Meeting: **Local Pension Board**

Date/Time: **Wednesday, 16 October 2024 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Mrs A. Smith (0116 305 2583).**

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

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 31 July 2024.		(Pages 3 - 6)
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 July to September 2024 - Quarter Two.	Director of Corporate Resources	(Pages 7 - 28)
6.	Local Government Pension Scheme - Current Developments.	Director of Corporate Resources	(Pages 29 - 48)
7.	Funding Risk Update and 2025 Valuation Planning.	Director of Corporate Resources	(Pages 49 - 84)

8.	Risk Management and Internal Controls	Director of Corporate Resources	(Pages 85 - 96)
9.	Any other items which the Chairman has decided to take as urgent.		

TO:

Employer representatives

Mrs. R. Page CC
Mr. R. Shepherd CC
Cllr. E. Cutkelvin

Employee representatives

Mr. A Cross
Ms. R. Gilbert
Mr. M. Saroya

Minutes of a meeting of the Local Pension Board held on Microsoft Teams on Wednesday, 31 July 2024.

PRESENT

Mrs. R. Page CC (in the Chair)

Mr. A Cross
Mr. R. J. Shepherd
Mr. A Stewart.

1. Minutes.

The minutes of the meeting held on 17 April 2024 were taken as read, confirmed and signed.

2. Question Time.

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

3. Urgent items.

There were no items for consideration.

4. Declarations of interest.

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.

5. Pension Fund Administration Report, April to June 2024 - Quarter One.

The Board considered a report of the Director of Corporate Resources which provided information of the main administrative actions in the first quarter period from April to June 2024. The report also covered governance areas including administration of Fund benefits and the performance of the Pensions Section against its performance indicators. A copy of the report marked 'Agenda Item 5' is filed with these minutes.

During presentation of the report, the Director:

i. Highlighted that some contractual issues with one of the Additional Voluntary Contribution (AVC) providers had been resolved, and they would be added to the new AVC Framework which had gone live on 22 July 2024.

ii. Drew Members attention to Appendix D of the report, and how implementation of the McCloud remedy had impacted officers and other areas of work. It was noted that a recruitment process was underway to both promote and appoint new staff.

iii. Reported that following publication of the report, under the 2023/24 year-end preparation, data had since been published for Relish (Symphony LT), and BAM FM (Tudor Grange AT) had submitted updated data.

iv. Informed Members that Coombs Catering and ABM Catering had not signed admission agreements by the 31 July 2024 year-end requirement. As the deadline had not been met there was the option to charge those employers for additional time spent on the cases, which the employers were aware of. Each would be written to shortly to reiterate the position.

RESOLVED:

That the Pension Fund Administration Report, April to June 2024, quarter one be noted.

6. <u>Pension Fund Annual Report and Accounts 2023/2024.</u>

The Board considered a report of the Director of Corporate Resources which sought the Board's comments on the Annual Report and Accounts of the Pension Fund for the financial year 2023/24. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

RESOLVED:

That the Pension Fund Annual Report and Accounts for the financial year 2023/24 be noted.

7. <u>Local Pension Board Annual Report 2023/2024.</u>

The Board considered a report which sought the Board's approval of the Local Pension Board Annual Report for the financial year 2023/24. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Arising from the discussion, the following points arose:

i. Members sought clarification on the tables containing information regarding completion of the Hyman's training modules. It was explained that Hyman's Robertson had updated the online modules in June 2023 and that information on previously completed modules had not been carried across. It was further noted that in-person training sessions to cover the modules had commenced in April 2024, completion of which would be included in the Annual Report for 2024/25.

ii. The Board supported the contents of the report, which would be reported to the Local Pension Committee on 6 September, and at the Fund's Annual General Meeting on 9 December 2024.

iii. Members thanked Pension staff who had and continued to work incredibly hard, providing an excellent service.

RESOLVED:

That the Local Pension Board Annual Report for 2023/24 be approved.

8. The Pension Regulator's Code of Practice.

The Board considered a report of the Director of Corporate Resources, which summarised Fund Officers' initial view of compliance in respect of The Pension Regulator's General Code of Practice, the number of criteria with which funds must comply to satisfy the requirements of the Code, and the findings from the initial assessment by Fund Officers across all relevant subject areas. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

A Member queried under Appendix B, Expectations of a Chair rated as 'Not Completed'. It was explained that the role of Chairman for both the Board and the Committee were being written as part of the requirement under 'Best Practice'.

RESOLVED:

That the report on The Pension Regulator's Code of Practice be noted.

9. Risk Management and Internal Controls.

The Board considered a report of the Director of Corporate Resources which provided information on key 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.

RESOLVED:

That the report on risk management and internal controls be noted.

10. Dates of Future Meetings.

The dates of future meetings of the Board scheduled to take place on the following dates were noted:

16 October 2024
5 February 2025
9 April 2025
30 July 2025
15 October 2025

10.00am to 10.44am CHAIRMAN
31 July 2024

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LOCAL PENSION BOARD – 16 OCTOBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT

JULY to SEPTEMBER 2024 - QUARTER TWO

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board (LPB) of the main administrative actions in the second quarter period from July to September 2024. The report covers governance areas including administration of Fund benefits and the performance of the Pensions Section against its Performance Indicators. The LPB 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 107,000 members.

3. Items that previously were in the Continuous Improvement report are incorporated into this report in respect of topics such as McCloud, Pension Dashboards and The Pension Regulator's Code of Practice.

Performance Indicators

4. 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

5. The results for the quarter July to September 2024 are included at Appendix A. The figures continue to be lower than target, particularly on business processes. However, performance in respect of notifying members of retirement benefits within

ten days of receiving the paperwork has increased by 10% when compared to the previous quarter. The number of pension benefits paid within ten days has also increased and is now at 89% of cases for the quarter.

6. The team that deals primarily with retirements and deaths has some newer staff that are learning aspects of the role. It is expected they will be able to process more types of leaver benefits from January 2025, which should help improve the business process KPIs from then.

7. Two additional temporary staff joined on 30 September 2024 and they will focus on deferred benefits to try and reduce outstanding cases.

Governance – Service Delivery

General Workloads

8. The tables show the volumes in each work area during the months July to September 2024.

9. 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.

10. 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	▲

July 2024

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 that can be processed at month end**	**Rating**
Preserved Benefits	230	402	2093	2495	1,000	▼
Retirement Options	271	304	301	605	300	►

Retirements Paid	217	239	75	314	300	▲
Deaths	90	158	99	257	200	▲
Refunds	92	221	41	262	400	▲
Pension Estimates	135	18	25	43	250	▲
Transfers in	35	132	205	337	200	►
Transfers out (excluding interfunds out) *	22	13	47	60	100	▲
Aggregations	200	192	2817	3009	1,000	▼
New starters set up**	660	n/a	n/a	n/a	n/a	n/a

August 2024

Area	**Cases completed** (calculated and checked) in the period	**Cases that require more information** (cases that are on hold)	**<u>Cases that can be processed</u>** (cases that can be worked on)	**Total cases**	**<u>Maximum target number of cases that be processed at month end</u>**	**Rating**
Preserved Benefits	187	382	1908	2290	1,000	▼
Retirement Options	296	293	288	581	350	▲
Retirements Paid	210	221	79	300	350	▲
Deaths	92	185	111	296	200	▲
Refunds	60	220	35	255	400	▲
Pension Estimates	49	17	52	69	250	▲
Transfers in	28	137	205	342	200	►
Transfers out (excluding interfunds out) *	36	21	49	70	100	▲
Aggregations	398	186	2667	2853	1,000	▼

New starters set up**	431	n/a	n/a	n/a	n/a	n/a

September 2024

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 that be processed at month end**	**Rating**
Preserved Benefits	140	377	1793	2170	1,000	▼
Retirement Options	279	297	312	609	300	►
Retirements Paid	233	234	80	314	300	▲
Deaths	112	170	89	259	200	▲
Refunds	127	241	36	277	400	▲
Pension Estimates	91	11	45	56	250	▲
Transfers in	58	135	202	337	200	►
Transfers out (excluding interfunds out) *	44	20	48	68	100	▲
Aggregations	396	181	2479	2660	1,000	▼
New starters set up**	948	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 I-Connect interfaces load files provided by the employers.

Governance – General

Complaints – Internal Disputes Resolution

11. 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.

12. In the second quarter period there were no new IDRP Stage 2 cases.

13. An earlier case already at Stage 2 was not upheld. The case may now be taken to the Pension Ombudsman by the partner of the scheme member.

Breaches Log

14. 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.

15. There were breaches in the quarter, in respect of 10 members whose Annual Benefit Statements were issued 16 days late. This relates to three employers, Bradgate Park Trust (consisting of 2 members), ABM – City, Crown Hills (2 members) and Coombs – LCC, St. Bartholomew's (6 members). The statements were late due to legal admission agreements not being completed in time.

16. The admission agreements for the above three employers were signed and completed in early September 2024 and annual benefit statements were produced for all the members involved by 16 September 2024. No comments or complaints were raised by any of the members following receipt of their statements.

17. Officers would not deem these "material" breaches, given the reasons for the delay and the swift resolution of the issue.

Governance – Audit

18. During the quarter, one new Internal Audit report was received relating to the initial assessment of The Pension Regulator's Code of Practice.

19. The Audit team are also currently continuing to work through the Pensions Increase exercise and findings will be included in the next Board report.

Code of Practice

20. The audit objective was to provide assurances to management that the requirements of the new Code of Practice have been adequately addressed. A report detailing the requirements of the Code was presented to the Board at the meeting held on 31 July 2024.

21. Whilst the report gave substantial assurance, some recommendations were made:

- Seek to define further what a "material breach" might entail by establishing metrics to help determine when a breach is likely to be considered material.

- Consider adding target deadline dates to the tracker, along with responsible officers, particularly for the actions not directly under the Pension Section's control.

22. The recommendations were accepted and will be implemented.

Pension Website

23. The Fund currently provides scheme members with a website that contains general information about the Local Government Pension Scheme, plus Leicestershire-specific content such as policy documents and news items, e.g. notification of the Fund's AGM.

24. The website also includes Member Self-Service (MSS), an online portal that scheme members can register for to view personal information about their scheme benefits, plus access to functionality such the Benefits Projector which allows users to perform their own retirement calculations.

25. The web package was purchased from Heywood in 2019. However, they have now given their customers notice that MSS will be made 'End of Life' on 31 January 2026.

26. As a replacement, Heywood have offered 'Engage', essentially a refresh of MSS. For scheme members currently registered on MSS, they will be able to login to Engage using their existing MSS credentials. All functionality available in MSS will be included in Engage, so there will be minimal impact on members.

27. Officers have now agreed to move over to Engage. Work will begin in September 2025 and is expected to be completed by November 2025. The implementation will require resource from officers, which is expected to be mainly testing, but further clarification on this will be provided in a future report. There will be a one-off implementation fee but annual fees that were already being paid in respect of MSS will remain unchanged.

28. Officers will be discussing the position with Heywood over the coming weeks and a demo of the system is scheduled for mid-October.

29. Heywood have advised that Engage does not include the facility to create a general website with Fund-specific content, so an alternative provider will be required for this aspect. Officers have held initial conversations with LCC Digital Services about a new website to host this content. Digital Services have confirmed that they can build this for the fund, having secured an agreement in principle from their internal 'Pipeline Board'.

30. Further talks with Digital Services are due to be held in late October to establish next steps.

31. Members will be informed of these changes prior to the new websites going live.

32. A further update on this issue will be provided at the next Board meeting.

TPR Code of Practice Update

33. Further to the report presented to the Board on 31 July 2024, work has begun addressing the following areas of partial or non-compliance. Priority has been given to the areas where there are regulatory requirements to comply.

34. The following areas of work have been completed or are in progress:

35. An internal document has been created, detailing the expectations of the Chair and has been approved by LCC's Head of Law. The document has also been shared with the Chair of the Board.

36. A refreshed procedure detailing how breaches of law are reported to the Pensions Regulator has been created. This has been shared with Audit and a copy of this is in Appendix B.

37. The following documents are being actively worked on and initial drafts are expected to be completed by 31 October:

    - Internal Controls (internal document)
    - Cyber documents (policy and internal document)
    - Transfer guide (internal document)
    - Admin and Comms (minor updates to comply with the Code)

38. Drafts will be shared with Audit for comment before being presented to the Board as part of the annual policy review in April 2025.

