	An organisation to whom the responsibility for the day-to-day management of some of the schemes assets is delegated. The Investment Manager acts on the basis of the mandate, as agreed with them and their client (Leicestershire Pension Fund). The mandate may contain performance targets by reference to a benchmark.
Just Transition	A just transition seeks to ensure that the substantial benefits of a transition to Net Zero is shared widely, while also supporting those who stand to lose economically.
MSCI	A global provider of investment analysis tools, ESG and climate related data and product.
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
Physical Risk	The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.
Responsible Investment	The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.
tCO2e	Unit representing the amount of greenhouse gases emitted during a given period. Measured in tonnes of carbon dioxide equivalent.
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
Physical Risk	The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Term	Definition
Responsible Investment	The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.
Scope Emissions	Carbon emissions refers to the amount of carbon dioxide equivalent emissions that are released into the atmosphere. For the purpose of measurement they are divided into 3 types: **Scope 1 Greenhouse Gas Emissions** Direct emissions from owner or sources controlled by the owner, for example, from burning fuel in a fleet of vehicles. **Scope 2 Greenhouse Gas Emissions** Indirect emissions when the energy a company purchases and uses is produced. For example, the generation of electricity would fall into this category. **Scope 3 Greenhouse Gas Emissions** Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.
Stewardship	The promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.
Taskforce for Climate Financial Disclosures (TCFD)	Guidance produced by The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system to improve and increase reporting of climate-related financial information.
Transition Risk	The financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.
Voting	The act of casting the votes bestowed upon an investor, usually in virtue of the investor’s ownership of ordinary shares in publicly listed companies.

10. Key Fund Documents

The Local Pension Committee approves key policies and strategies as set out below, these documents underpin the Fund's approach to ensure any decision it takes has regard to the overall risk that the Fund assets are insufficient to meet its liabilities. These documents can be found on the Member Self Service website. Key related documents are the:

Annual Fund Report and Accounts	This 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.
Investment Strategy Statement	This sets out the approach to investment that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. As part of the Investment Strategy the Fund set out its support for the Principles for **Responsible Investment** (PRI) which are recognised as the standard for responsible investment for investors with fiduciary responsibilities.
Funding Strategy Statement	The purpose of this document is to establish a clear and transparent funding strategy which identifies how employers' pension liabilities are met.
Training Policy	This policy sets out how the Fund supports those charged with the governance, administration, and investment decisions for the Fund.
TCFD Report	Reporting under the Taskforce on Climate-Related Financial Disclosures. Structured around governance, strategy, risks management and metrics and targets.
Risk Register	The Fund's tool to effectively identify prioritise, manage and monitor risks associated with Leicestershire Pension Fund.
Climate Risk Report, Including Annual Stewardship Report	Through a combination of bottom-up and top-down analysis, the report was designed to allow the Fund a view of the climate risk held throughout its entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk.

Important Information

MSCI disclaimer

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Agenda Item 8

LOCAL PENSION BOARD

8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND – BUSINESS PLAN AND BUDGET 2023/24

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the Pension Fund's Administration and Investment Business Plans and Pension Fund budget for 2023/24.

Background

2. To demonstrate good governance, the Pension Fund's Budget and Business Plan are presented to the Board for consideration. The Business Plan is formed of two documents, one covers administration, the other covers investments.

3. The 2023/24 Business Plan and Budget will be presented to the Local Pension Committee in March 2023 for approval to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

Business Plan

4. The Pension Section's Administration Business Plan details the main changes that impact on the Pension Fund in 2023/24. The most significant are implementing a solution for the national Pensions Dashboards, ongoing implementation of McCloud, implementing the Pension Regulator's new Code of Practice, and reviewing the Fund's Additional Voluntary Contribution (AVC provider).

5. The key points are detailed in points 1, 3, 5 and 7. The Business Plan is attached as Appendix A.

6. The investments business plan covers five main areas, training, policies, asset allocation, fund valuation and reporting. One area of focus during the year will be delivery the implementation of Fund's first Net Zero Climate Strategy and ensuring it aligns with the Strategic Asset Allocation. Full details of individual work and deliverables are included within Appendix B.

Pension Fund Budget

7. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Corporate Resources, as the Fund's designated senior officer, has reviewed the Pension Fund budget independently considering the full need of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal;

    - Each administering authority must ensure their committee is included in the business planning process. Both Committee and LGPS senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.

8. The current budget covers the financial year 2022/23 with projected estimates out to 2025/26. A summary of the budget is shown below including current forecasts for 2023/24 to 2025/26. The 2023/24 forecast budget is expected to be sufficient to meet the Fund's statutory requirements.

Budget Heading	2021/22 Actual £'000s	2022/23 Budget £'000s	2022/23 Forecast £'000s	2023/24 Forecast £'000s	2024/25 Forecast £'000s	2025/26 Forecast £'000s
Investment Management Expenses (split into three areas)						
○ Management	23,146	27,400	24,826	25,792	27,518	29,339
○ Transaction	5,961	8,490	6,394	6,642	7,087	7,556
○ Performance	9,856	11,920	18,400	10,500	11,000	11,500
Sub Total	**38,963**	**47,810**	**49,620**	**42,934**	**45,605**	**48,394**
LGPS Central costs (Governance, operator running costs, product development)	995	986	1050	1216	1211	1271
Staffing	1,473	1,470	1,470	1,551	1,605	1,662
IT costs	448	510	510	520	530	540
Actuarial costs	163	400	200	150	150	400
Support Services / other	492	490	600	630	650	670
Total	**42,534**	**51,666**	**53,450**	**47,001**	**49,750**	**52,938**
% of assets under management	**0.77%**	**0.91%**	**0.95%**	**0.80%**	**0.79%**	**0.79%**
Average assets under management in year	**5,559,960**	**5,652,630**	**5,652,630**	**5,872,500**	**6,265,488**	**6,680,089**

9. The LGPS Central budget is agreed by shareholders before the start of the new financial year. An update will be provided later in the year once more accurate costs are agreed. At present the best estimates are included for 2023/24.

Investments

10. The fund holds no reserves and has no capital expenditure planned.

11. The total budget being forecasted for approval is £47.0 million for 23/24. A breakdown of the expenses is set out below.

Investment Management Expenses

12. Investment Management Expenses have been split into three sections, management fees, transaction costs and performance fees. There could be deviations from these numbers given the changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling or increased performance fees if mandates which are subject to performance fees when product investment returns are ahead of the hurdles required.

13. The 2022/23 investment management expenses are a forecast and will be subject to investment market returns that will be finalised after the financial year ends. The Fund has assumed a prudent long-term investment return for the purpose of this budget estimate.

14. The performance fee estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. At the time of setting the budget for 22/23 markets were far more stable and as such a prudent estimate was included within the 22/23 budget based on the prior year forecast. One manager in particular that the Fund invests in has had a very good year in terms of performance (+43% in 2022). Whilst this would be a good performance in most years it's especially good given the market conditions seen in 2022. As such a higher forecasted performance fee will be payable than budgeted.

15. Assets under management (AUM) has been estimated to grow over time plus an estimate for net contributions which is the sum of employer and employee contributions less pensions and lump sums paid. As the AUM increases, the pounds value of investment managers fees will increase given investment management fees are paid based percentages of asset values. The investment management expenses as a percentage of the Fund reduces all other things being equal as fixed costs are spread over a larger AUM.

16. The estimated investment management expenses are expected to increase from the 21/22 actuals each year as asset under management increase. In reality assets under management will not increase each year in a uniform manner and therefore variability should be expected.

LGPS Central costs oversight, governance and product development

17. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have not yet been approved for the financial year 2023/24. The Shareholder meeting is scheduled for February 28th 2023 when resolutions

will be presented for vote. At present the best estimate is included for 2023/24 costs. Where a budget cannot be agreed within timescales the shareholder agreement allows for a RPI based change on the previous years budget to be ratified.

18. The Fund's expected share of costs has been estimated at £1.2 million. These governance costs are split equally between the eight member local authorities. Operator running costs are split based on assets under management and product development costs are allocated based on products that our Fund has expressed an interest in. As time has passed the level of product development fees has reduced as the majority of Central products have been bought forward. There is likely to continue to be product development as Partner Funds have their own investment advisors with differing allocations and strategies being approved each year.

<u>Staffing</u>

19. The 2023/24 Pensions Administration staffing budget covers staffing related costs for 37 full time equivalent staff. This includes two temporary full time Pension Assistants employed solely to work on the McCloud project.

20. Whilst the final McCloud remedy is outstanding there remains uncertainty on the final implementation date. Officers are closely monitoring McCloud progress and reviewing the necessary resource needed. The Pensions Manager believes McCloud implementation will be the most challenging area of administration during 2023/24.

21. For 2023/24 Officers have assumed 5.5% increase in staffing related costs, then 3.5% in the following two years in line with the County Council's assumptions.

<u>IT Costs</u>

22. Following a full tender process, the Pension Section invested in a new pensions administration system in 2018/19 including pensioner payroll, IConnect for employers to submit data monthly, the main core system, workflow and image, and member self-service.

23. The cost of the system was detailed in the tender and annual costs remains at £500,000 each year, plus an element for annual inflation. The Pension Section purchased a new bank account verifier through the Heywood pension administration system in October 2022. This is used to reduce the risk of fraudulent payments being made.

<u>Actuarial Charges</u>

24. Actuarial charges are budgeted as £150,000 each year, and at £400,000 during Fund valuation years. Although 2022/23 was a valuation year the anticipated spend is lower than budget as some elements of the valuation were brought forward into 2021/22.