39. This leaves one area where there is a regulatory requirement, relating to the Register of Interests. This is being addressed through a review of the Fund's Conflict of Interest Policy. .

40. A further update on The Code will be presented at the next Board meeting.

Additional Voluntary Contribution (AVC) Framework

41. As expected, the AVC Services Framework went live on 22 July 2024. The outstanding contractual issues with one of the providers were resolved and they have been included in the framework.

42. Agreement for the Fund to enter a procurement exercise was approved by the Director of Finance and the Procurement Board. An initial 'Invite to Further Competition' document has been drafted and fund officers are working with LCC's Procurement team to refine this before the exercise can go live.

43. An update on the position will be included in the next Board report.

McCloud and Pension Dashboards

44. The Board has requested that an update on progress against delivery of the McCloud remedy and Pension Dashboards be included within each quarterly report. The update on both for this quarter is set out below.

McCloud

45. The position in respect of the outstanding areas of work related to the implementation of the McCloud remedy is shown below:

Changes to contractual hours between April 2014 and March 2022	Ongoing. Data has been received from most employers and the remaining updates to records are expected to be completed by 31 March 2025. There are 12406 lines of data to manually enter.
Non-active members 'in-scope'	Once the updates to contractual hours have been completed, reports will be used to identify scheme members who left between April 2014 and November 2023 and are entitled to an underpin (additional pension) under the remedy. Where re-calculations of pension benefits are required many will need to be processed manually.
Active Members 'in-scope'	Records of active members must be updated with underpin data before Annual Benefit Statements are processed in August 2025.
Excess Teacher Service	Teachers Pensions will contact their employers throughout 2024, liaise with them to identify affected members and verify details of their service before data is sent to Funds for action. East Midlands employers were originally scheduled to be contacted in June 2024. However, in August, Teachers Pensions have provided an updated timeline for excess service cases. The updated timeline confirms when initial communications and reminders will be sent to employers in each region. The East Midlands region were sent a file in July, with reminders sent in September

	and October, with a further reminder due in November. Any teacher found to have excess service, will have this included as a new Local Government Pension Scheme benefit. This will require the Pension Section to liaise with the employer and Teacher, and to set up a correct pension record. If the Teacher then wants to transfer this pension back into the Teachers Scheme, the Pension Section will calculate this and organise payment.

Pension Dashboards Programme

46. Officers have arranged with Heywood to begin work on connecting Altair to the Pension Dashboards 'ecosystem'. This will begin in October 2024 and is expected to take around three months.

47. Heywood have supplied officers with an 'Implementation Study' document detailing the stages of the process and a 'Project Kick Off' call is scheduled for mid-October.

48. The deadline for Public Service Pension Schemes (the "staging date") was recently confirmed as 31 October 2025.

49. A further update on this project will be provided at the next Board meeting.

2023/24 Year-End

50. The 2023/24 year end exercise was completed successfully with 37,813 active, 31,812 deferred and 41 Councillor annual benefit statements produced by the 31 August 2024 statutory deadline.

51. Ten members received their annual benefit statements late. Further information on this point can be found in the 'Breaches' section of this report (refer to points 13-16).

Governance – Employer Risk

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

53. In the table below, the outstanding cases are listed in risk order, highest to lowest. The highest risk cases tend to be 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.

54. Medium or lower risk cases tend to 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.

55. 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 in these cases that must be paid in full by the employer.

56. The position on 20 September 2024 is as follows.

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
CleanTEC (Lionheart AT)	Bond	n/a	£165,000	CleanTEC is still in the process of sourcing a bond. Lionheart AT as the outsourcing employer, know the risk is theirs while the bond remains outstanding. Officers continue to chase CleanTEC. CleanTEC were given a deadline of completion of 30th September. Following this a final formal letter was issued and CleanTec will be charged £100 for each hour officers spend resolving the case.	Medium
ABM Catering (City, Crown Hills)	Bond	n/a	£15,000	ABM are still chasing their bond provider. The admission agreement is complete. The guarantor made some amendments. These have been reviewed and counter amendments have been sent for approval.	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
				Officers continue to chase ABM and their guarantor.	
Taylor Shaw (Elior) - MET	Bond	n/a	£12,000	Taylor Shaw are still chasing their bond provider. Taylor Shaw have approved the bond agreement and are sourcing a bond. The guarantor made some amendments. These have been reviewed and counter amendments have been sent for approval. Officers continue to chase Taylor Shaw.	Low

57. The Fund's administration and communication strategy enables Fund Officers to charge employers for delays in completion of admission agreements and bonds. Officers informed a small number of employers about this, and it prompted several of the outstanding cases to complete.

58. Officers will use the ability to charge new cases, moving forward.

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

- Coombs Catering (LCC, St Bartholomew's) - Admission Agreement and Bond Agreement
- ABM Catering (City, Crown Hills) - Admission Agreement
- Caterlink (BEP, Mountfields) - Admission Agreement
- Caterlink (City, Hazel) - Admission Agreement
- Innovate (Aspire Learning Partnership) - Admission Agreement
- Bradgate Park Trust - Admission Agreement

<u>Recommendation</u>

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

<u>Equality Implications</u>

61. There are no equality implications arising from the recommendations in this report.

Appendices

Appendix A: Key Performance Indicators Quarter Two
Appendix B: Procedure for Reporting Breaches of Law to the Pensions Regulator

Officers to Contact

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Quarter Two - 1 July 2024 to 30 September 2024

Business Process Perspective	Target	This Quarter		Ave.days	Previous Quarter
Retirement Benefits notified to members within 10 working days of paperwork received	92%	81%	▼	5	71%
Pension payments made within 10 working days of receiving election	95%	89%	►	5	83%
Death benefits/payments sent to dependant within 10 working days of notification	90%	51%	▼	12	55%

Customer Perspective - Feedback	Target	This Quarter		Previous Quarter
Establish members understanding of info provided - rated at least mainly ok or clear	95%	97%	▲	98%
Experience of dealing with Section - rated at least good or excellent	95%	87%	►	90%
Establish members thoughts on the amount of info provided - rated as about right	92%	92%	▲	88%
Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲	99%
Email response - understandable	95%	100%	▲	94%
Email response - content detail	92%	98%	▲	98%
Email response - timeliness	92%	92%	▲	94%

Below target	▼
Close to target	►
Good or better than target	▲

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A Procedure for Reporting Breaches of the Law to the Pensions Regulator

Leicestershire Pension Fund

Updated September 2024

Introduction

1 In March 2024 the Pensions Regulator (the Regulator) published its new General Code of Practice (the Code). This collated information from previous codes, the main one being the April 2015 Code of Practice no 14. The new Code is not a statement of law of itself, but nonetheless it carries weight.

2 There are many and various laws relating to the Local Government Pension Scheme, with many and various people having a statutory duty to report material breaches of the law to the Regulator. The Fund should monitor, record and report breaches.

3 This document provides the procedure for the Leicestershire Pension Fund, which relates to the Fund's areas of operation.

4 Much of the text herein is drawn from the Code itself. Where it has been, the Regulator's copyright applies.

Legal requirements

5 Certain people are required to report breaches of the law to the Regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with and;
- the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.

6 People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers.
- members of the local pension board.
- any person who is otherwise involved in the administration of the Fund (and thus members of the pension board and all the Fund's officers).
- employers, and any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers.
- professional advisers including auditors, actuaries, legal advisers and fund managers; and
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

Training

7 Officers and Board Members should have sufficient knowledge and training about the Code, the requirements, and reporting breaches.

Decision to Report

8 There are two key judgements required when deciding to report a breach of the law.

- Is there reasonable cause to believe there has been a breach of the law?
- Is the breach likely to be of material significance?

Reasonable cause to believe

9 Having "reasonable cause to believe" that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

10 Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

11 Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to consult the appropriate Officer regarding what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the Regulator without delay.

12 If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

13 In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

Material significance

14 In deciding whether a breach is likely to be of material significance to the Regulator, it would be advisable for the reporter to consider the **cause, effect, reaction, and wider implications of the breach.**

Cause

15 A breach is likely to be of material significance if it was caused by;

- Dishonesty, negligence, or reckless behaviour

- Poor governance, ineffective controls resulting in deficient administration, or slow or inappropriate decision making practices
- Incomplete or inaccurate advice
- A deliberate act or failure to act

Effect

16 The Regulator considers a breach to be materially significant where the effects include any of the following;

- A significant proportion of members, or a significant proportion of a particular category of members, are affected by the breach.
  - For example; if annual benefit statements are not provided to a large number of members.
- The breach has a significant effect on the benefits being paid, to be paid, or being notified to members.
  - For example; if annual benefits were incorrectly calculated for a large number of members.
- The breach, or serious of unrelated breaches, have a pattern of recurrence in relation to participating employers, certain members, or groups of members.
  - For example; if one of the scheme employers continually failed to provide accurate and timely year-end data, causing annual failures to provide members with their annual benefit statements.
- Governing bodies that do not have the appropriate degree of knowledge and understanding, preventing them from fulfilling their roles and resulting in the scheme not being properly governed and administered and/or breaching other legal requirements.
- Unmanaged conflicts or interest within the governing body, making it prejudiced in the way it carries out the role, ineffective governance and scheme administration, and/or breaches of legal requirements.
- Systems of governance (where applicable) and/or internal controls are not established or operated. This leads to schemes not being run in line with their governing documents and other legal requirements.
- Risks not being properly identified and manged and/or the right money is not being paid to or by the scheme at the right time.
- Accurate information about benefits and scheme administration is not being provided to scheme members and others meaning members are unable to effectively plan or make decisions about their retirement.
- Records are not being maintained. This results in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Governing bodies or anyone associated with the scheme misappropriate scheme assets or are likely to do so.
- Trustees of defined benefit scheme not complying with requirements of the Pension Protection Fund during an assessment period.

Reaction

17 **The Regulator will <u>not</u> normally consider a breach to be materially significant if prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, all affected members have been notified.**

18 A breach is likely to be of concern and material significance to the Regulator, if a breach has been identified that;

- Does not receive prompt and effective action to remedy the breach and identify and tackle its cause to minimise risk or recurrence.
- Is not being given the right priority by the governing body or relevant service providers.
- Has not been communicated to affected scheme members where it would have been appropriate to do so.
- Forms part of a series of breaches indicating poor governance.
- It was caused by dishonesty, even when action has been taken to resolve the matter quickly and effectively.

Wider implications

19 These should be considered when assessing whether it is likely to be materially significant to the Regulator. For example; a breach is likely to be of material significance where;

- The fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future (the reason could be that the governing body lacks the appropriate knowledge and understanding to fulfil their responsibilities).
- Other schemes may be affected, for example schemes administered by the same organisation where a system failure has caused the breach.

20 Those reporting a breach should consider general risk factors, such as the level of funding, or how well-run the scheme appears to be. Some breaches that occur in a poorly funded and/or poorly administered scheme will be more significant to the Regulator than if they occurred in a well-funded, well-administered scheme.

21 Reporters should consider other reported and unreported breaches that they are aware of. However, reporters should use historical information with care, particularly where changes have been made to address breaches already identified.

22 **The Regulator will not usually regard a breach arising from an isolated incident as materially significant. For example, breaches resulting from teething problems with a new system, or from an unpredictable combination of circumstances**. However, in such circumstances reporters

should consider other aspects of the breach, such as the severity of the effect it has had that make it materially significant.

Payment Failures

23 Payment failures that are likely to be of material significance include;

- Where governing bodies have reasonable cause to believe that the employer is neither willing nor able to pay contributions.
- Where there is a payment failure involving dishonesty or a misuse of assets or contributions.
- Where the information available to the governing body indicates that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions.
- Where the governing body becomes aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer does not appear to be taking adequate steps to remedy the situation.
- Any event where contributions have been outstanding for 90 days from the due date.

Remaining Uncertainty

24 If, after taking into consideration all of the above, uncertainty remains regarding whether an incident is material or not, the prudent approach would be to make a referral to the Regulator.

The Leicestershire Pension Fund Process

25 If a breach takes place, the “reporter” should obtain clarification of the facts of the case, and the law (Regulations) around the suspected breach and inform the Pensions Manager.