25. The total valuation spend is anticipated to be £150,000 lower than budget.

<u>Support Services/Other</u>

26. Support Services were made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit and Legal Services. More elements of work were brought in house including Central Print, Democratic Services, and more elements of Strategic Finance. The charges increased in 2022/23 to account for the additional elements of Pension Fund work brought inhouse. Other costs include annual subscriptions, tracing service charges, Officer qualifications, training for Officers, Committee and Board Members.

Budget Summary

27. Over 85% of the budget is spent on investment manager related expenses. Given that most investment manager expenses are based on a percentage of assets under management any increase in asset values, for example an increase in stock market/equity returns, will result in higher management fees paid in total.

28. Investment management costs are volatile and are likely to be higher than expected if investment performance exceeds assumptions. Therefore, the costs detailed in the report could significantly change if returns exceed expectations.

Recommendation

29. It is recommended that the Board notes the Business Plan and Pension Fund budget for 2023/24.

Equality and Human Rights Implications

None

Appendix

Appendix A: The Pension Section's Administration Business Plan 2023/24
Appendix B: Pension Fund Investment Business Plan 2023/24

Officers to Contact

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Appendix A

Pensions Administration

Business Plan

2023-2024

Level One – Changes that impact on the Pension Fund or Leicestershire County Council - (resourced from Pension Fund)							
	Priority (<u>Not</u> business as usual)	**Key Actions**	**Performance measures / KPI**	**Impact**	**Support required from another service**	**Customer**	**Timescale/ Due Date**
1	Implement a solution for the national "pensions dashboard" project	• Write new reports via Insights to identify data improvements • Data cleanse member data • Reduce backlogs of preserved benefits and aggregations • Use the Heywood ISP technical solution that meets the national dashboards requirements • Link the solution to the Fund's current member self-service solution • Communicate dashboards to employers and fund members	• Monitor the internal KPI measuring improved take up of the Fund's member self-service. • Monitor future increases in member self-service take up once linked to the national dashboard	• Increased administration cost for the solution • Resource required for report writing and data cleansing • Increased member enquiries about LGPS benefits • Review and amend communications and letters to include the national pensions dashboard	• Heywood (system provider) • Fund employers	• Pension Sections 99,000 scheme members	• Project work – phased development and improvement • March 2024 (data checks) • September 2024 (on boarded) • April 2025(live)

2	SAB – Good Governance Project	• Implement the final areas of recommendation from the Good Governance Project	• Continue to watch the national position • Guided by Hymans	• Improve the governance of the Fund • Reduce risk	• Hymans • Legal (potentially) • Other Funds (potentially) • Pensions Board, Committee and Democratic Services • CIPFA • SAB	• Scheme members	• No deadline set by SAB (on-going)
3	Implement the McCloud remedy	• Continue to collect hour changes from employers from 1 April 2014 to 31 March 2023 • Load the missing hours and service breaks into the pension system • Recalculate pension benefits for members since April 2014 • Potentially offer aggregations to those members who previously decided against transferring • Write to all impacted scheme members	• Revise benefits and adjust payments where necessary • Develop a KPI for amending the benefits for scheme members • Regular reports detailing progress and risk to the Pension Board	• Increased administration cost due to significant system development and manual data input • Monitor the impact on the other teams in the Pension Section – including the data loading requirements • Increased work and complexity for the Fund's employers (reporting and extracting the data)	• Pension colleagues (internal) • Payroll colleagues (all employers) • Heywood (system changes) • LGA • Legal Services (potential for legal appeals) • Teachers (multiple employment cases)	• All scheme members and their dependants	• After remedy is known (currently unknown but expected in early 2023) • Deadline for completion for active cases October 2023 • Other cases – still to be confirmed (but likely to be in 2024/25)

		• Certain Teachers service will be included as LGPS benefits					
4	Expand on the member self-service experience	• Develop more processes that members can complete on-line (e.g. preserved benefits into payment, refunds) • Amend processes • Set up new letters/workflows • Devise simplified checking processes	• Measure case numbers via the on-line system compared to the paper/postal route	• More efficient process for members and administration • Internal resource available to work on other pressing areas	• Heywood (system provider) • Scheme members	• All scheme members	• March 2024
5	Review and implement The Pension Regulators new Code of Practice	• Review the new code • Check the Fund's compliance against all areas of the new code • Make any necessary changes	• Report progress to the Pension Board	• Failure to comply could cause breaches of pension law	• Legal Services • Hymans • LGA	• All scheme members	• Currently unknown but the new code is expected in 2023
6	Agree with the Chair of the Pension Board training based on the "training need self-	• Training (internal and/or external)	• Report/s to the Board	• Reduce risk • Increase awareness • Further support	• All Board Members • Pensions Manager • Hymans • Legal Services	• Board Members • Admin Authority	• March 2024

	assessments”			the Administering Authority	• External Trainer	• Scheme members	
7	Formally review the Fund’s AVC provider	• Review the market possibly working within a national Framework • Set up a tender • Score the tender • Write to the scheme members and Fund employers • Officers to consider new investment fund choices	• Results of a formal tender review process • Investment options • Member charges • Reports to the Board and Committee	• Potential move to a new AVC provider • Liaise with scheme members about potentially swapping provider • Initially increased administration (during the tender build and during implementation)	• National AVC Framework or LCC lead tender • Fund Actuary • Officers • Fund employers	• Scheme members • Fund employers	• December 2023
Level Two – Changes that impact on or from Corporate Resources – nil							

Level Three – Pension Section (continuous improvement) – (Resourced from the Pension Fund) – All Business as Usual and continually monitored

	Priority (Business as usual)	Key Actions	Performance measures / KPI	Impact	Support required from another service	EHRIA required Y/N	Officer	Timescale/ Due Date
8	Maintain the Local Government KPIs at or above target, for all areas of Local Government pension administration.	• Key focus on making payments to scheme members within the current KPI	• Report the 3-business process and 7 customer perspective KPIs to the	• Maintain and improve customer service • Highlights any falls in service so these can be addressed quickly • Increased officer	• All fund employers	N	Ian Howe	On-going Quarterly reports to the Local Pension Board

		and customer satisfaction • Work closely with Pension Team Managers • Monitor changes in legislation • Monitor workloads • Monitor CIPFA benchmarking KPIs • Demonstrate value for money	Local Pension Board each quarter	morale – positive feedback is very welcome				
9	Implement ongoing customer service improvements	• Team Managers to explore ongoing customer service improvement opportunities • Implementation more online processes • Maintain the high standard within the customer help desk • Expansion of Member self-service and system modellers where	• Implement new KPI's and review measuring techniques	• Ensure the highest level of service available • Continually look to enhance and improve the customer experience	N	N	Ian Howe	On-going

		possible						
10	Continue to develop a suit of Insight reports	• Identify data improvement requirements • Look at various options on how Insights will improve efficiency covering all Teams	• Short term to long term pension changes reported monthly to Team Manager to monitor	• Improves efficiency • Reduces risk (e.g. over or under payments) • Eases workloads at year-end (spreading this throughout the year)	N	N	Ian Howe	On-going
11	Manage and reduce employer risk Keep the employer tracking system (EPIC) updated for monitoring employer changes and risks	• Continue to review bonds and guarantors • Continue to guide new TUPE outsourcings to pass-through pooling • Work with the remaining CABs on reducing their Fund risk • Monitor FE and HE bodies under a possible new DfE guarantee	• Negating the need for full bonds where possible • Assess bond values and take necessary action • Inform the Board each quarter	• Reduce fund related employer risk • Reduce full bond values by moving to pass-through when appropriate • Reduce outsourcing pension costs and risk • Reduce the risk of default by new employers at TUPE • Possible remodelling of FE and HE employer rates	• Hymans • Pensions Liaison Officer • Legal services • Employers	N	Ian Howe	On-going
12	Achieve all the statutory deadlines – ABS by 31 August and pension taxation statements by 6 October	• Work closely with Fund employers, especially those changing payroll providers	• Regulatory statutory deadlines	• Failure is a reportable “material breach” of pension rules • Reportable to The Pensions Regulator • Inform the Local	• All fund employers and their payroll providers • EMSS	N	Ian Howe	31 August 6 October

				Pension Board • Reputational damage				
13	Manage staff sickness levels within the Pension Section	• Team Managers to continue to manage sickness to keep as low as possible	• Pension Section target of 5.0	• Increased sickness – negative impact on morale, KPIs and targets, increased risk of failure with customer service standards and increases time for work completion	N	N	Ian Howe	On-going
14	Continue to develop the right balance between office and home working solutions	• Continue to reduce post moving more to MSS • Continue to improve workflow processes • Maintain close contact with all colleagues working from home	• Increase MSS take up targeting specific areas (e.g. members reaching age 55) • Target specific employers on MSS take up • Team Managers to liaise regularly with each member of their team • Pulse survey after each Office Meeting	• Maintain staff morale • Improved efficiency • Reduced risk • Maintain regular dialog with colleagues and adapt where possible to accommodate colleagues needs	N	N	Ian Howe	On-going

Pensions Administration

Overview

- Provides a statutory service administering the Local Government Pension Scheme to over 180 employers in the Leicestershire Fund with over 99,000 scheme members.
- Rated highly by customers for providing a positive customer experience
- Reports to the Leicestershire Local Pension Board and Pensions Committee, made up of both employee and employer representatives

Key drivers

- Continue to achieve or better, key performance indicators in business processes and customer satisfaction
- Continue to develop processes on-line to improve the customer experience, concentrating on improved efficiency, reduced risk and improved home working
- Develop bulk processes internally to improve efficiency and make resource available in other key work areas
- Implement the McCloud remedy
- Improve reporting and efficiency via Insights
- Implement a solution to the national dash boards exercise
- Maintain the right balance between home and office working, for both the service and colleagues

Ian Howe - January 2023

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Appendix B

Leicestershire County Council Pension Fund

Pensions Investment Business Plan

2023-2024

	Item	Key in year deliverables	Aims	Support required from another service	Timescales
Training	Continuous training of the Local Pension Committee	• Officers to review training policy and training needs self-assessment for members • Publicise LGPS Central's Annual Responsible Investment meeting date to LPC Members • Share details of quarterly LAPFF (Local Authority Pension Fund Forum) meetings with Members allowing opportunity to attend (virtually/in person) • New Members to have induction with relevant officer(s) and induction pack. Hymans training module 1 – intro to the LGPS • Hymans training for all officers and members in 22/23: - Mod 2 - LGPS Governance - Mod 4 – Funding and actuarial matters - Mod 5 - Investments • Create plan for 23/24 based on self-assessments	• Training needs to understand individual requirements, officers to advise Member accordingly • To build minimum standard of knowledge by improving RI understanding, knowledge of investment asset classes and Fund mandates • Highlight LAPPF engagement success and progress as well as informing of new areas of RI. • Hymans online training to generally improve knowledge in the most important areas for Committee members and officers	Training from external sources can include Hymans, LGPS Central, LAPFF, Funds investment managers	• March 2023 • Complete • Throughout year • As needed throughout year • Progress to be highlighted to officers and members quarterly • March 2023

Policies	Net Zero Climate Strategy	• Issue a Net Zero Climate Strategy Implementation plan and commence implementation. • Publication and communication of Strategy • Further development of measurements through future iterations of Climate Risk Report.	• To manage the climate risk and opportunities to the Fund arising from Climate Change. • To communicate to scheme members and interested parties.	External support / resource as required to be defined for selected workstreams, Hymans, LGPS Central, other external bodies	• Subject to March 2023 approval by June 2023 • Ongoing, multiyear timescales.
	Update Investment Strategy Statement (ISS)	• Annual update of ISS to include changes from 2023 Strategic Asset Allocation (SAA) review • Include elements from approved Net Zero Climate Strategy and how investment strategy may be affected	• Annual refresh to set the parameters within which the Fund's assets can be invested highlighting factors taken into account when deciding the investment strategy		• March 2023
	Annual Review of Fund's various policies and strategies	• To undertake a review of the Fund's various policies and strategies	• Annual refresh of relevant Strategies to reflect any developments within the Fund and its management (such as the NZCS). Or government guidance.	External Support/resource as required Hymans, LGPS Central or other external body.	Ongoing, as required
Asset Allocation	Enact the 2023 decisions from the Strategic Asset Allocation (SAA)	• Perform asset class reviews for: Listed equity, targeted return and protection assets • Create and propose implementation plan for associated outcomes	To complete Fund decisions proposed by Hymans and approved by Committee in Jan 2023	• The Fund's investment advisor Hymans Robertson	Currently planned as: • Listed equities and targeted return – April 2023 • Protection assets – July 2023

		• Enact other decisions as approved by the Committee in Jan 2023 throughout the year as appropriate			

	Investment manager presentations	• Four manager presentations covering 4 differing various classes at Pension Committee. Asset classes to chosen by officers throughout the year.
		• Each manager to cover the following:
		    ○ ESG – e.g. how they identify, assess, and manage climate risks
		    ○ Investment performance
		    ○ Market outlook for their sector
			• To improve the Committee understanding of the sector and mandates the Fund has investments within including LGPS Central's governance of external managers.
			
			• Question manager on the ESG polices and performance versus mandate goals
				Investment Manager attendance	• Investment managers TBC for quarterly committee meetings scheduled for March, June, September and December 2023.

	2024 Strategic Asset Allocation preparatory work	• Produce 2024 strategic asset allocation strategy refresh, including: • Net Zero Climate Strategy considerations • Balancing required return versus risk and updated medium/long assumptions for asset class returns. • Any potential asset class reviews	• To provide the Fund the right level of return taking into account all risks, assets and liabilities	• The Fund's investment advisor Hymans and any third party with respect to the NZCS	• The SAA is normally delivered for approval at the January Local Pension Committee meeting
Valuation	Triennial valuation	• Update Committee on variances arising from assumptions made within the latest valuation	• Early indication of the potential effects on the Fund and employers when the next triennial valuation takes place	• Hymans Robertson	• Half way through the 3 year cycle – ie October 2023 valuation point

Reporting	Annual Report and Accounts	Approval and publication of the Fund’s Annual Report and Accounts by 1 December in line with the LGPS Regulations.			
	Reporting	Review volume of information the Committee receives. Manager reports, for example add a fair proportion to the overall size of the pack.	• To improve the effectiveness of Committee meetings • To review and improve the Fund performance information the committee receives from the independent external company.		• During 2023
	Monitor the annual Budget	• To monitor the Annual Budget reflecting anticipated income and expenditure during 2023	• Provide indications of variances from the budget		• During 2023
	RI Plan	○ Quarterly reporting of engagement and stewardship activities ○ Further develop communication of climate risks ○ Consider reporting against the 2020 Stewardship Code [subject to review] ○ Implementation of the approved climate strategy • Review of TCFD reporting and Climate Risk Report with LGPS Central to streamline reporting and following outcome of	• To be compliant with the recommendations from the Fund’s TCFD report • Improve appreciation of climate risks from the 3rd iteration of the report • Improve the measurement of carbon metrics by investigating how previously uncalculated asset classes could be measured. [ie. corporate bonds]	• LGPS Central. LAPFF, Investment Managers reporting	• Climate Risk report to be delivered during the second half of the year and presented to committee at the December 2023 meeting. • Ongoing multiyear implementation of NZCS.

		Government's late 2022 consultation. • Reporting against the Fund's TCFD (taskforce on climate financial disclosures) recommendations which will include various disclosures covering the following: ○ Governance ○ Strategy ○ Risk management ○ Metrics and targets • Review and work with LGPS Central to develop fourth climate risk report for the Fund • Development of 2024 RI Plan including fourth Climate Risk Report recommendations and further implementation of the Net Zero Climate Strategy • Communication and response to government consultation re governance and reporting of climate change risks			
	LGPS Central	• Update Committee with Shareholder and customer activity with respect to actions or decisions taken at the Joint Committee and Company (central) meetings	• In line with good governance of the Fund		• As appropriate through 2023/24

	Respond to Government consultations and initiatives	• Participation with LGPS Central and individually where appropriate	• To allow government to hear the Funds views on various topics being consulted on.	LGPS Central, Hymans Robertson	• As appropriate through 2023/24

LOCAL PENSION BOARD

8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND CONTINUOUS IMPROVEMENTS REPORT

Purpose of the Report

1. To provide a regular update to the Local Pension Board regarding progress in respect of areas of identified as requiring improvement within the Pensions Section.

Background

2. The Continued Improvements and Systems team has been created to assess and improve existing processes, maximising the use of technology, whilst exploring other areas including tenders, new legislation, governance and data quality. Appendix A has been provided to cover the areas of improvement to be addressed, but the key developments since last quarter are provided in more detail below.

Bank Account Verifier

3. Heywood have introduced a facility for Fund Officers to verify scheme members' bank account details instantly through Altair. This allows scenarios, such as where the member has erroneously provided account details, to be spotted immediately and action to be taken. This avoids the situation where a payment has been attempted and rejected, resulting in a delay whilst a payment is re-submitted.

   When a request for verification is submitted, contact is made with a third-party supplier (GB Group, specialists who deal with data verification) to check the details. The following information is sent to the supplier:

   - Account number
   - Sort code
   - Title
   - Forenames
   - Surname

- Date of birth
- Members current address

The service awards a ‘score’ to each element of data that is provided. Where the following four elements are verified, a ‘pass’ will be awarded:

- Sort code verification passed in conjunction with provided account number
- Bank account number verification passed
- Bank account details matched to individual for a live account at current address
- Bank account age is over 12 months

The possible results that could be returned are:

Status	**Description**
Pass	The information provided match records held by the third-party supplier. The bank account is verified.
Refer	Some of the information provided matches records held by the third-party supplier.
Fail	The information provided does not match the records held by the third-party supplier.
Error	There was an error when attempting to verify the bank account details.

In addition, the Officer can manually change the status to ‘Pass (Overridden)’, should the status be shown as something other than ‘Pass’. This may occur where a bank account was set up less than twelve months ago, as this is deemed to be a sign of possible fraudulent activity. Where an Officer is satisfied that having contacted the member the account is legitimate, then the status can be overridden.

Verification checks are performed across all records relating to a specific member, so for those members with multiple pensions in payment, the account only needs to be verified against one record to verify all pension payments.

<u>Testing</u>

4. Some minor issues were raised as part of the testing process but were mainly resolved. One issue identified was where the data held by GB Group does not include sort codes, which means that as a full check could not carried out, the system was unable to confirm all data and produce a ‘Pass’. However, the

system was returning a ‘Fail’. Following feedback from Leicestershire, Heywood are currently arranging for this to be changed to a ‘Refer’, and an explanatory message advising why this could not be a ‘Pass’. The system is currently being updated with this change and once implemented, Officers will be able to sign this off and arrange for implementation into the Altair live system.

Online Retirement Process for Deferred Members

5. Heywood have introduced a facility for deferred members, who are registered for Member Self Service (MSS) to enable them to claim their deferred pension online by utilising new functionality available on the portal. The intention is that by promoting the use of this functionality, Officers will be able to continue to reduce reliance on paper by using the secure upload facility, and ultimately a quicker and more secure service can be provided.