26 Using the information detailed in this document, the Pensions Manager will consider whether the Regulator would regard the breach as being material. (S)he will also clarify any facts, if required. If the case requires input from others, including a Legal view, (s)he will seek advice, as required.

27 Some matters could be urgent, if for example a fraud is imminent, whilst others will be less so. Non-urgent but material breaches should be reported to the Regulator within 30 working days of them being confirmed, and in the same time breaches that are not material should be recorded (see later).

28 Some breaches could be so serious that they must always be reported, for example a theft of funds by anyone involved with the administration or management of the Fund.

29 **The Code does not define what does or does not constitute a breach, so each occasion will be considered on a case-by-case basis, using the four specific areas; cause, effect, the reaction to it, and its wider implication, including dialogue with the relevant parties where necessary.**

30 The Pensions Manager will **monitor and record** breaches on the Fund's breaches log.

31 If the P**ension Manager considers the breach as material, the breach will be reported to the Pension Board and the Regulator.**

32 An annual summary of breaches will be provided to the Board annually.

33 Whilst it is preferred that breaches are managed using the process above, it's recognised that if a reporter so chooses, they may decide to report directly to the Regulator.

Making a Report

34 Any report that is made (which must be in writing and made as soon as reasonably practicable) should be dated and include as a minimum:

- full name of the Fund
- description of the breach or breaches
- any relevant dates
- name of the employer or scheme manager (where known)
- name, position, and contact details of the reporter
- role of the reporter in relation to the Fund
- the reason the breach is thought to be of material significance to the Regulator
- the address of the Fund
- the pension scheme's registry number (if available)

35 Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.

36 Reporters should ensure they receive an acknowledgement for any report they send to the Regulator. Only when they receive an acknowledgement can the reporter be confident that the Regulator has received their report.

37 The Regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.

38 The reporter should provide further information or reports of further breaches if this may help the Regulator to exercise its functions. The Regulator may make contact to request further information.

39 Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.

40 In cases of immediate risk to the Fund, for instance, where there is any indication of dishonesty, the Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the Regulator to the breach.

Consistency

41 The Code is written in such a way; each breach is considered on its own merit. Whilst they will be areas of consistency between Funds, for example, failure to calculate and provide annual benefit statements is consistent across LGPS Funds, others may not be.

Ian Howe Pensions Manager
September 2024

Agenda Item 6

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

LOCAL PENSION BOARD – 16 OCTOBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LOCAL GOVERNMENT PENSION SCHEME - CURRENT DEVELOPMENTS

Purpose of the Report

1. The purpose of this report is to provide the Board with an update on current developments across the Local Government Pension Scheme (LGPS) following the 2024 General Election.

Policy Framework and Previous Decisions

2. In recognition of the uncertainty regarding the impact of potential changes to the LGPS, the Fund's Risk Register includes a risk (risk 19) related to proposed changes to LGPS regulations and guidance that may require changes to the Fund's investment, pooling and governance processes.

3. This risk is managed through monitoring proposed changes, responding to relevant consultations, and working closely with the Fund's investment advisors, LGPS Central and partner funds. The Local Pension Board are kept updated on matters as they progress.

Background

4. Leicestershire County Council Pension Fund, along with seven other partner funds, is a member of LGPS Central (Central). Central was established in 2017 to address Government requirements for LGPS funds to pool investments. Its goals include achieving economies of scale, robust governance, cost reduction, excellent value for money, and enhanced capacity and capability for investments.

5. The previous Government consulted on “Next Steps on Investments” in 2023, following which the Local Pension Committee supported a proposed response on 8 September 2023 which the Local Pension Board received an overview of on 18 October 2023. The previous Government subsequently published the consultation outcome on 22 November 2023 and largely reconfirmed the intention to set out requirements and expectations in relation to pooling, levelling up, investment in private equity and training. Throughout this process it was understood there was cross-party support and therefore it was likely the vision set out would continue with any new Government.

Current Developments

6. On 20 July 2024 the new Chancellor set out action that would be taken to “unleash the full investment might of the £360 billion Local Government Pension Scheme to make it an engine for UK growth”, and that a review would “look at how to unlock the investment potential of the £360 billion Local Government Pensions Scheme, which manages the savings of those working to deliver our vital local services, as well as how to tackle the £2billion that is being spent on fees.”

7. A Terms of Reference for phase one of the Pensions Review was subsequently published on 16 August 2024, attached as Appendix A to this report. This sets out that the Government expects to consult widely as the review secretariat develops its analysis and policy options. Government subsequently published a call for evidence, with the Fund, Partner Funds and LGPS Central have responded to.

8. Below sets out an overview of potential changes, highlighting areas from the new Government’s manifesto and announcements, as well as other current issues carried over from the previous administration.

Pooling and Consolidation

9. A letter was circulated to all LGPS funds on 15 May 2024 by the Local Government Minister at the time, requesting funds respond to a number of questions related to the completion of pension asset pooling by the March 2025 deadline, as well as to how funds ensure that they are run efficiently, with appropriate governance structures in place. While the request was superseded by the General Election, officers, alongside many other LGPS funds have responded to assist with briefing new ministers’ post-election given cross-party support. The Fund’s response is attached at Appendix B.

10. On the 20 July 2024 the new Chancellor announced:

    "The Local Government Pension Scheme (LGPS) in England and Wales is the seventh largest pension fund in the world, managing £360 billion worth of assets. Its value comes from the hard work and dedication of 6.6million people in our public sector, mostly low-paid women, working to deliver our vital local services. Pooling this money would enable the funds to invest in a wider range of UK assets and the government will consider legislating to mandate pooling if insufficient progress is made by March 2025."

11. It has not yet been clarified what could be considered insufficient progress. However, the previous Government set a potential deadline of 31 March 2025 for the transition of listed assets from funds to pools. The Fund's pooling position as of 31 March 2024 is included within the draft Annual Report and Accounts that went to the Local Pension Board on 31 July 2024.

12. The "not pooled" assets include the £1.064billion (16.8% of total fund) of assets that relate to the Fund's collectively procured Legal and General Investment Management (LGIM) passive equity investments. The contract with LGIM was procured together by seven local authorities prior to the commencement of pooling. The Fund sees this low-cost passive investment as essentially pooled. Adding this to the 40% of 'pooled' value equates to 57% of total fund assets being classified as 'pooled'.

13. The Fund has requested that Central bring forward proposals on how best to manage these assets in future. For example, whether it remains appropriate for the Fund to continue to manage these assets, whether Central should take on an advisory role or whether they should be reprocured.

14. The Fund's position of assets pooled should increase by March 2025 given circa £400million of current commitments and an additional £280million of commitments to be made once satisfactory private credit vintages are raised during the second half of 2024 from previous Investment Sub-Committee decisions. The Fund expects pooled funds to increase gradually from the current circa 40% to 54% by 31 March 2028. As previously highlighted the Fund also has 16% invested via the collectively procured LGIM and adding this to the 54% of under pool management funds means the Fund could be around 70% pooled by 31 March 2028.

15. As with any proposed change to the LGPS there will be arguments for and against any changes to the current status quo. In terms of arguments for further consolidation from an LGPS perspective this could lead to greater economies of

scale and fee savings if managed appropriately. These are benefits that have already begun to be achieved to date through Central. From the Government's perspective as set out in the Terms of Reference of the Pensions Review, it may also offer an opportunity for "encouraging further pension investment into UK assets to boost growth across the country."

16. Ultimately it is for the Fund to manage its fiduciary duty to employers and scheme members. In many cases this will be supportive of Governments ambitions, however, the Fund cannot prioritise these ambitions to the detriment of the scheme and its members.

17. It is also worth noting that many LGPS funds and investment managers have expressed concerns as part of previous consultations that there are other barriers related to execution, regulatory risks and other issues. Any merger could remove responsibility from the local authority depending on the approach taken and may be time-consuming and costly, especially where previously consolidated assets need to be transitioned further.

Fees

18. The proposed review also sets out how it would look to "cut down on fragmentation and waste in the LGPS, which spends around £2 billion each year on fees and costs and is split across 87 funds – an increase in fees of 70% since 2017, the Review will also consider the benefits of further consolidation." This statement includes not only the annual management fees but also transaction costs and performance fees.

19. The increase in the monetary value of fees is not surprising, given most LGPS Funds assets under management (AUM) have grown over this period and management fees are paid usually as a percentage of AUM.

20. A secondary reason for increasing management fees is the general direction of LGPS funds to increasing investments in private markets (such as infrastructure, natural capital, property and private credit) which are more management time intensive compared to traditional listed equity investments and as such management fees are usually much higher. In addition, moving to investing into private markets can attract one off transaction fees (think of direct property investments where stamp duty is payable in the UK) and performance fees which are usually not payable on asset classes such as passive listed equity. As funds move towards private markets it is expected to add transaction and performance fees. Performance fees, however, would only be paid once the agreed return is achieved and as such are paid out of gains the funds would have experienced.

21. The Fund's yearly investment management costs are set out below (£million). The total investment management costs rose from £37.4million in 2019/20 to £50.9million in 2023/24, an increase of 36%. Stripping out the performance and transaction fees leaves underlying management fees which are payable regardless of investment performance or underlying trading of the funds.

22. Investment management fees rose from £23.7million to £28.3million, an increase of 19% over the 5 years to 31 March 2024. This is within the backdrop of a 48% increase in assets under management and a 4% increase in assets invested in private markets. Investment management fees as a percentage of assets under management (AUM), however, have reduced over the same time frame,

Year ending 31 March	2019	2020	2021	2022	2023	2024	Change
Listed Equity	1,892	1,681	2,329	2,572	2,507	2,697	43%
Private Markets	1,342	1,493	1,491	1,734	1,895	2,056	53%
Other	1,060	970	1,330	1,455	1,308	1,602	51%
Total AUM	**4,294**	**4,144**	**5,150**	**5,761**	**5,709**	**6,355**	**48%**
% Listed equity	44%	41%	45%	45%	44%	42%	-4%
% Private markets	31%	36%	29%	30%	33%	32%	**4%**
% other	25%	23%	26%	25%	23%	25%	2%
Inv mgt fees £m	23.7	24.6	23.3	23.9	24.5	28.3	**19%**

<u>UK Investment (formerly Levelling Up)</u>

23. As previously reported to the Board the previous Government consulted on a requirement that the LGPS invest up to 5% in levelling up ambitions across the UK. While the branding 'levelling up' has been removed, the new Government has set out their intention to increase investment from pension funds in the UK market to boost growth across the country.

24. The Fund has circa 12% of the total assets invested in the UK asset classes listed below.

£million asset values as at 31 March 2024	Pooled	Under pool management	Not pooled	Total
UK listed equities	75	15	162	253
UK government bonds	46	98	253	396

UK infrastructure	25		56	81
UK private equity	1		34	35
Total	146	113	505	764

25. The previous Government had proposed that funds publish a "Levelling Up Plan" that funds would need to report annually against. The Fund's UK exposures remain higher than the relevant market benchmark, and as previously reported to Committee it was possible the Fund already exceeded the 5% depending on how 'levelling up' ambitions and asset classes were defined.

26. The previous Government had said it would provide direction on these 'levelling up' plans through guidance on investment strategy statements and pooling. The Fund will need to await guidance from the new Government on how this may be progressed.

Other Areas

LGPS Good Governance project

27. The LGPS Scheme Advisory Board was asked to examine the effectiveness of LGPS governance models and consider enhancements to further strengthen governance. A final report was produced in February 2021. In September 2022 the Government at the time confirmed that ministers had considered the action plan alongside the report and agreed to take forward the proposals.

28. Funds continue to await final confirmation of the proposals, and it is unclear whether the new Government will require a fresh look at the proposals, and therefore may provide further delay. In the meantime, the Fund has been acting in line with the Good Governance project in its current form recognising best practice.

Climate Change Reporting and Transition Plans

29. In 2022 the previous Government consulted on extending Taskforce for Climate related Financial Disclosures (TCFD) requirements to the LGPS, to assess, manage and report on climate-related risks in line with the TCFD recommendations. The Fund has reported against these requirements since 2019 and provided its latest report against expected requirements in June 2024.

30. The new Government has set out how they foresee the energy transition as a huge opportunity to generate growth, tackle the cost-of-living crisis and make

Britain energy independent. This was also set out within the new Government's manifesto that states pension funds will be required "to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement."