There is also the same facility for active retiring members, but Officers have decided not to implement this initially.

<u>Tasks</u>

6. The new facility introduces the concept of ‘Tasks’ for the scheme member to complete. The tasks are:

(1) Acknowledge you have read document containing important information
(2) Upload two forms of identification
(3) Confirm Bank Details
(4) Confirm Contact Details
(5) Select Your Deferred Retirement Options
(6) Declare Any Other Pension Rights

The idea of the tasks is to allow the member to provide the various documents and information via MSS to allow Officers to bring the pension into payment.

Task one is a document that guides the member through the process, explaining what needs to be done, and includes key information regarding topics such as ‘Pensions Recycling’, ‘Freedom and Choice’ and ‘Right of Appeal’. The member is required to acknowledge that they have read the information by checking a box on-screen.

Task two requires the member to upload copies of two forms of identification, for example, Passport and Driving Licence, whilst task three asks the member to complete a screen supplying their bank account details. Task four is to confirm contact details, including home address and phone number.

Task five takes the member to a screen to choose the level of pension benefits due. As a deferred member the standard value of the member’s pension was calculated shortly after the member had terminated their employment. At this stage, all that is being amended is the calculation of any early retirement reduction that may apply, and also the level of the lump sum and pension if the member should choose to opt to provide a larger lump sum. Once the member has decided on the level of pension and lump sum to take, then they can submit those amounts through the task.

The final task allows the member to declare whether they are in receipt of any other pensions. Once all tasks have been completed a system ‘Workflow’ is created on the member record, instructing Officers to implement the payment of benefits.

Issues

7. There are some issues with the process in its initial format.
    - Marital Status is not requested;
    - Trivial Commutation data is not included as standard and instead the member needs to contact Pensions outside of the process;
    - The option for the member to declare whether they intend to use their Lump Sum for ‘Pensions Recycling’ is not available unless they declare that they have other pension benefits.

The three issues were initially raised with Heywood and to date no immediate solutions have been offered. Officers are currently investigating workarounds whilst also contacting other funds for possible solutions.

Aggregation Review

8. Officers have recently begun a review of the processes relating to the aggregation of records where a member leaves, then subsequently re-joins the scheme. Depending on which scenario applies, the regulations allow members to aggregate or elect to leave their records separated.

The aim is to work through each scenario and look to streamline all areas including communications, checking and updates to the system. This is a complex area, particularly where multiple scenarios occur simultaneously, which can happen to members with multiple deferred benefit records.

More information on this topic will be provided at a future Local Pension Board meeting.

Recommendation

9. It is recommended that the Local Pension Board notes the report.

Equality and Human Rights Implications

10. None specific.

Appendices

11. Appendix A: Areas of Improvement

Appendix B: MSS Registration Figures

Officers to Contact

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Area	Affected Team	Aim	Target Completion Date	Comments added 23082021	Comments added 08112021	Comments added 18012022	Comments added 08042022	Comments added 17012023
Member Self Service	Continued Improvements	To increase number of scheme member registrations, by raising awareness through online demos, articles and targeted comms with various categories of members, e.g. pensioners, deferreds, actives.	On-going	Meetings held with Leicestershire Police and County to promote MSS with articles and include references in existing documents. In addition, an article sent to other employers for inclusion in their comms, to remind members that Annual Benefit Statements will be available through MSS.	A further ten employers have been contacted, including Leicester City Council, to offer articles on MSS for publication on internal websites.	More employers have been contacted, bringing the total up to 35. These employers will also be contacted again around March/April 2022.	A further 13 employers have been contacted since the last update.	50 employers have been contacted in total and articles are being added periodically to employer intranets
Member Self Service	Continued Improvements	To use MSS facilities to allow letters to be uploaded to members to reduce postage, and allow for them to return their forms in the same way.	On-going	This is being used where possible now for retirement, estimate and aggregation letters that do not require a response. In addition option forms are now available online for use where a member has been provided with their retirement options.	Officers currently working on further option forms to be published online for increased use of MSS upload facilities which will result in a further reduction of incoming paper documents.	-	Work continues on these documents.	Online Retirement Process is being worked on for deferred members approaching retirement. Further detail in the main report.
Printing/Scanning Solutions	Continued Improvements / Early Leavers	To explore alternative approaches to printing and scanning with a view to enabling all pensions staff to work from home.	Summer 2021	Scanning now dealt with by LCC's Central Print with training on-going for printing.	Awaiting formal costs and a Service Level Agreement from colleagues in Central Print.	SLA still outstanding from Central Print.	Details of costs have been received from Central Print and have been agreed. SLA is expected by the end of May.	SLA now signed off.
Employer Risk	Continued Improvements / Employers and iConnect	To purchase or develop an employer tracker system, to assist officers in monitoring employer related data including contribution payments and bonds, resulting in a reduction of risk. Consider whether overlaps between Pensions contribution monitoring work and work carried out by Investments can be addressed.	Summer 2021	EPIC System now purchased. Preparatory work to be completed by 30/7 to allow test version to be released in mid August with live version scheduled for September.	EPIC in live and is being used by officers. Work currently on-going digitalising archive employer documents for use on the system.	-	Officers have started looking at Employer Risk elements with Hymans Robertson as part of the Fund Valuation work. Initially this has consisted of risk checks on colleges and the largest academies.	Work on the colleges was concluded as part of the recent valuation. A small number of Community Admission Bodies are also being looked at, and work continues on those.
Governance	Continued Improvements / Payments and Taxation / Employers and iConnect	Examine areas of governance, including the implementation of the recommendations made by SAB's 'Good Governance' Project, ensuring that the section is compliant in all areas	On-going	Awaiting further guidance from MHCLG due Autumn.	Guidance still awaited	Guidance still outstanding.	Guidance expected later this year.	Guidance still outstanding
Employer Training	Continued Improvements	To increase comms with employers, mainly through use of MS Teams	On-going	Nothing scheduled currently.	Training with two employers in place for October/November with two others to follow.	A number of presentations to employers have taken place since the last update. These are currently through Teams but the intention is to revert to Face to Face as soon as national Covid restrictions ease.	Presentations continue to take place as required, though currently still online whilst Covid cases are still hgh.	Presentations now take place face to face for scheme members based at their place of work.
McCloud Project Phase 1	McCloud / Continued Improvements	Employers to provide member data to Pensions, i.e. hours changes and service breaks covering the period April 2014 to March 2022, which we will need to upload to our records prior to implementation of the 'remedy' once confirmed, to assess whether pension benefits will need to be adjusted in light of the McCloud/Sargeant ruling.	30/06/22	Work on-going with this exercise, with data being formatted ready for uploading to pensions administration system.	Uploading issue identified. Currently awaiting further guidance from Aquila Heywood on how to proceed. Further details in main report.	This issue is with Aquila Heywood. They have identified a possible solution and an update is awaited.	Update is expected on this from Heywood at the end of April.	Separate report provided on this topic.
McCloud Project Phase 2	McCloud / Continued Improvements	Implementation of the 'remedy', including the recalculation and amendment of benefits, plus communication to scheme members of the changes. Remedy may also include other aspects, e.g. possible option for members to aggregate any separate records, yet to be confirmed.	31/12/22	Draft reguations expected later this year.	-	-	Regulations expected this year.	Regulations expected this year.
Data Quality Issues	Continued Improvements	Data Errors raised through the annual Common Data / Scheme Specific Data reports need to be cleared in order to improve the TPR 'Data Score'. Other data errors raised through Hymans' Data Portal as part of preparation for Mid Term Valuation Exercise.	TPR Reports 31/7/2021: Mid Term Valuation Exercise 30/9/2021	Work has been done in both areas and will continue.	Work completed, barring an apparent systems issue in two errors currently being investigated. Hymans are aware and deadline has been extended to 31/10/2021	The two errors referred to previously were resolved and the data was submitted to Hymans.	As per the main report, Current Common and Scheme Specific Data scores to be included each report. Figures as at 6th April 2022 are: **Common Data: 97.2%; Scheme Specific Data: 97.59%**	Latest figures as at 10th January 2023 are: **Common Data: 97.3%; Scheme Specific Data: 97.84%**

Cyber Security	Continued Improvements	In preparation for the annual Cyber Security review in October, an internal review of Officers' permissions on the altair administration system to be performed.	31/10/21	Preparation on this has begun, to assess for any inconsistencies between officers performing similar duties.	Officers permissions review is currently in progress and the annual review took place on 12th October 2021. No issues identified but official sign off not available at the time of writing - will cover this at next Board meeting.	The review was completed and signed off. See main report.	As per the main report, a Cyber Policy Document will be developed later this year.	Cybe Policy Document in place. Report was provided at previous meeting
Insights Reporting Tool	Continued Improvements		On-going			Insights was purchased in December 2021 and initial training was provided by Heywood. Heywood currently working on two reports for Leicestershire. Details in main report.	Insights now in regular usage as Officers develop reports for the tool. Further details in the main report, but future developments will appear here.	Insights being used as BAU in respect of reports written by both Officers and Heywood.

Member Self Service Statistics as at 28th December 2022
Figures show members who have partially or completely registered for MSS

	Current Figures for Board Report dated 28th December 2022 — All Employers	Figures for Board Report dated 6th April 2022 — All Employers	Current Figures for Board Report dated 28th December 2022 — County	Figures for Board Report dated 6th April 2022 — County	Current Figures for Board Report dated 28th December 2022 — City	Figures for Board Report dated 6th April 2022 — City	Current Figures for Board Report dated 28th December 2022 — Police	Figures for Board Report dated 6th April 2022 — Police
Active Members	**15934 (42.56%)**	**14505 (39.07%)**	**3362 (42.00%)**	**3237 (39.81%)**	**3424 (40.35%)**	**3158 (38.25%)**	**924 (54.55%)**	**876 (51.14%)**
0-39	3389 (28.41%)	2885 (24.53%)	729 (29.69%)	679 (27.47%)	630 (24.52%)	560 (22.84)	236 (36.82%)	220 (33.59%)
40-49	3630 (38.89%)	3212 (34.74%)	779 (36.76%)	719 (33.35%)	695 (34.98%)	615 (31.62%)	177 (53.31%)	169 (48.99%)
50-59	5963 (53.27%)	5666 (49.87%)	1234 (52.35%)	1226 (49.6%)	1309 (50.29%)	1263 (48.34%)	362 (70.57%)	339 (66.34%)
60+	2952 (59.30%)	2741 (57.61%)	620 (58.44%)	613 (59.46%)	790 (60.54%)	720 (57.78%)	149 (72.68%)	148 (73.27%)
Deferred Members	**9616 (30.62%)**	**8711 (28.33%)**	**2787 (29.07%)**	**2579 (26.84%)**	**2068 (26.82%)**	**1930 (24.99%)**	**405 (39.44%)**	**349 (35.22%)**
0-39	1507 (19.75%)	1366 (17.83%)	326 (17.86%)	294 (15.42%)	274 (15.76%)	275 (14.86%)	116 (27.88%)	94 (23.04%)
40-49	2340 (26.22%)	2104 (24.20%)	588 (22.83%)	564 (21.89%)	542 (23.26%)	480 (21.15%)	105 (39.33)	97 (37.45)
50-59	4578 (38.56%)	4254 (36.12%)	1483 (36.35%)	1381 (33.29%)	1024 (35.03%)	973 (32.96%)	138 (49.82%)	130 (47.79%)
60+	1191 (38.56%)	987 (37.64%)	390 (35.42%)	340 (34.73%)	228 (33.24%)	202 (32.27%)	46 (68.66%)	28 (53.85%)
Pensioner Members	**13983 (46.00%)**	**12711 (43.01%)**	**4583 (42.22%)**	**4230 (39.60%)**	**3399 (45.43%)**	**3096 (42.73%)**	**533 (58.70%)**	**424 (54.86%)**
Dependant Members	**713 (22.67%)**	**660 (21.09%)**	**238 (23.49%)**	**229 (22.39%)**	**175 (23.09%)**	**166 (22.10%)**	**24 (28.24%)**	**19 (23.17%)**

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LOCAL PENSION BOARD – 8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MCCLOUD REMEDY PROGRESS REPORT

Purpose of the Report

1. The purpose of this report is to provide an update to the Local Pension Board regarding progress in respect of preparations for the implementation of the 'McCloud' Judgement for Leicestershire County Council Pension Fund. A previous report on this topic was presented to the Board on 17th August 2022.

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 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 to remove the discrimination. To do this, member records will need to contain full details of service history between April 2012 and March 2022. This is not data that is currently held, so this needs to be requested from employers.

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 extremely complex and 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.

Issues

3. As work progresses, several issues have been identified.

Interface Tool

The software suppliers, Heywood, have developed an interface tool specifically for the McCloud exercise.

Use of the original version of the interface did cause some existing data to be overwritten for a small number of records. Following urgent discussions with Heywood, a re-vamped version of the tool was created, along with a process built around the Heywood reporting tool, Insights.

However, there are still issues. The software had now been designed to load all data in respect of members chronologically within the same submission, starting with the oldest data first, but this is proving challenging to arrange. For example, where a scheme member changes employers multiple times, it would be extremely time consuming to collate this data into one load, without assessing every file (some of which have yet to be provided), to establish the order in which to load the files. Officers have already established that the correct order for one person may not be the correct order for another (A member moves from employer A to employer B – we would need to load employer A first. Another member moves from employer B to employer A – we would need to load employer B first).

This will mean that some rows will be inadvertently submitted out of sequence (newer lines going in before older lines) for some members, causing an error. Errors result in more data needing to be loaded manually.

There have also been other issues, already raised with Heywood, that have caused complications in the process.

Historic Policy Decision

4. In the 1980’s, a decision was made by Officers that where scheme members held multiple employments concurrently with one employer, those members would only have one record created on Altair. Initially, this related to only a small number of cases, but as the scheme rules changed to allow more part-time employees to join the LGPS, this led to an increasing number of cases of this nature.

Following the introduction of i-Connect, employers were advised that any data relating to new scheme members with multiple positions, must be submitted to Altair separately to enable one record to be created per employment. This means that some members with multiple jobs have a corresponding amount of records on Altair, but others (historic cases) have only one.

For the historic members, data supplied for this exercise would need to be combined. However, the data provided by many employers has been split out by employment for both categories of members, meaning that there is a need for Officers to identify which data can be posted directly to the member records and which data will need to be manually combined before posting.

Payroll Providers

5. Many employers have changed payroll providers since April 2014, adding to the complexity of collating the data for the whole of the period that is required.

In the case of the County Council, the move from the older version of the Oracle system to Oracle Fusion meant that two separate reports of hours changes needed to be supplied, one from either system. There has been an overlap in the data provided by both systems relating to the hours that were effective at the time of transferring systems. This resulted in two lines of duplicated data being supplied for most of the scheme members.

Officers may need to manually filter out the overlapping data to avoid superfluous data being posted, although an automated solution is currently being investigated. In addition, cases have been identified where the dates on the latest report appear to be incorrect and ultimately mean that the latest report will need to be re-run.

Schools

6. Although by April 2014 a large number of schools had become academies, many have since become part of a larger Multi Academy Trust. This has added an extra layer of complexity to the task of collating the data as where changes of employers, administrators and payroll providers have occurred, establishing where to obtain the data from has become increasingly complicated.

Payroll References

7. To enable employer data to be matched to an Altair record, it was expected that a combination of National Insurance numbers and payroll references could be used. Where a scheme member has retired, the payroll reference held on Altair has been updated to show their pensioner payroll reference and old payroll references have been overwritten, meaning that the payroll reference cannot be used as a field to match data to records for those members. As a result, matching must be based on National Insurance numbers, which will only work if there is only one record on Altair. For a significant number of scheme members this isn’t the case.

Current Progress

8. The latest position is as follows:

Number of employers that have provided all required data and records have been updated:	21
Number of employers that have provided all required data and are currently being worked on:	14
Number of employers that provided all required data and are ready to be worked on:	23
Number of employers that provided all required data but has been returned to the employer:	65
Number of employers that have provided some of the data, or have not provided any data:	72
Employers with miscellaneous issues:	4

In addition, the number of data lines identified as of 13th January 2023 that are unsuitable for automatic loading are below. This data only relates to the 35 employers where all data has been provided and have either been completed or are work in progress. These figures are not the final amount and will increase as work progresses. However, we are unable to quantify the amount that these figures will increase by at this stage.

Employer	**Lines identified to date**	**Lines dealt with**	**Lines remaining**
Leicestershire County Council	Still to be assessed	-	-
Leicester City Council	15,958	7,540	8,418
Other Employers	4,702	2,555	2,147
Total	20,660	10,095	10,565

Next Steps

9. An action plan was included with the previous report outlining the approach to the project and the approach remains broadly unchanged apart from one minor change and the target dates. An updated version is included in Appendix A.

Officers continue to investigate ways to automate the upload of as much data as possible. For example, an issue has been identified in respect of members with multiple employments paid by East Midlands Shared Services (EMSS). Whilst the initial view is that this would greatly increase the number of cases that need to be looked at manually, possible automated solutions to the issue are currently being discussed with our Business Partner.

Reminders continue to be sent to employers who have yet to provide all the required data.

Other areas of the project that still need to be addressed are:

Aggregation of Records

10. It is possible that there will be further work to do with regards to scheme members who had previously had the opportunity to aggregate old deferred pension records with their new active pension record and declined to do so. It is expected that these members will be offered a further chance to aggregate those records before they are assessed for a possible underpin.

Teachers

11. There will also be a requirement to carry out work in respect of some members of the Teachers' Pension Scheme (TPS).

The implementation of the McCloud remedy in the Teachers' Pension Scheme (TPS) means that some teachers will be retrospectively eligible for the LGPS for the period 1st April 2015 to 31st March 2022.

This relates to historic legislation that stated where teachers who were members of the TPS final salary scheme and held both a part-time and full-time employment concurrently, the part-time employment was ineligible for the TPS but eligible for membership of the LGPS.

This will be another extremely challenging area for Funds and the work will involve:

- Identifying affected members;
- Adjusting employee and employer contributions;
- Obtaining data to create LGPS records;
- Adjustments where benefits are already in payment;
- Transfers back to the TPS after remedies are established

Details in respect of this element of the project are still being established and further information will be provided in a later report.

Tax Implications

12. HMRC recently concluded a consultation on how pension tax will apply to members protected by the McCloud remedy. The legislation is planned to take effect from 6th April 2023 and will cover all public sector pension schemes and not all will be relevant to the LGPS. The areas relevant to the LGPS include:

- How underpin increases are treated for annual allowance purposes;
- Whether any additional payments made are authorised payments;
- Whether additional amounts of death grants paid after the normal two year deadline are taxable payments

Once the legislation is confirmed an exercise will need to be undertaken to identify and assess the members that are impacted by this and take appropriate action, which again will impact on resources.

System Updates

13. Altair will need to be updated to allow remedy calculations to be done, and some initial work on this has begun. However, all elements will not be in place until the final regulations are signed off.