31. In essence it would require funds to set out a transition plan to reach net zero by 2050, and this is in line with the Fund's own net zero ambition. As set out in the Fund's Net Zero Climate Strategy it is important that the Fund supports real-world emissions reductions, and not just 'transition' its assets alone. Ultimately climate risks will, to one extent or another, affect all asset classes, all sectors, and all regions, so the Fund must manage this risk in line with its fiduciary duty.

32. The Fund will continue to monitor guidance on this area and the updated Net Zero Investment Framework by the Institutional Investors Group on Climate Change will be considered as part of the Net Zero Climate Strategy review during 2025 and 2026.

Fiduciary Duties

33. As was presented by the Head of Law and Deputy Monitoring Officer to the Local Pension Committee and Local Pension Board members at a joint training session in May 2024, a report had been commissioned by the previous government, which was subsequently published on 6 February 2024 by the Financial Markets Law Committee (FMLC). This was intended to provide a general explanation of the legal position and the uncertainties and difficulties that exist with relation to decision marking in the context of sustainability and the subject of climate change.

34. In September 2024 the Scheme Advisory Board also produced a statement on fiduciary duty and lobbying. This statement reiterates what kind of environmental, social and governance considerations are appropriate, what are not, and expected behavior at meetings. The Scheme Advisory Board are seeking opinion from Counsel as to whether there is a need to update their previous advice related to the nature of fiduciary duty for LGPS administering authorities. Officers will continue to monitor any developments and guidance, however, ultimately the report seems to align with the Fund's current approach in taking into account sustainability and climate change as part of decision making.

Review of LGPS 2022 fund valuations

35. On the 14 August the Government Actuary's Department (GAD) published an analysis of the 2022 actuarial valuations of the funds in the LGPS. This analysis

examines whether the actuarial fund valuations have achieved the following aims: compliance, consistency, solvency and long-term cost efficiency.

36. The findings have set out that fund valuations are compliant with the relevant regulations, that the valuation information has been presented in a consistent way across funds, and notes the significant progress made by funds and actuarial advisors in the presentation of climate risk analysis as part of the actuarial valuation process. The improvement in the funding position of the fund has reduced immediate solvency concerns, however, recognises risks remain which are important for funds to consider.

37. Leicestershire County Council Pension Fund's reported funding level in 2022 was 105%. On the analysis from GAD's standardised basis this increased to 116%, with 90% of other funds also seeing increases using GAD's estimates.

38. GAD ranks funds on a number of measures. Leicestershire's rankings for long term cost efficiency measures, are set out below. These show the Fund's positive position in relation to peers:

   a. The required investment return rates to achieve full funding in 20 years' time on the standardized best estimate basis - 11 of 86.
   b. The required investment return rates as calculated in required return, compared with the Fund's expected best estimate of future returns assuming current asset mix is maintained – 7 out of 86.

39. Analysis by GAD shows the Fund is rated 'green' meaning they have found "no material issues that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency" with one exception.

40. The remaining metric related to asset shock, where a white flag has been allocated. This flag considers what may happen if there is a sustained reduction in the value of return seeking assets for tax raising employers. GAD model the additional contributions that would be required by tax raising employers to meet any emerging deficit. Funds with a high level of return seeking assets are more exposed to asset shocks and more likely to trigger this flag. GAD defines a white flag as an "advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns". Four other LGPS funds had a white flag raised for this metric, the LCCPF's higher level of return seeking assets means that there is a higher likelihood of this metric returning an unfavourable outcome based on quantitative measures alone. The analysis doesn't distinguish between the types of return seeking assets which have differing risk characteristics, listed equity versus core infrastructure for example.

41. Officers do not consider this a concern that needs to be addressed at this point, and it is noted that while this focuses on concerns over return seeking assets, in

2022/23 when markets were rocked by global interest rate increases, traditional protection assets saw instability and were repriced just as sharply as traditional risk assets and so may not necessarily be the most conclusive metric for asset shock risk. In any case, the Fund's Investment Strategy is reviewed each year alongside allocations to each asset class. During 2024 the Fund has commissioned Hymans Robertson to complete a protection assets review where it was concluded the current allocation to protection assets was suitable and no increase or decrease to the asset within this area was necessary at this point.

Resource Implications

42. The current announcements seem to set the direction for a potential restructure for LGPS funds. The Director of Corporate Resources notes that while pooling has delivered substantial benefits so far, progress needs to accelerate to deliver, and the government stands ready to take further action if needed. This may result in a smaller number of pools gaining benefits of scale, and/or expecting funds to accelerate the transfer of assets. Officers will await any future review and consider how this may impact Fund resources.

Next Steps

43. The government has set out that they will look to report the initial findings of the first stage of the pensions review later this year, and ahead of the introduction of the Pension Schemes Bill.

44. Officers will await any further information on the review, and any other topics within this report and consider next steps and update the Local Pension Board as necessary.

Recommendations

45. It is recommended that the Local Pension Board note the report.

Background Papers

8 September 2023 – Local Pension Committee - Pooling Consultation: Next Steps on Investment
https://democracy.leics.gov.uk/documents/s178251/Report%20for%20Committee.pdf

19 June 2024 – Local Pension Committee – Responsible Investing Update
https://democracy.leics.gov.uk/ieListDocuments.aspx?MId=7540

31 July 2024 – Local Pension Board – Annual Report and Accounts

https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=7547&Ver=4

Appendices

Appendix A: Phase 1 Pensions Review Terms of Reference
Appendix B: Leicestershire County Council Pension Fund Response to DHLUC

Equality Implications

The Fund takes into account issues around Equality and Human Rights as part of its whole approach to responsible investment and environmental, social and governance factors in all investment decisions. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero.

Human Rights Implications

There are no Human Rights implications arising from this report.

Environmental Implications

The Net Zero Climate Strategy outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. As set out above the Fund is committed to supporting a fair and just transition to net-zero. The Fund is set to review the NZCS over 2025/26 and will consider any new requirements as part of that.

Officers to Contact

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GOV.UK

HM Treasury

Department for Work & Pensions

Ministry of Housing, Communities & Local Government

Guidance

Terms of Reference

Published 16 August 2024

Contents

This publication is available at https://www.gov.uk/government/publications/pensions-review-terms-of-reference-phase-one/terms-of-reference

1. Background

The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme.

The review will also work closely with the Minister of State at MHCLG Jim McMahon to look at how tackling fragmentation and inefficiency can unlock the investment potential of the £360 billion Local Government Pension Scheme in England and Wales, which manages the savings of those working to deliver our vital local services, including through further consolidation.

2. Policy Remit

The first phase of the review will focus on developing policy in four areas:

1. Driving scale and consolidation of defined contribution workplace schemes;
2. Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;
3. The structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost; and
4. Encouraging further pension investment into UK assets to boost growth across the country.

3. Further guidance

In developing its recommendations, the review will have regard to:

- Boosting the returns for pension savers.
- Improving the affordability and sustainability of the Local Government Pension Scheme in the interest of members, employers and local taxpayers.
- The role of pension funds in capital and financial markets to boost returns and UK growth.
- Any implications for wider Government financial stability policy objectives such as with respect to the gilt market.
- Fiscal impacts, which will need to be considered in the context of the public finances.

- The progress already made on in-train policy initiatives such as the Value for Money Framework and other live reform programmes.
- A wide range of external viewpoints, including employers, trade unions, the pensions industry, financial services, local government and consumer voices.

4. Governance

The joint HM Treasury-Department for Work and Pensions Minister Emma Reynolds MP is leading the review.

5. External engagement with the review

The review secretariat will consult widely as it develops its analysis and policy options. Co-creation with industry and the Local Government Pension Scheme will be an essential part of the review process, as will expertise from leading voices and think-tanks.

6. Outputs and Reporting

The first phase of the review will focus on investment and report initial findings later this year and ahead of the introduction of the Pension Schemes Bill. The second phase will start later this year and alongside investment will consider further steps to improve pension outcomes, including assessing retirement adequacy. Ongoing policy development with respect to defined benefit workplace pensions schemes will remain separate from the review.

email: simone.hines@leics.gov.uk

The Minister for Local Government
2 Marsham Street
London SW1P 4DF
Sent via email: lgpensions@levellingup.gov.uk

Dear Minister

I write on behalf of Leicestershire County Council who is the administering authority of the Leicestershire County Council Pension Fund ("the Fund" or "Fund"). The scheme acts on behalf of over 200 employers and over 100,000 members. We are an equal one-eight shareholder of the LGPS Central limited pool ("the pool" or "pool"). The Fund as at 31 March 2024 is valued at £6.3bn.

The remainder of this letter is intended to respond to the questions posed in the letter dated 15 May 2024 sent to the Chief Executives and Section 151 officers of administering authorities in England.

1. **How your fund will complete the process of pension asset pooling to deliver the benefits of scale.**

   Q: Proportion of assets pooled

   57%
   This includes Legal and General investment management (LGIM) low-cost passive equity investments that were procured via a competitive tender in 2015 alongside six other local authority members of the LGPS Central pool, prior to the commencement of pooling. The management fees paid are very competitive which has made consideration of moving these monies to LGPS Central cost prohibitive. We are however in conversation with the Pool on how to consolidate all passive equity investments in the most effective manner. This is an objective for the coming year.

   For completeness, when excluding the LGIM passive equity investments the total value pooled directly with LGPS Central as at 31.03.2024 is 40.1% of total Fund assets. This 40.1% does not include the significant value of uncalled commitments to the Pools investment products which totals around £385m at 31.3.2024. The value of uncalled commitments if called today would add 6% to the pooled total.

   Q: Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pension investment strategy? What is your expenditure on pensions Investment consultancy?

   The Fund spends circa £200k p.a. on investment strategy related services. The administrating authority also employs two FTE's who manage the Funds investment and responsible investment strategies as well as preparing all pension committee (and investment sub committee) papers. The answer to the remainder of this question is complicated by a number of factors:

- A conflict may exist if using Pool resource for investment strategy purposes and we feel this is best mitigated by use of an external advisor who is obligated to present the best investment proposals (strategy and investment recommendations) from the reviewing whole market that is in line with our fiduciary duty. Before adoption the Fund seeks the Pool's insight into proposals made by the investment advisor with regard to the annual strategic asset allocation review.

- Professional investment strategy and research capability at the Pool is limited given the cost efficiency focus on Pools. The main investment strategy firms servicing LGPS funds have larger, well resourced teams who provide services to a large range of clients not limited to LGPS funds.

- We believe there is more scope to use the Pool for reporting purposes, for example investment performance reporting where the Fund's largest manager (LGPS Central) could collate investment cash flows and performance from the Fund's other managers to produce performance reporting each quarter employing suitable performance reporting software to provide an effective and cost efficient service.

Q: Does your LGPS asset pool have effective, modern governance structure in place which is able to deliver timely decisions and ensure proper oversight. If not, what steps are you taking to make your pools governance more effective?

The Fund has an effective governance process which it has operated since the inception of the Pool. Officer involvement and interaction with senior managers at the Pool is via organised and long standing working groups chaired by the partner fund officers on an agreed rotation.

2. **How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.**

Q: Does your LGPS fund have effective and skilled governance in place which is able to hold officers, service providers and the pool to account on performance and efficiency?

We have skilled and effective governance in place. The Fund employs officers who have worked within the LGPS for significant number of years and have sufficient knowledge and experience which is adequate to hold the Pool to account. It is worth noting that all eight Partner Funds meet monthly to consider pooling related matters (investment and governance) and feedback to the Pool any actions or concerns who also attend part of the meeting.

The Fund's formal decision making and oversight bodies are well attended and the Fund has a training policy and member self evaluation process which is under continual review. Members of Committee's are required to be conversant with the relevant legislation and be knowledgeable to hold the Fund officers to account.

Corporate Resources

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Email: resources@leics.gov.uk

Declan Keegan, Director of Corporate Resources

www.leicestershire.gov.uk

In addition, like other administering authorities, we review the objectives of our external investment advisor annually and report amendments and proposals to the Pension Committee for formal approval.

The majority of our investment strategy proposals have been underpinned by external advice. We routinely invite investment managers to present at pension committee meetings in order provide committee members further insight into the mandates and the wider asset class. The Fund also operates up to four more investment sub committee meetings each year to review investment proposals which may require both the external investment manager and investment advisor to attend. LGPS Central is invited to present at Pension Committee meetings to discuss investment performance, responsible investment and developments at the company and also at monthly group meetings with officers which are minuted.

The efficiency of the Pool is formally reviewed annually via the business plan and budget setting exercise. This process requiring budgets and outcomes is presented to both officers and shareholders before a formal shareholder meeting usually held in February each year.

Q: Would you be likely to achieve long term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

The creation of a larger pensions authority (assuming merging of pools) is a far more complex situation requiring the various pooling models to be legally restructured.

There are several areas that need to be considered and resolved when Funds merge administration to enable greater efficiency. This is not an exhaustive list but highlights some key points.

- Administration system. There are several systems in use across LGPS Fund administration, with two main providers. Systems would need to align, workflows built to match between Funds, reporting facilities agreed and cross Fund training to ensure work was actioned and checked correctly.

- Pensioner payroll. Some funds use the pensioner payroll of their pension administration system, some funds use their local authority payroll, other funds use alternative payroll solutions. Pensioner payroll systems would need to align within a merged Fund.

- Actuarial services. There are four main Fund actuaries within the LGPS. Each Fund works with its own actuary to ensure its own funding requirements are best achieved. Aspects of actuarial work, including assumptions, would need to align to provide a consistent valuation of merged funds.

- Each Fund will have procured their system and actuarial provider, some with potentially several years to run. Could there be contractual costs if these were ended early or were amended?

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That said, we continue to look at making efficiency savings through greater digitisation, by enabling scheme members to do more themselves via online tools and member self-service.

Areas where larger merged funds may gain savings more quickly could include;

- Recruitment, retention and training. Funds do spend time and resource recruiting and training staff. Larger merged funds could lend themselves to better more robust training plans, which also helps with knowledge, reduces risk and improves succession planning, negating potential single points of failure.

- Each Fund has multiple polices and processes which could be streamlined under larger merged funds.

- There would be less need for mangers, regulatory/compliance/governance, and system colleagues within larger merged Funds.

- Advisory costs likely to be lower if investment strategies and actuarial activity can be aligned.

Other areas for consideration include;

- Implementation and set-up costs for larger merged Funds, including training requirements

- Simplification of LGPS regulation to make administration easier. Rather than continuing to add greater complexity and risk (e.g. the McCloud remedy), pragmatic approaches to dealing with administrative burden could be considered, especially historic retrospective decisions.

- Consultation requirements for employers, scheme members, officers and others

- Which employer would act as the host authority, or would merge funds have their own independence away for the host authority?

- Valuation of private market legacy assets

Maybe a national exercise could be completed to understand where Fund mergers have already taken place and evaluate the pros, cons and lessons learned, to better understand the costs, timescale and efficiencies that may or may not be gained.

Yours faithfully

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LOCAL PENSION BOARD - 16 OCTOBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

FUNDING RISK UPDATE AND 2025 VALUATION PLANNING

Purpose of the Report

1. The purpose of the report is to provide the Local Pension Board with an update on changes to the funding environment since the 2022 valuation, the risks currently faced by the Fund and the actions to be taken to help manage these risks as part of the 2025 valuation.

Background

2. Leicestershire Local Government Pension Scheme (LGPS) is required to complete a Pension Fund Valuation every three years. The purpose of the valuation is to check the ongoing solvency of the scheme (assets held versus accrued benefits (liabilities)) and to set employer contribution rates for the following three years.

3. The next formal valuation will take place on 31 March 2025. The valuation will be completed by 31 March 2026 with new employer contribution rates being certified for the period 1 April 2026 to 31 March 2029.

4. Early planning is important to deliver a smooth and successful valuation for all stakeholders. Key decisions on funding strategy and policies will be taken to the Local Pension Committee (LPC) to ensure governance best practice.

5. A copy of this report was taken to the LPC on the 6 September 2024 for noting.

6. Fund officers have already begun planning discussions with Hymans Robertson (Hymans), the Fund Actuary. As part of these discussions Hymans has prepared a paper which forms the Appendix to this report and which considers the current funding risk environment and outlines the key considerations for the Fund heading into the 2025 valuation.

Updated funding position

7. The funding position of the Leicestershire County Council Pension Fund as at 30 June 2024 is 150%. This represents an improvement in funding level of 105% at the 31 March 2022.

8. Whilst this improved funding position is good news, there are limitations to the usefulness of the funding level metric because it is based on a single set of assumptions about the future and asset values at a single point in time. It also only recognises benefits earned to date ("past service") and not the cost of future benefits.

<u>What has happened since the 2022 valuation?</u>

9. The Fund's assets have increased slightly since the 2022 valuation with investment returns being around 10% since March 2022. This relatively modest level of returns means that the Fund currently holds a similar amount of money to pay each pound of pension as they did at the 2022 valuation date.

10. Inflation has risen sharply since the valuation date. Benefits have increased by 10.1% in 2023 and 6.7% in 2024, increasing the value of the Fund's liabilities (in isolation). This has also had an impact on the Fund's cashflow profile as current outgoing benefits has also increased in line with the above pension increases.

11. However, despite these modest investment returns and higher inflationary pressures, the funding level has still improved. The improvement in funding level has largely been driven by an improved investment outlook due to a sharp rise in global interest rates (leading to higher expected future returns across all asset classes), which has more than offset the high inflationary pressures. It is important to note at this point however that future investment returns are not guaranteed within the backdrop of higher interest rates.

12. As at 30 June 2024, Hymans now estimates that the Fund will achieve a higher investment return of 6.4% pa (with a 75% likelihood of being achieved), compared to a return of 4.4% at 31 March 2022 (with the same likelihood).

13. Higher expected future investment returns lead to a lower value being placed on the Fund's future benefit payments (liabilities). This means that the improved funding level is reliant on the Fund achieving higher investment returns in the future as opposed to holding more assets today (per pound of pension).

14. The improved funding position remains highly sensitive to the future investment return assumption. If future returns are 1% per annum lower than assumed, the funding level would be around 20% lower.

15. Future returns may be lower than predicted if central banks reduce interest rates quicker than assumed or if higher returns fail to materialise despite the current higher interest rate environment. Therefore, the Fund should remain cautious of the improved funding position and set appropriate longer term surplus management policies to benefit and protect all stakeholders.

Key funding risks

16. There remains uncertainty in financial markets and material risks facing the Fund. There has been a significant shift in the economic environment since the 2022 valuation and the Fund is now facing new risks and opportunities. The key funding risks that the Fund continues to manage are:

- Investment risk
- Inflation risk
- Cashflow risk
- Longevity risk
- Climate risk
- Employer covenant risk

Investment risk

17. All assumptions (especially those on future investment performance) remain uncertain, especially during periods of increased market volatility. The funding position is based on future returns with a 75% assumed likelihood of being achieved. In other words, there is still a 25% chance that returns will be lower than we assume. Fund officers will review prudence levels (namely the assumed likelihood of achieving returns) at the 2025 valuation.

18. All employer assets are invested in a strategy with a mix of investments held across broadly three areas: growth (such as equities), protection (such as bonds) and income (such as property).

19. The investment strategy has a robust refresh annually to balance the risks and opportunities the Fund faces. It considers funding level and the appropriate investment risk (and by implication investment return), whilst reviewing existing investments suitability.

Inflation risk

20. Inflation is a key risk for pension funds to manage. Higher inflation increases the cost of benefits, which increases longer term funding costs, but also has an immediate impact on shorter term cashflow (pensions in payment).

21. Inflation has recently fallen back to around 2% (which is the Bank of England’s long-term target), however, future inflation is uncertain. Persistently higher inflation remains a key risk for pension funds given the current economic climate. For example, if pension increases are 1% per annum higher than the current long-term assumption of 2.5% per annum, this will reduce the funding level by around 20%.

22. Fund officers will continue to monitor inflation trends and will include stress tests on funding strategy and future cashflow modelling to help understand and manage this risk.

Cashflow risk

23. The Fund is currently in a cashflow positive position (monthly contribution income exceeds monthly pension payable) by around £50million per annum.

24. Due to rising inflation and the significant increases in benefits since the 2022 valuation (10.1% in April 2023 and 6.7% in April 2024), the focus on cashflow across the LGPS is greater than before. However, the Fund is likely to remain cashflow positive in the short-to-medium term so cashflow is not an immediate concern.

25. Becoming cashflow negative itself is not unexpected for a pension fund; the assets that have been accrued are for the purpose of paying benefits. However, if the transition to becoming cashflow negative is not monitored and managed effectively, it can pose a liquidity and administration risk.

26. Any changes in employer contribution rates or the investment strategy as part of the 2025 valuation will also have an impact on the projected cashflow position of the Fund, therefore Officers will regularly monitor the Fund's cashflows as part of cashflow management best practice.

Longevity risk

27. Recent longevity trends have seen increased deaths in recent years. In 2020 and 2021, these deaths were a result of the Covid-19 pandemic, however, the cause of these excess deaths in 2022 and 2023 is less clear cut.

28. Understanding these demographic trends and setting appropriate mortality assumptions is key to managing longevity risk. The Fund's longevity assumptions will be reviewed as part of the 2025 valuation.

29. With increased levels of uncertainty on the lasting impact of the pandemic and future longevity, the Fund may consider maintaining a funding cushion to help manage these uncertain outcomes.

Climate risk

30. Climate risk is now widely regarded as one of the main sources of risk for pension schemes, with potential implications for future inflation, investment returns and longevity.

31. At the 2022 valuation, the Fund carried out scenario analysis representing a broad range of possibilities for how the world might respond to climate change. Despite imposing significant stresses and big increases in volatility, the impact on funding metrics of these scenarios was quite modest.

32. However, climate change has the potential to make severe outcomes more likely, therefore it is important to consider these risks when assessing the impact of climate risk. As part of the 2025 valuation, Hymans will model new 'severe' scenarios (complementing the existing scenarios) allowing the Fund to assess the impact of more severe climate change outcomes on funding strategies.

33. Ahead of the 2025 valuation, the Fund will review its approach to managing climate risk, including setting objectives, capturing views and beliefs, carrying out scenario modelling and integrating existing climate objectives and beliefs within the funding and investment strategies.

Employer covenant

34. Although the recent improvement in funding is good news, employers continue to face a wide variety of challenges from the evolving economic, demographic and regulatory environment. Higher inflation, interest rates and pay awards are all adding financial pressures on organisations.

35. As part of the 2025 valuation, the Fund will assess employer covenant risk to ensure early engagement with employers and appropriate risk categorisation. The Fund will also consider how this risk categorisation impacts on its holistic approach to setting employer funding strategies.

2025 valuation planning

36. As part of the preparatory work to help inform the Fund's funding and investment strategy in this new economic environment, the Fund is reviewing the following areas:

- Employer contributions
- Investment strategy
- Prudence levels
- Treatment of surplus
- Risk management for other sources of uncertainty and volatility.

37. Given the current cost pressures facing employers, there may be a desire for contribution rate reductions at the 2025 valuations. However, the Fund will need to consider how to manage any contribution rate reductions against the potential need to increase contribution rates in the future. The impact of any contribution reductions on the Fund's cashflow needs will also be considered.

38. Given the likely improvement in funding at 31 March 2025, many employers may now want an opportunity to manage volatility in their funding position by reducing their exposure to investment risk.

39. The Fund should review the prudence levels in the funding strategy to help explore if the current market conditions and recent increased levels of volatility

and uncertainty around certain risks warrant management by increasing levels of prudence.

40. Ahead of the 2025 valuation, officers will:

- Engage early with employers and other stakeholders to plan the valuation effectively;
- Monitor employer funding and covenant risks, including early engagement with high risk employers;
- Engage with all employers ahead of the valuation to build up appropriate messaging around the current economic environment;
- Consider options for funding and investment to help manage the current surplus including a review of current prudence levels; and
- Carry out contribution rate modelling for the long-term, secure employers to inform budget setting.

Timeline for the 31 March 2025 Valuation

41. For the 2025 valuation, Officers intend to split the employers into two working groups. This is designed to assist administration. It allows the Pension Section to deal with one group of employers first (the stabilised employers), then moving onto all the other employers. The stabilised employers tend to be the larger tax raising employers, for example, Leicestershire County Council, Leicester City Council, Borough and District Councils, and Police and Fire.