Once all updates are in place, Officers will need to test the system to ensure the calculations work as expected.

Calculations

14. Once the McCloud legislation comes into force then any member who is due to have their pension brought into payment will have their LGPS benefits assessed to establish whether they are eligible for a McCloud ‘underpin’ element to be added to their benefits.

In the event that the deadline is not met, officers will need to address records on a case-by-case basis at the point of retirement. If a member is in scope and hours are not updated then action will be taken. This will impact on the time taken to process a case.

Those scheme members who have already left employment and pension benefits have already been calculated will also need records assessed to establish entitlement to an underpin once their records have been updated.

Processes

15. Processes will need to be established for both ‘Business as Usual’ work, such as the upcoming retirements, but also the additional work required to re-visit those members who have already left including those members whose benefits are already in payment to enable payment of any arrears that are due. Whilst it is expected that the number of cases where arrears are due will be low, there will still be an impact on resources.

Audit

16. Internal Audit continue to be kept informed of the situation and this report has been shared with them in advance. Following the Internal Audit exercise that was undertaken and signed off in June 2022, a follow-up Audit will be conducted during 2023/24.

Resource

17. Two temporary Pensions Assistants joined the Pension Section in October 2022 (initially for six months) and they have been working solely on McCloud, in addition to Pension Officers who are also assisting with McCloud. It is expected that further resource will be needed to assist with the volume of data entry. The Pensions Manager continues to assess staffing levels required for the McCloud project.

Communication

18. Later this year, communication will need to be issued to members to provide up to date information once legislation has been introduced. It is expected that the wording of these documents will be agreed nationally.

Discussions regarding the McCloud exercise continue at each National LGPS Technical Group meeting whilst, due to the size and complexity of the task, the LGA collate all Fund progress each quarter.

Finally, a report will be taken to the Local Pensions Committee in March 2023 that will include the Pension Sections 23/24 Business Plan, detailing the key priorities in 2023. The report will confirm that McCloud will be the largest area of work outside of the regular ‘Business as Usual’ areas.

The expected October 2023 deadline is very challenging and currently will be extremely difficult to meet. McCloud remains on the Fund risk register and this continues to be monitored.

Officers continue to work on McCloud in preparation of the expected legislation and once received will then be better placed to work through the deadlines for each element of the McCloud remedy. The suggested deadlines in Appendix A are designed to provide an indication only at this stage.

Recommendation

19. It is recommended that the Board notes the report.

Equality and Human Rights Implications

20. None specific

Appendix

21. Updated Action Plan

Background Paper

Local Pension Board – 17 August 2022 – McCloud Remedy Report

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Appendix A

	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)	30th September 2023
3	Load data into Altair Insights Reporting Tool for assessment Amend any data following assessment and reload into Insights to ensure data is clean.	Assistant Team Manager (Continued Improvements)	30th September 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)	30th September 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)	30th September 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)	30th September 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 January 2024

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LOCAL PENSION COMMITTEE – 8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND TRAINING UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Board with an update on the Pension Fund's Training Policy which details the Fund's approach to delivery, assessment and recording of training, which members of the Local Pension Committee and Board are expected to complete in order to demonstrate a suitable level of knowledge and understanding.

Background

2. The Pensions Regulator (TPR) identifies good governance as essential for a pension scheme to be successful. The following extract from TPR's website explains the link to training:

   > "There is a clear link between good governance and good fund performance so it is an essential part of effective scheme management. Without good governance, you are unlikely to achieve good outcomes for members. Good governance is about having motivated, knowledgeable and skilled people involved with running the scheme. It's also about having the right structures and processes to enable effective, timely decisions and risk management, and to provide clear scheme objectives. It helps you to effectively oversee:
   >
   > - administration and record-keeping
   > - investment and funding (in local government schemes)
   > - communications with members
   >
   > You should spend time and resources getting your scheme governance right. This will help you to minimise risk and maximise opportunities for your scheme and your members. Investing in good governance is likely to save you in the long run, delivering good value for members and employers, and improving member outcomes."

3. The Fund's Training Policy was first approved by the Local Pension Committee on the 8 November 2019. The latest version of the Training Policy was approved by the Committee on 25 March 2022.

4. The policy and regular training, is required because of:

    - the distinction of fiduciary duty owed to the Fund, compared to members and officers' usual business.
    - the complexity of pension and investment issues.
    - inevitable changes in the membership due to the election cycles.
    - the Fund being treated by investment managers as a professional client.
    - the potential consequences of not administering the Fund in an appropriate manner
    - responsible investing, and how the Fund achieves this.

5. The importance of training is reflected in the Terms of Reference of both the Committee and Board which states the membership must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.

Training Policy

6. Members of both the Local Pension Board and Committee should demonstrate a suitable level of knowledge and understanding. The Training Policy sets out the Fund's approach to delivery, assessment and recording plans.

7. Board and Committee Members are asked to complete a Training Needs Assessment on a yearly basis. The anonymised results are attached as Appendix A. The results of the questionnaire, together with the current priorities for the Fund are used to decide on the approach and topics of training offered. As of 20 January 2023, 15 out of 19 Committee and Board members had completed the assessment.

8. Officers, on a regular basis, inform Committee and Board members of relevant training opportunities, including:

    - Face-to-face sessions provided by external bodies, for example, THE Local Government Association.
    - Face-to-face sessions held internally, delivered by officers and/or the Fund's providers, for example, actuary, investment advisers, investment managers. Sessions may be held jointly with both Committee and Board, or held separately, depending on priorities and availability. Some sessions may be held adjacent to scheduled meetings and may be linked to specific issues on the agenda.
    - Recommended reading material to keep up-to-date with pensions issues.
    - Modules of the Hymans on-line training package These modules are web based and include a video summary from pensions professionals, printable slides if needed and knowledge checks at the end of the module. There are six modules to complete which cover the following:

        - Module 1 – an introduction to the LGPS
        - Module 2 – LGPS Governance and oversight bodies
        - Module 3 – administration and fund management
        - Module 4 – funding and actuarial matters
        - Module 5 – investments
        - Module 6 – current issues [topics are regularly updated and added to this module by Hymans]

9. In addition, induction training is made available for all new members of the Committee and Board, including potential substitute members.

10. Each Member of the Local Pension Committee also receives an updated Information Pack which will contain information key to their role as set out in the Training Policy. The pack is focused on investment related areas in the main hence being more geared towards the Local Pension Committee.

11. However, it is intended that the pack will be updated post the March 2023 Committee meeting and recirculated given the key updates expected, including production of a pack more geared towards the Board. The contents of the Committee pack is shown below and will be subject to change over time.

	Title	**Purpose**	**To be Updated**
1	AGM Presentation	General Background	December 2022
2	Investment Strategy Statement	Provides the structure in relation to how the Fund's investments are managed	March 2023
3a	Asset Strategy and Structure	Details the allocation of assets to specific classes, the rational and expected return	January 2023
3b	Investment Mapping to LGPS Central Pool	Comparison of current investments to LGPS Central's expected offering	
4	Responsible Investment and Engagement Framework (LGPS)	Explains how Environmental, Social and Corporate Governance (ESG) factors are accounted for in LGPS Central's investment process	
*	Net Zero Climate Strategy	The Fund's Approach to Managing Climate risk and Opportunities	March 2023
5	Actuarial Valuation Report	High level outcomes from the 2022 actuarial valuation	March 2023
6	Funding Strategy Statement	Governs how employers pay their liabilities	March 2023
7	Active Equities Newsletter	Explain use of Style Analytics in manager monitoring	
8	Investment Performance Overview	Demonstration and Explanation of Portfolio Evaluation's manager performance reports	
9	LGPS Central accounts	Updated annually. Year end March. Accounts available later in the year.	
11	Summary of member benefits	Shows the key features of the LGPS	
12	Local Fund governance	ToR for LPC and LPB	
13	Web links covering National Governance	To cover: Regulations for governance, benefits and investments, guidance, scheme advisory board, pensions regulator code of practice, section 13 review of funding by government actuary, cost cap mechanism	

14	Training	Web link to pensions regulator toolkit as well as the Fund training policy.	

12. Completion of the training needs assessment and records of training by Committee and Board members, is included within the relevant Annual Report. Appendix B provides a summary of the training undertaken by the Pension Board and Committee since March 2022.