42. The following table provides a guide to the estimated timeline for the 31 March 2025 valuation. Note, these dates are intended to provide the Board with an awareness of the upcoming milestones, however, at this stage the exact timing of each item remains under discussions with Fund Officers and Hymans.

Date	Topic	Stakeholder(s)
September 2024	Funding risk update & 2025 valuation planning	Local Pension Committee
September/October 2024	Provide Hymans with the stabilised employer data	Fund Officers
October/November 2024	Calculate indicative stabilised employer rates	Hymans
November 2024	Agree funding strategy and assumptions principles for the 2025 valuation	Local Pension Committee
December 2024	Introduce the 2025 valuation to employers at the Fund AGM	Hymans/Fund Officers

Date	Topic	Stakeholder(s)
March 2025	Results of the stabilised employer modelling	Local Pension Committee
March/April 2025	Review funding policies and employer risk management	Fund Officers
April 2025	Provide the stabilised employers with their indictive rates. 1 April 2026 to 31 March 2029	Fund Officers/Stabilised employers
June 2025	Agree final valuation assumptions	Local Pension Committee
August 2025	Provide Hymans with all Fund data	Fund Officers
September 2025	Calculate Fund results	Hymans
September/October 2025	Whole Fund valuation results	Local Pension Committee/Local Pension Board
October/November 2025	Provide the other employers with their indicative rates. 1 April 2026 to 31 March 2029	Fund Officers/Fund employers
November/December 2025	Changes to Fund Funding Strategy Statement and Investment Strategy Statement	Fund Officers/Fund employers
February 2026	Finalise funding Strategy Statement and Investment Strategy Statement	Local Pension Committee/Local Pension Board
March 2026	Final valuation report produced with final employer rates	Hymans
April 2026 to March 2029	Employer rates implemented	Fund Officers/Fund employers

Recommendation

43. It is recommended that the Local Pension Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix – Funding risks update & 2025 valuation planning

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HYMANS ROBERTSON

Leicestershire County Council Pension Fund

Funding risk update & 2025 valuation planning

Tom Hoare FFA

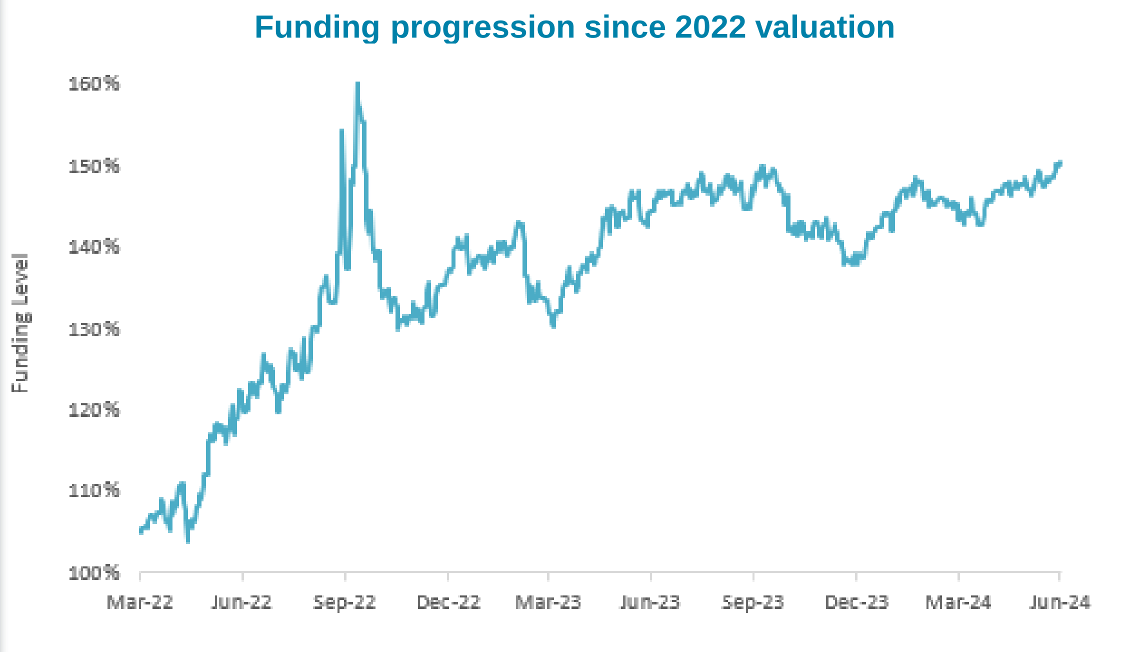
Richard Warden FFA

Executive summary

To help manage risk, the Fund carries out regular funding and risk monitoring between valuations. Since the 2022 valuation there has been a significant shift in the economic environment meaning the LGPS is now facing new risks and opportunities which increases the importance of robust risk management. This report has been prepared for Leicestershire County Council as Administering Authority to the Leicestershire County Council Pension Fund (the Fund) to help its stakeholders understand how changes in the funding environment has impacted the Fund and to aid funding strategy planning discussions in preparation for the 2025 formal valuation.

- The funding position of the whole fund at 30 June 2024 is now 150% (compared to 105% at the 2022 valuation). The likelihood of the fund achieving the required future investment returns needed to be fully funded has also risen to 92% (from 78%).
- This improvement has been largely driven by an improved investment outlook due to a sharp rise in global interest rates.
- Employer funding positions have seen similar improvements. This is potentially very meaningful, for any employers approaching exit, however for many employers, having stable contributions over the longer term may be a more important objective.

- Short term inflation has been high since 2022, with pension increases of 10.1% (2023) and 6.7% (2024). While longer term inflation is expected to fall there remains uncertainty over future forecasts.
- Whilst the improved funding position is good news for the Fund, there remains uncertainty in financial markets, and material risks facing LGPS funds. Early planning for the 2025 valuation will be important to help the Fund manage any changes to its funding and investment strategy in the current environment.



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It is important for the Fund to consider the impact of risks within the current environment and start planning for the 2025 valuation

Changes in the funding environment

Investment outlook

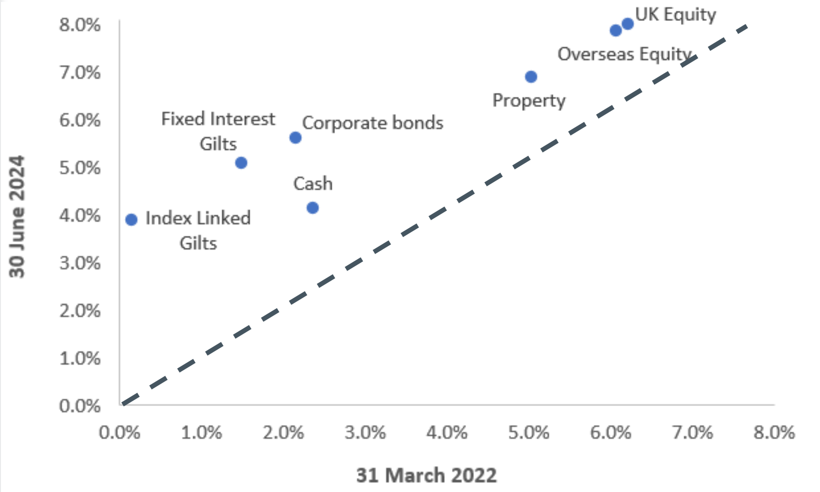
Investment returns since the 2022 valuation have been positive, with the Fund achieving a return of c.10% over the period from 31 March 2022 to 30 June 2024. This is broadly in line with the Fund's investment return assumption (at the valuation) of 4.4% pa.

However, as shown in the chart, expectations of *future* investment returns are now higher than at the 2022 valuation for all asset classes, largely due to the sharp rise in global interest rates (which had previously been at historic lows). In the case of the UK, the Bank of England base rate has increased from 0.75% at March 2022 to 5.25% at June 2024. If investors can get a higher return on cash and other lower-risk assets, it follows that the return on riskier assets, such as equities, should also increase. This is the approach within our Economic Scenario Service model (Appendix 4).

To put this into context, at 31 March 2022 we estimated that the Fund's investments would return 4.4% pa with a 75% likelihood of success. At 30 June 2024, we now estimate that the Fund will achieve a much higher investment return of 6.4% pa with the same 75% likelihood.

Higher future expected investment returns lead to a lower value being placed on the Fund's liabilities. In other words, this means that the improved funding level is reliant on higher income from future investment returns, which may be a reason to be cautious when setting contribution rates at the 2025 valuation.

20 year expected annual returns – 2024 vs 2022



What can the Fund do to manage investment risk?

- Consider the Fund's beliefs about the investment outlook and whether it should increase the level of prudence adopted in the future expected investment return assumption at the 2025 valuation to manage increased future uncertainty.
- Explore different combinations of investment strategy to understand what they mean for the likelihood of the Fund requiring additional future contributions.
- Investigate whether a single investment strategy for the whole Fund is still fit for purpose and consider carrying out exploratory work into the implementation of individual employer investment strategies.

The improvement in funding level is being driven by the promise of greater *future* investment returns rather than investment returns actually earned by the Fund.

High inflation

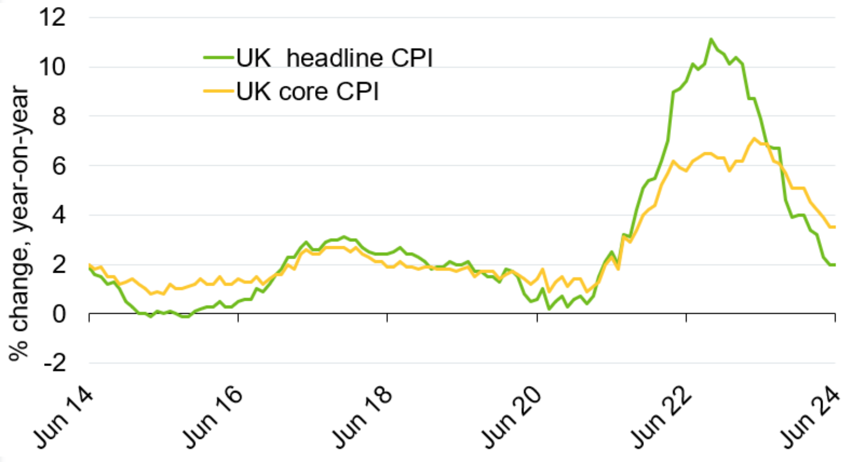
Inflation is a key risk for pension funds to manage. Higher inflation increases the cost of benefits, which increases longer term funding costs but also has an immediate impact on shorter term cash flow (pensions in payment). Since the 2022 valuation, inflation has risen sharply, with pensions increasing by 10.1% (in 2023) and 6.7% (in 2024) which has increased liabilities (in isolation). However, this has been more than offset by central bank reaction to increase interest rates - which has led to higher expected future investment returns, reducing liabilities.

Recent inflation trends & forecasts

- UK year-on-year headline CPI slowed meaningfully, returning to the BoE's 2% target for the first time in almost three years in May, and remained at 2% in June.
- However, the recent decline was still slightly smaller than expected and is largely due to declines in energy prices and their interaction with the Ofgem energy price cap.
- Core CPI, which strips out volatile components like energy and food prices, has also slowed but, at 3.5% year on year, highlights stubborn underlying inflation pressures. This is further illustrated by services CPI which, though slowing, remained at 5.7% year on year.
- Latest consensus forecasts expect year-on-year headline inflation in the UK to re-accelerate somewhat in the second half, averaging 2.6% over the course of 2024 before slowing in 2025 to an average pace of 2.3%.
- Medium-to-long-term consensus expectations are for UK inflation to stay slightly above the BoE's target. Forecasters point to a range of plausible reasons why inflation, and interest rates, might be higher over the medium term. These include expectations of more persistent labour shortages and a greater prevalence of supply shocks.

Higher inflation is a risk for pension funds. For example, if the long-term pension increase assumption was 1% pa higher, this will reduce the funding level by around 20%

UK inflation over past 10 years



Source: Datastream

What can the Fund do to manage inflation risk?

- Regular monitoring of inflation during periods of volatility is important. The Fund should consider both the short and longer-term impacts on their funding and investment strategies.
- If the strong funding position persists at the 2025 valuation, the Fund may choose to retain a funding cushion to help manage uncertainty surrounding inflation forecasts.
- Consider the Fund's beliefs about future inflation and carry out modelling to understand the impact of inflation risks on funding and cashflow.

Funding update

What has happened since the 2022 valuation?

The Fund's past service funding level has significantly improved since the 2022 valuation, rising to 150% (from 105% at 2022). The Fund now has a surplus of around £2.2bn at 30 June 2024 (compared to a surplus £0.3bn at 31 March 2022), which has been driven by significant changes in the financial markets.

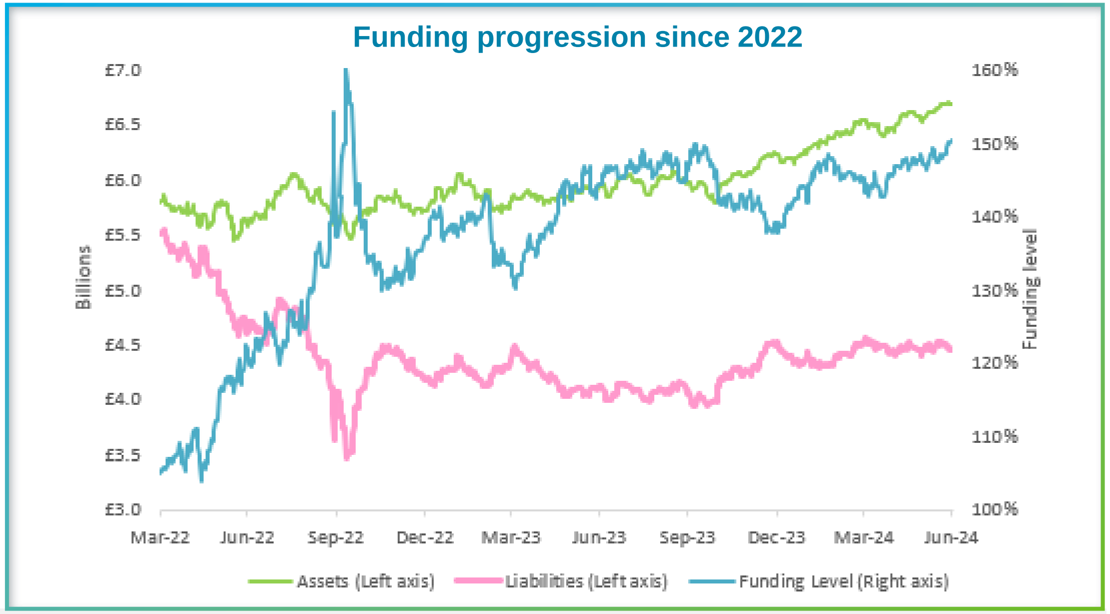
How have assets changed?

The Fund's asset value has remained relatively stable since the 2022 valuation, although there continues to be volatility (see **green line** in chart). Investment markets have seen headwinds leading to lower-than-expected returns on the Fund's investments to 30 September 2023. However, investment returns have been positive over the last few quarters, so the Fund is now holding more assets than it did at the 2022 valuation.

How have liabilities changed?

Asset return expectations have risen since the 2022 valuation, in part due to the rise in global interest rates, which has led to the liability reduction (pink line) observed since the 2022 valuation. This effect has been offset, partially, by the effect of inflation being higher than expected at the 2022 valuation.

The improvement in funding level (blue line) is being driven by the expectation of higher future investment returns, despite inflationary pressures and dampened investment returns since the 2022 valuation



Being over 100% funded is generally good news, however there are limitations to the usefulness of the funding level metric because it is based on a single set of assumptions about the future and asset values at a single point in time. It also only recognises benefits earned to date ("past service") and not the cost of future benefits. The Fund therefore needs to consider the risk inherent in their funding strategy and their beliefs about the outlook for investment returns before taking action to manage any surplus.

The sharp increase in headline funding level will inevitably lead to various stakeholders seeking to understand what it may mean to them.

Funding level versus investment return assumption

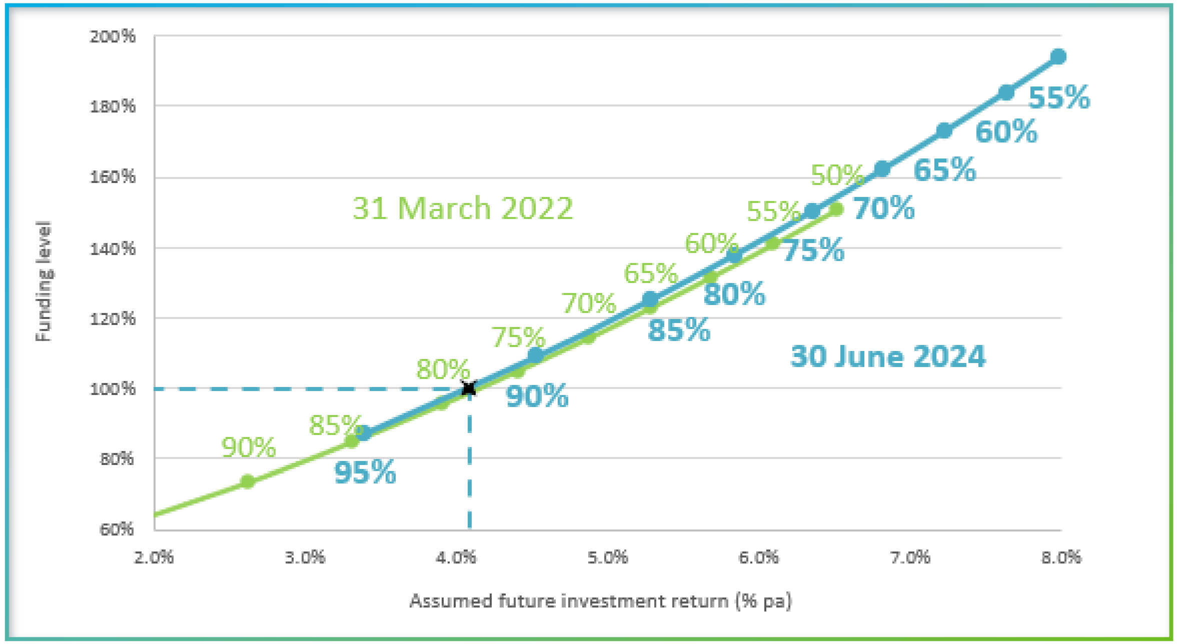
The Fund's funding level of 150% as at 30 June 2024 has been calculated using a future investment return assumption which has a **75%** likelihood of being achieved. This is in line with the Fund's Funding Strategy Statement, allowing for updated market conditions). However, this reported funding level is extremely sensitive to the return assumption adopted.

The chart shows how the Fund's funding level varies with the future investment return assumption adopted, comparing the position at 31 March 2022 (**green line**) with the updated position at 30 June 2024 (**blue line**). The percentages next to each point on the chart show the likelihood of the Fund's investment strategy achieving that return. From the chart we can see that:

- The future investment return required to be 100% funded is now 4.1% pa, which 0.1% pa lower than at the 2022 valuation. In effect, we require the Fund's investments to return at roughly the same level as we did at 2022 to be 100% funded.
- The likelihood of achieving any given future investment return is higher than it was at the 2022 valuation. For example, there is now a 92% chance of the Fund achieving the investment returns needed to be 100% funded, compared to 78% at the 2022 valuation.

This highlights that the improvement in funding position is not a result of the Fund holding more assets today. Rather, this has been driven by higher expected future investment returns due to the change in economic environment since the last valuation.

The effect of market volatility may lead to reductions in asset return expectations in the short term. To reflect any concerns about market volatility, additional prudence may be factored into funding plans via the level of assumed future investment return, which all else being equal would reduce the level of surplus in the Fund.



Required return of 4.1% p.a. has a 92% likelihood of being achieved at 30 June 2024

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The Fund is now more likely to have sufficient assets to meet earned benefit payments than at the previous valuation. However, this is due to higher return expectations, not because the Fund holds more assets.

Employer funding and contributions

The Fund is composed of around 180 active employers. Each of these employers will have its own funding objective depending on the type of employer and their participation.

Given this diversity of employers it is important to understand and monitor employer risks. At 30 June 2024 the funding position has improved for all employers. This change in funding will be different for each employer depending on their membership (but similar to the Fund improvement for most).

The majority of employers are now fully funded (>100%) on the Fund's ongoing basis. Whilst this is good news for the Fund (and employers), this is not the endgame for employers who continue to participate and accrue benefits in an open scheme

Higher risk employers

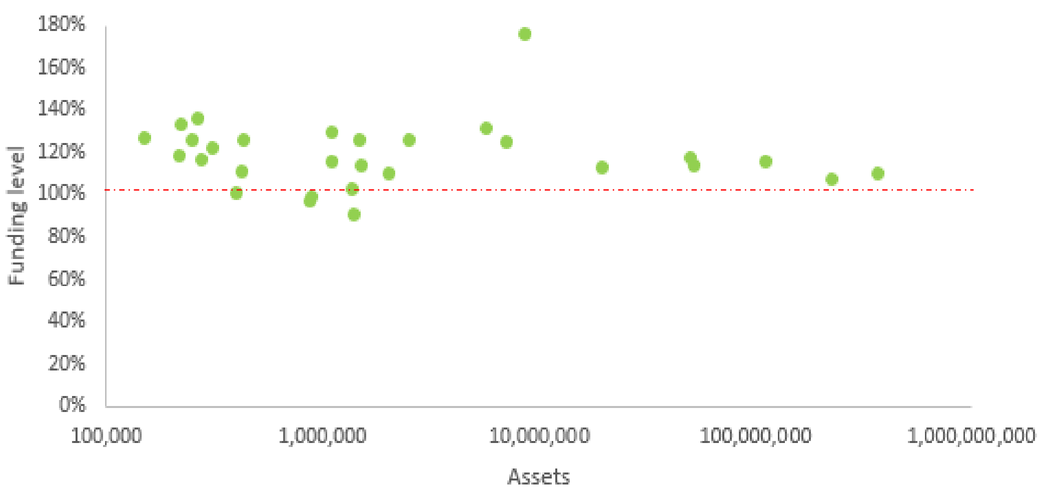
Employers with no tax raising powers or guarantee are typically viewed as 'higher risk'. If these bodies were to exit the Fund, their exit payment would be valued on the Fund's 'low risk' basis which allows for more prudence. At 30 June 2024, the aggregate position of the higher risk employers (on the Fund's low risk basis) is now 112% (compared to 75% at the 2022 valuation). Each individual employer position will be different, but in general will have improved, with many now >100% funded on the Fund's low risk basis (see chart opposite).

Impact on contributions

Employer contributions are set at the triennial funding valuation. If the current economic environment persists through to the 2025 valuation, there will likely be downward pressure on both primary and secondary contributions as a result of higher expectations of future investment returns and strong past-service funding positions.

The Fund may need to consider options for managing employer surplus ahead of the 2025 valuation. In particular, the Fund may need to consider how to manage high levels of surpluses and increased volatility and uncertainty in the economic environment within its funding and investment strategy, and effectively communicate its approach to employers.