Recommendation

13. It is recommended that the Local Pension Board notes the report.

Equality and Human Rights Implications

14. None.

Appendices

Appendix A – Training Needs Assessment Anonymised
Appendix B – Current Training Progress March 2022-February 2023

Background Papers

Local Pension Committee – 25 March 2022 – Training Policy Refresh

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Appendix A - Training Needs Assesment as at 11 January 2023

General Understanding - LPC and PB	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	PB	LPC	PB	PB	PB	PB
General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment	3	2	3	3	2	4	3	4	2	3	3	4	3	3	4
The roles and powers of the UK Government in relation to the LGPS	2	3	3	3	2	4	3	4	3	2	2	3	2	3	3
The main features of the LGPS legislation relating to benefits, administration and investment	3	2	3	3	2	4	3	4	3	3	3	4	3	3	3
The role of the Council as administering authority in relation to the LGPS in relation to the Fund	3	2		3	2	4	3	4	3	3	3	4	4	3	4
The stakeholders of the pension fund (including members and employers) and the nature of their interests	3	3	3	3	2	4	4	4	2	3	3	4	3	3	4
Investment pooling and the role of LGPS Central	3	2	3	3	2	4	4	4	3	3	2	3	4	3	3
The role of the LGPS Scheme Advisory Board and how it interacts with other bodies in the governance structure	3	3	3	3	2	4	2	3	2	3	2		3	3	3
The roles and powers of the Pensions Regulator	3	3		3	2	4	4	3	2	2	2	4	3	3	3
Awareness of the Pensions Regulator's Code of Practice for public sector pension schemes	3	3	3	3	2	4	2	2	2	2	2	3	3	3	3
The role of the Pension Board	3	2		4	2	4	2	4	3	4	2	4	4	3	3
The roles of the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of LGPS	3	2	3	3	2	4	2	3	2	2	2	4	3	3	3
The role and statutory responsibilities of the Administering Authority's treasurer and monitoring officer	3	2		3	2	4	3	4	3	2	2	3	3	3	3
Accounting and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice	3	2	3	3	2	4	4	3	3	2	3	3	3	3	3
How the Fund communicates with stakeholders and consults with them on changes	3			4	2	4	4	4	3	3	2	4	3	3	4
Key risks facing the Fund	3	3	3	4	2	4	4	4	3	3	2	3	3	3	3
How pension fund management risks are monitored and managed	3	2	3	4	2	4	4	3	2	3	2	3	3	3	4
Potential conflicts of interest, how they are identified and managed	3	2	3	4	2	4	4	3	3	3	1	4	3	3	4
An understanding of how breaches in law are reported	2	2	3	4	2	4	4	3	3	2	1		3	3	3
Funding - LPC															
The role of the fund actuary.	4	3	3	3	2	4	4	4	2	3	3		3	3	
The actuarial valuation process, including developing the funding strategy in conjunction with the fund actuary	3	2	3	3	2	4	4	4	2	3	3	2	3	3	
The key assumptions in the actuarial valuation	3	2	3	3	2	4	4	4	2	3	3	2	3	3	
The types of employer eligible to join the Fund	4	2	3	3	2	4	4		3	2	3	3	2	3	
The importance of the employer covenant and the relative strengths of the covenant across the Fund's employers	3	2	3	3	2	4	3	4	2	2	3	1	2	3	
How employers' contribution rates are set	3	2	3	4	2	4	4	4	2	3	3		3	3	
Where an employer leaves the Fund, how the promised pensions liabilities are paid for	3	2	3	3	2	4	2	3	2	3	3	2	3	3	
How employer outsourcings and bulk transfers are dealt with	2	2		3	2	4	2	3	2	2	2	2	3	3	
An understanding of the Fund's Funding Strategy Statement	3	2	3	4	2	4	3	4	2	3	3	3	3	3	
Investment - LPC															
The role of the Fund's investment in paying future pension payments	4	3		3	2	4	4	4	3	3	3	2	3		
The risk and return characteristics of the main asset classes (equities, bonds, property etc) the role of these asset classes in long-term pension fund investing.	3	2	3	3	2	4	4	4	3	3	3	2	3	3	
Awareness of the Fund's Statement of Investment Principles	3	2	3	3	2	4	4	4	2	3	3	3	3	3	
Awareness of the Fund's current investment strategy	4	2		4	2	4	4	4	2	3	3		3	3	
Key aspects of investment strategy and investment manager monitoring	3	2	3	3	2	4	4	3	2	2	3	2	3	3	
The Fund's approach to responsible investment	4	2	3	4	2	4	4	3	3	3	3	2	3	3	
The Fund's membership and role of the Local Authority Pension Fund Forum (LAPFF)	4	2	3		2	4	2	2	3	2	2	1	2	3	
Pensions Administration - PB															
The Fund's pensions administration strategy and how the service is delivered to the Fund's members and employers	3	2	3	4	2	4	3	4	3	3	2	3	3	3	4
The Fund's strategy of communicating with key stakeholders including members and employers	4	2	3	4	2	4	3	4	3	3	2	3	3	3	4
Understanding of the required and adopted scheme policies and procedures relating to: •member data maintenance and record-keeping processes •internal dispute resolution •contributions collec...	3		3	4	2	4	4	3	2	3	2	4	2	3	3
LGPS discretions and how employers' discretionary policies impact on the pension fund	3	2	3	4	2	4	2	3	2	2	2	4	2	3	3
The tax treatment of pensions including pensions, retirement lump sums, annual allowance and lifetime allowance	3	2	3	3	2	4	3	4	2	2	2	4	2	3	4
The Fund's Additional Voluntary Contribution (AVC) arrangements, the choice of investments offered to members and the oversight of the provider's performance	3	2	3	4	2	4	3	4	2	2	2	4	4	3	3
Statutory deadlines and Key Performance Indicators (KPIs)	4	2		4	2	4	3	3	2	3	1	4	3	3	3

1 = I have no knowledge
2 = I have some, but limited, knowledge
3 = I am reasonably familiar but additional training would be helpful
4 = I am fully conversant

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Appendix B – Training Progress March 2022 - January 2023

Meeting Training

LPC March 2022

- Hymans Valuation Training
- Infrastructure – IFM Presentation

LPC June 2022

- Pre-meeting induction for new LPC Members
- Club Vita Presentation & Valuation Assumptions
- Private Markets – LGPS Central
- Equity – LGIM Macro Update

LPC November 2022

- Short Dated Investment Grade Credit – Aegon
- LGPS Central Climate Risk Report

		March 2022	June 2022	November 2022
Tom Barkley CC	LPC	yes	yes	yes
Cllr A. Clarke	LPC	yes	yes	yes
Cllr. M. Graham	LPC	yes	apols	yes
Cllr Grundy	LPC	-	yes	yes
~~Cllr. Frost (to May 2022)~~	~~LPC~~	apols	-	-
Mr.Z. Limbada	LPC	apols	yes	yes
~~Mr. A. Wilson (To December 2022)~~	~~LPC~~	yes	yes	apols
Mr. N. Booth	LPC	apols	yes	yes
Mr. G. Lawrence (From December 2021)	LPC	yes	yes	yes
Mr. C. Pitt (from December 2022)	LPC	-	-	-
Mr Bill (from May 2022)	LPC	-	yes	apols
~~Dr Feltham (to May 2022)~~	~~LPC~~	yes	-	-
~~Mr. Merrie MBE (to May 2022)~~	~~LPC~~	yes	-	-
Mr. Grimley (to May 2022)	LPC	yes	yes	yes
Cllr. S. Waddington (From January 2022)	LPC	yes	-	yes
Mrs A. Wright (from May 2022)	LPC	-	yes	apols
Mr. P. King (from May 2022)	LPC	-	yes	yes

LPB 5 May 2022

- Hymans Actuarial Valuation

LPB 26 October 2022

- Roles of Advisors and other Key Persons/Bodies

		05-May-22	26-Oct-22
Mrs. R. Page	LPB	yes	Yes
Mr. R. Shepherd	LPB	yes	Yes
~~Cllr. D. Bajaj~~	LPB	yes	/

Cllr. V. Singh Riyait (from November 2022)	LPB	-	-
Mr. M. Saroya	LPB	yes	Yes
Ms. C. Fairchild	LPB	yes	Yes
Ms. R. Gilbert	LPB	yes	apols

Hymans Module Training (up to end of December 2022)

Fullname	Course Name	LGPS Role	Course Enrolment Status
Adam Clarke	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Adam Clarke	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Adam Clarke	Module 5 - Investments	Pension Committee	Subscribed
Adam Clarke	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Adam Clarke	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	In Progress
Adam Clarke	Module 6 - Current Issues	Pension Committee	Subscribed
Amanda Wright	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Amanda Wright	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
Amanda Wright	Module 5 - Investments	Pension Committee	Subscribed
Amanda Wright	Module 6 - Current Issues	Pension Committee	Subscribed
Amanda Wright	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Amanda Wright	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Ashley Wilson	Module 6 - Current Issues	Pension Committee	Completed
Ashley Wilson	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Ashley Wilson	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Ashley Wilson	Module 3 - Administration & Fund Management	Pension Committee	Completed
Ashley Wilson	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Ashley Wilson	Module 5 - Investments	Pension Committee	Completed
Caroline Fairchild	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Caroline Fairchild	Module 5 - Investments	Pension Board	Completed
Caroline Fairchild	Module 6 - Current Issues	Pension Board	In Progress
Caroline Fairchild	Module 3 - Administration & Fund Management	Pension Board	Completed
Caroline Fairchild	Module 1 - An introduction to the LGPS	Pension Board	Completed
Caroline Fairchild	Module 4 - Funding and Actuarial Matters	Pension Board	Completed
Nigel Grundy	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Nigel Grundy	Module 6 - Current Issues	Pension Committee	Subscribed
Nigel Grundy	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Nigel Grundy	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Nigel Grundy	Module 5 - Investments	Pension Committee	Subscribed
Nigel Grundy	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Daniel Grimley	Module 6 - Current Issues	Pension Committee	Completed

Daniel Grimley	Module 5 - Investments	Pension Committee	Completed
Daniel Grimley	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Daniel Grimley	Module 3 - Administration & Fund Management	Pension Committee	Completed
Daniel Grimley	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Daniel Grimley	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
David Bill	Module 5 - Investments	Pension Committee	Subscribed
David Bill	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
David Bill	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
David Bill	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
David Bill	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
David Bill	Module 6 - Current Issues	Pension Committee	Subscribed
Deepak Bajaj	Module 6 - Current Issues	Pension Board	Subscribed
Deepak Bajaj	Module 5 - Investments	Pension Board	Subscribed
Deepak Bajaj	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Subscribed
Deepak Bajaj	Module 1 - An introduction to the LGPS	Pension Board	Subscribed
Deepak Bajaj	Module 4 - Funding and Actuarial Matters	Pension Board	Subscribed
Deepak Bajaj	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Geoff Lawrence	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Geoff Lawrence	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Geoff Lawrence	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Geoff Lawrence	Module 5 - Investments	Pension Committee	Completed
Geoff Lawrence	Module 6 - Current Issues	Pension Committee	Completed
Geoff Lawrence	Module 3 - Administration & Fund Management	Pension Committee	Completed
Manjit Saroya	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Manjit Saroya	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Manjit Saroya	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Subscribed
Manjit Saroya	Module 5 - Investments	Pension Board	Subscribed
Manjit Saroya	Module 6 - Current Issues	Pension Board	Subscribed
Manjit Saroya	Module 1 - An introduction to the LGPS	Pension Board	Completed
Malise Graham	Module 6 - Current Issues	Pension Committee	In Progress
Malise Graham	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Malise Graham	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Malise Graham	Module 5 - Investments	Pension Committee	Completed
Malise Graham	Module 3 - Administration & Fund Management	Pension Committee	Completed
Malise Graham	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Nick Booth	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Nick Booth	Module 6 - Current Issues	Pension Committee	Completed
Nick Booth	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Nick Booth	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed

Nick Booth	Module 5 - Investments	Pension Committee	Completed
Nick Booth	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Phil King	Module 6 - Current Issues	Pension Committee	Subscribed
Phil King	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Phil King	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
Phil King	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Phil King	Module 5 - Investments	Pension Committee	Subscribed
Phil King	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Richard Shepherd	Module 5 - Investments	Pension Board	In Progress
Richard Shepherd	Module 3 - Administration & Fund Management	Pension Board	Completed
Richard Shepherd	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Richard Shepherd	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Richard Shepherd	Module 6 - Current Issues	Pension Board	Subscribed
Richard Shepherd	Module 1 - An introduction to the LGPS	Pension Board	Subscribed
Rosita Page	Module 1 - An introduction to the LGPS	Pension Board	In Progress
Rosita Page	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	In Progress
Rosita Page	Module 5 - Investments	Pension Board	In Progress
Rosita Page	Module 3 - Administration & Fund Management	Pension Board	In Progress
Rosita Page	Module 6 - Current Issues	Pension Board	Subscribed
Rosita Page	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Ruth Gilbert	Module 6 - Current Issues	Pension Board	Subscribed
Ruth Gilbert	Module 4 - Funding and Actuarial Matters	Pension Board	Completed
Ruth Gilbert	Module 5 - Investments	Pension Board	Subscribed
Ruth Gilbert	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Ruth Gilbert	Module 1 - An introduction to the LGPS	Pension Board	Completed
Ruth Gilbert	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Sue Waddington	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Sue Waddington	Module 6 - Current Issues	Pension Committee	Subscribed
Sue Waddington	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Sue Waddington	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Sue Waddington	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Sue Waddington	Module 5 - Investments	Pension Committee	Subscribed
Thomas Barkley	Module 6 - Current Issues	Pension Committee	Subscribed
Thomas Barkley	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Thomas Barkley	Module 5 - Investments	Pension Committee	Subscribed
Thomas Barkley	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Thomas Barkley	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Thomas Barkley	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	In Progress
Zubair Limbada	Module 3 - Administration & Fund	Pension Committee	Subscribed

	Management		
Zubair Limbada	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Zubair Limbada	Module 6 - Current Issues	Pension Committee	Subscribed
Zubair Limbada	Module 5 - Investments	Pension Committee	Subscribed
Zubair Limbada	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Zubair Limbada	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed

Other External Training

External Events

LGPS Governance Conference 2023

Ms. C. Fairchild	LPB

LGPS Fundamentals (three day course) 2022

Mr M Saroya	LPB
Ms. C. Fairchild	LPB
Mr P King	LPC
Mr. G. Lawrence	LPC

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Agenda Item 12

LOCAL PENSION BOARD – 8 FEBRUARY 2023

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 Local Pension 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
    - Liability
    - Employer
    - Governance
    - Operational
    - Regulatory

5. There have been no changes to any of the risk scores since the Local Pensions Committee meeting in November 2022, however there are some minor 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 continues to develop a Net Zero Climate Strategy to take account of the risk and opportunities related to climate change. Final approval is expected in March 2023.

- 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

  A national Framework is being scoped to enable Funds to review and tender for AVC providers. It is expected this will be complete by the end of 2023.

6. To meet Fund Governance best practice, the risk register has been shared with Internal Audit, who have considered the register and are satisfied with the current position.

Recommendation

7. It is recommended that the Board notes the revised risk register of the Pension Fund.

Equality and Human Rights Implications

None

Appendix

Appendix - Risk Register

Officers to Contact

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Mr I Howe, Pensions Manager

Tel: 0116 305 6945 Email: Ian.Howe@leics.gov.uk

Appendix - Leicestershire Pension Fund Risk Register January 2023

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. Last reviewed January 2023.	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	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.	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate Shareholders' Forum, Joint Committee and	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	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
				expected	Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case		Practitioners' 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 a specialist transition manager will be appointed, with independent specialist oversight. Transitions are phased over time to allow capacity to be managed and lessons learned					that poorer relative 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 how the company and products delivered evolve. 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**	Some assets classes or individual investments perform poorly as a	Opportunity cost within investment returns, and potential for actual	Chris Tambini	Ensuring that all factors that may impact onto investment returns	**3**	**4**	**12**	**Treat**	Responsible investment aims to incorporate environmental	**3**	**3**	**9**	Bhulesh

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
			within the setting of asset allocation policy and/or the appointment of investment managers	result of incorrect assessment of all risks inherent within the investment.	returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.		are taken into account when 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					(including Climate change), social 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 (final approval planned March 2023) a Net				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
							corporate governance and corporate responsibility.					Zero Climate Strategy to take into account the risk and opportunities 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	**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
												contribution rates with a view to calculating monetary contributions 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 with final approval of employer rates due in March 2023. 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		**Pens**	**If contribution bandings and contributions are**	Errors by Fund employers payroll systems when	Lower contributions than expected.	Ian Howe	Pension Section provides employers with the annual	**4**	**2**	**8**	**Treat**	Pension Officers check sample cases	**4**	**1**	**4**	Ian Howe

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	Employer		**not applied correctly, the Fund could receive lower contributions than expected**	setting the changes	Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary		bandings each year. Pension Section provides employers with contributions rates (full and 50/50) Internal audit check both areas annually and report their findings to the Pensions Manager					at year-end Pension Officers to report major failings to internal audit before the annual audit process 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 took place to develop continued improvements. A further meeting is to follow. A national Framework is being scoped to enable Funds to review	**3**	**1**	**3**	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
												AVC providers				
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 ultimately increase the deficit of all other employers.	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 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	**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
												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**	**2**	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
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 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. Developed a new Cyber risk policy	**5**	**1**	**5**	Stuart Wells
13		**Pens**	**If immediate**	Human error when	Reputation	Ian	Benefit Team	**5**	**2**	**10**	**Treat**	A more automated	**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
	Operational		**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**	setting up immediate payments or calculating a pension System failures Unable to meet weekly deadlines	Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly Over or under payments	Howe	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					one-off payment process in place Officers re-engineered the retirement process Monitor the structure of the Pension Section to resource the area sufficiently New immediate payments bank account checks system Officers developed an Insights report to identify discrepancies between administration and payroll sides of the system Ongoing officer training notes Continued develop the workflow tasks Funds over and under payment policy				
14		**Pens**	**If all the transfers out checks are not completely fully there could be**	Increasing demand for transfers out from members	Reputation Future bad advice claims brought	Ian Howe	TPR checks Follow LGA	**3**	**3**	**9**	**Treat**	Escalation process to Internal Legal Colleagues to check IFA, Company set	**3**	**2**	**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
	Operational		**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**	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	against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost		guidance Queries escalated to Team Manager then Pensions Manager					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 change requires checks on the receiving scheme's arrangements Internal audit review of both transfers in and out of the Fund.				
15	**Operational**	**Pens**	**Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity**	Late or no notification of a deceased pensioner. Fraudulent attempts to continue to claim a pension	Overpayments or financial loss Legal cases claiming money back Reputational damage	Ian Howe	Faraday monthly reporting process of UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes	**3**	**3**	**9**	**Treat**	Moved to 6 monthly 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	**3**	**1**	**3**	Ian 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	**Regulatory**	**Pens**	**The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	Mr McCloud winning his appeal on age discrimination on 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	Ultimate outcome on both McCloud and the cost cap are currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals	Ian Howe	Guidance from LGA, Hymans, Treasury	3	3	9	**Treat once details are confirmed**	Employer bulletin to employers making them aware of the current situation on 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	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
				2016 cost cap, could result in possible benefit recalculations if the challenge is successful	Increased costs							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 judgement. Internal Audit review of progress to date. Quarterly updates to the Board				
17		**Pens**	**The implication of the national dashboard project could increase**	National decision to implement pension dashboards thereby enabling people to	Increased administration Data cleaning	Ian Howe	Initial data cleaning started Contract made with	**3**	**3**	**9**	**Treat once final details are confirmed**	Work with LCC's internal IT Team Security checked on	**3**	**2**	**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		**administration resulting in difficulties providing the ongoing pensions administration service**	view all their pension benefits via one single dashboard	exercise on member records Increased system costs Additional communications Timing of the national exercise (April 2024) potentially conflicts with McCloud (October 2023)		the system provider on building the data link					the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board				

Risk Impact Measurement Criteria

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

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
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
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 Very Rare/Unlikely	**2** Unlikely	3 Possible/Likely	4	5 Almost certain

Probable/Likely

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)

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