Higher risk employers' funding positions at 30 June 2024 (on 'low risk basis')



It is important to understand the impact of improved funding for each employer to set appropriate funding plans

HYMANS ROBERTSON

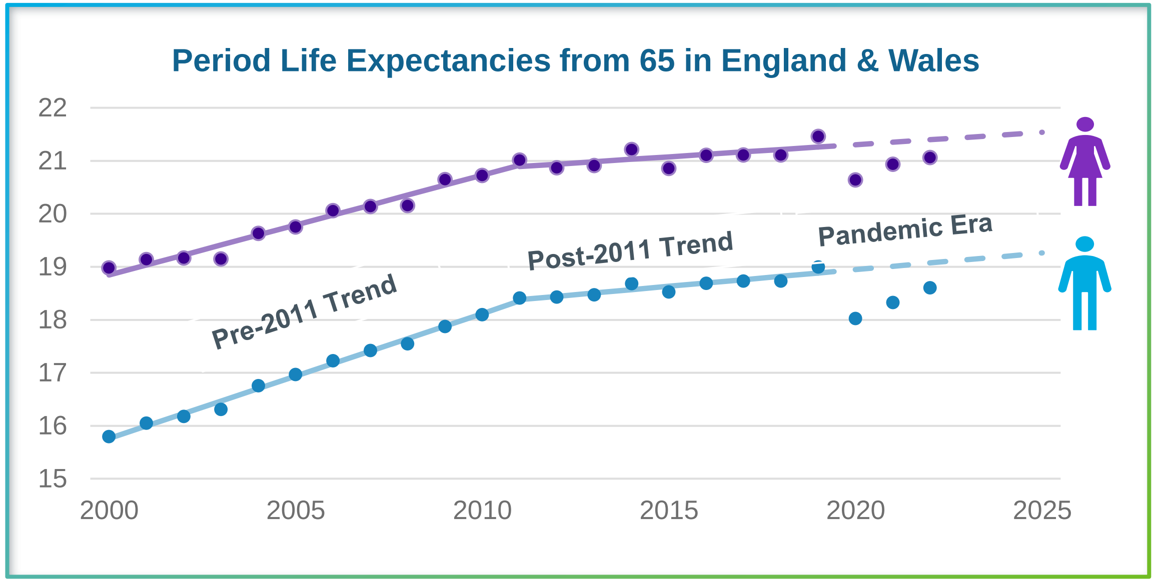
Key funding risks update

Longevity risk

Understanding demographic trends and setting appropriate mortality assumptions is key to managing longevity risk. The impact of an increase (or decrease) of 1 year of life expectancy decreases (increases) the funding position by around 4%. The Fund uses Club Vita longevity analytics which take account of the socio-economic profile and regional concentration of the Fund.

Recent longevity trends

- The Covid-19 pandemic led to increased deaths during 2020 and 2021. Excess deaths continued in 2022 (and into 2023) but the cause of excess deaths is less clear cut.
- The question facing pension funds now is: to what extent should we allow for this pandemic era data? Is this recent experience representative of the future or will it be short lived?
- Evidence for making an allowance for post-pandemic 'excess deaths' is now higher due to mortality experience in 2022 (and 2023).
- Club Vita estimates that during 2022, mortality was around 6% higher in England & Wales that we might have expected based on pre-Covid-19 mortality rates.
- However, the LGPS appears to be bucking the trend. Initial indications from Club Vita are that **excess mortality rates during 2022 were significantly lower for LGPS pensioners than for the overall population.**
- Analysis also shows that some areas of the UK have been hit harder during the pandemic and the post-pandemic period than others making it important to capture regional differences.



Source: CMI_2022 model. Life expectancies calculated using projected qx rates, using calibration data, with W_{2020} through W_{2022} set to 100% and S_{κ} set to 0%.

What can the Fund do to manage longevity risk?

- The Fund's longevity assumptions will be reviewed at the 2025 formal funding valuation. As part of this review the Fund should consider its beliefs around future improvements.
- With increased uncertainty on the lasting impact of the pandemic and future longevity, the Fund may choose to maintain a funding cushion to help manage uncertain outcomes.

Climate risk

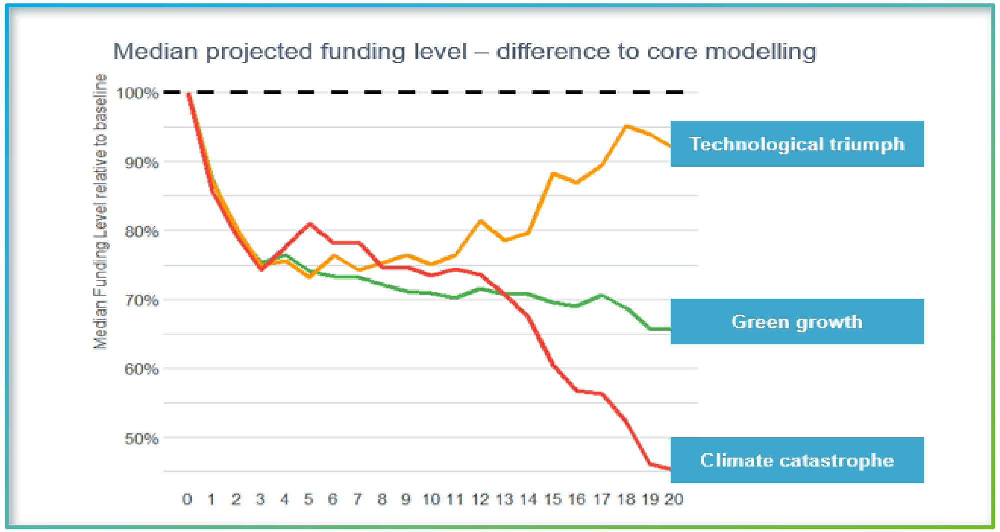
Climate change is now widely regarded as one of the main sources of risk for pension schemes, with potential implications for future inflation, investment returns and longevity. Scenario testing is an effective way for LGPS funds to test how resilient funding strategies are to climate risk.

2022 valuation scenario testing

- At the 2022 valuations, scenarios were chosen representing broad possibilities for how the world might respond to climate change – 'green revolution', 'delayed transition' and 'head in the sand'.
- Despite imposing significant stresses and big increases in volatility, the impact on risk metrics of these three scenarios was quite modest.

Importance of considering 'bad' outcomes

- Climate change has the potential to make extreme outcomes more likely. It is therefore particularly important to consider catastrophic outcomes when assessing the impact of climate risk.
- New, 'extreme', scenarios (complementing the existing scenarios) are now available allowing the Fund to assess the impact of catastrophic outcomes on funding strategies.
- One example of catastrophic outcomes is a failure of global food supply resulting in an estimated 18-36% loss in global crop losses. Ultimate outcome could be trade wars, asset shocks and mortality impacts.
- The graph illustrates the impact of three outcomes: 'Green growth' considering collaborative regeneration, 'Technology triumph' looking at a tech-driven recovery and 'Climate catastrophe' – no action taken.
- Modelling narrative-based downside risks helps to better align the Fund's funding strategy with climate beliefs.



What can the Fund do to manage climate risk?

- Ahead of the valuation the Fund should review its approach managing climate risk, including setting objectives, capturing varying views and beliefs of all stakeholders and agreeing scenarios to model.
- Output from modelling (core plus extreme scenarios) can be used to aid funding strategy and to stress test key risk metrics

Employer covenant

Although the recent improvement in funding is good news, employers continue to face a wide variety of challenges from the evolving economic, demographic and regulatory environment. Higher inflation, interest rates and pay awards are all putting pressure on organisations.

The Fund should continue to monitor employer covenant as part of its risk management framework.

The key covenant risks for each employer are:

- Ability and willingness to make contributions – are there competing demands on cash or any cashflow concerns?
- Likelihood of exit – are there any organisational or external pressures that may result in the employer exiting the LGPS?
- Outcome on exit – what is the outcome for the pension fund? Are there other secured or unsecured creditors?

Improved LGPS funding

Against the backdrop of improved funding positions funds may now be facing new questions and challenges from employers such as:

- Their approach to risk and investment strategy
- Employers exiting the scheme and possible exit credit payments
- Contribution flexibility

What can the Fund do to manage employer covenant risk?

- Whilst the recent improvement in funding will lessen the solvency risk posed to the Fund in potential outcomes on exit, it is important to consider all covenant risks to help manage other risks such as administration, cashflow and reputational.
- Ahead of the 2025 valuation, the Fund should monitor employer covenant risk to ensure appropriate risk categorisation and early engagement with employers.
- The Fund should consider its holistic approach to covenant and funding strategy, including consideration of how employer risk categorisation may impact funding strategy decisions.

2025 valuation planning

Preparing for the 2025 valuation

The analysis in the funding update section highlighted that the fundamental funding position of the Fund (amount of assets per £ of future pension to pay out) has not materially changed since the last valuation. However, there has been a significant change in the economic environment, which means that the Fund may now be facing new risks and opportunities at the 2025 valuation. The nature of these risks and opportunities will depend on the Fund's beliefs about what the new economic environment means for future investment returns. These are further discussed in our standalone paper[1] but can be broadly summarised as future returns will either be at a similar level to that assumed at the last valuation or, due to the change in interest rate environment, future returns will be higher.

Once the Fund has considered their beliefs in this area, with the valuation less than 12 months away, it should start to work through what these mean for its funding and investment strategy in the new economic environment. This will focus typically focus on four key areas:

1. Employer contributions

2. Investment strategy

3. Prudence levels

4. Surplus retention

Seek to balance employer affordability with long term sustainability

[1] www.hymans.co.uk/media/uploads/A_new_funding_era_in_the_LGPS.pdf

Preparing for the 2025 valuation

1. Employer contributions

Given the current cost pressures facing employers, there may be a desire for contribution rate reductions at the 2025 valuations. These expectations may also have been amplified by recent comments for employer advisors. However, the Fund will need to consider:

- **Difficulty of future increases -** The relative ease of reducing contributions versus increasing them. Even if a reduction is only for some short-term relief, it can quickly become the level that employer budgets could anchor on, meaning future required increases are harder to implement.
- **Long term cost of scheme -** What is a long-term stable cost of the LGPS, and are current contribution rates higher or lower than this? If an employer is already paying less than this cost, is it realistic to reduce further?
- **Intergenerational fairness -** Which generation are you being fair to by reducing contributions? The current generation have implicitly supported contribution rate increases over the last 20 years. Or does a reduction place too much risk of future contribution rate increases on future generations?
- **Stabilisation –** How does this interact with the Fund's contribution stability mechanism and are the employers committed to the long-term benefits of stability? Employers have been "underpaying" during the bad times during the last decade, whereas many may now be "overpaying" in the good times to deliver stable long-term contributions.

2. Investment strategy

The change in economic environment and your beliefs about future investment outlook will have a material impact on any changes you make to the investment strategy at the 2025 valuation.

For example, if you think your assets such as equities, property or infrastructure are not going to be able to achieve the market's current long-term risk-free rate of return (currently around 4% pa), should you be taking all that investment risk? The new economic and return environment may also offer opportunities to invest in different asset classes which haven't previously been considered.

Other aspects to consider with the investment strategy at the 2025 valuation are:

- Are there any opportunities to use the investment strategy to further increase the long-term stability of contribution rates for the long-term benefit of employers?
- Are there any opportunities to help reduce funding balance sheet volatility where it matters for a select group of employers?
- If contributions are reduced, what does this do to the cashflow profile of the Fund, and does it affect how the investments are used to manage cashflow?

Preparing for the 2025 valuation

3. Prudence levels

There is risk inherent with funding for a guaranteed pension amount which is inflation-linked and funded via investment in return-seeking assets. You can never have 100% certainty and must accept some element of risk in the funding strategy. The question is how much, i.e. how prudent are you going to be?

Each LGPS fund will have their own views on how prudent they want to be. And this can change over time. For example, at the 2019 valuation many Funds increased the prudence in the funding strategy in light of uncertainty around the benefit structure due to McCloud and the Cost Cap valuation.

At the 2025 valuation, the Fund should review the prudence levels in the funding strategy to explore:

- If the funding position remains strong, could this be used to increase prudence levels? This additional prudence could then be used to help manage any impact on contribution rates if there are poor funding outcomes in the future.
- Do the current market conditions, and increased levels of volatility and uncertainty, warrant mitigation and management by increasing prudence?

4. Surplus retention

An alternative approach to increasing prudence, is explicitly retaining any funding surplus before changes to the funding plan are granted (ie contribution rate reductions). For example, the Fund could:

- Only permit rate reductions if an employer is above a certain funding level threshold. The threshold would be higher than 100% funded (eg retain the 120% threshold currently within the FSS).
- Require all open employers to pay at least their primary rate so future benefits are being adequately funded.
- Seek to retain a certain level of surplus in the long-term so both todays and future generations can benefit from the surplus. This would involve increasing the long-term funding target for employers to above 100%

Early engagement and planning for the 2025 valuation will be key to successful outcomes

What can the Fund do ahead of the 2025 valuation to prepare?

Risk management

There may be individual sources of uncertainty and volatility in the funding plans that could warrant explicit management or mitigation via the funding and investment strategy. Examples could include:

- **Inflation** being higher and/or remaining elevated longer than expected (LGPS benefits are index-linked so this would increase the cost of benefits).
- **Salary increases** being higher than expected would increase the value of those benefits still linked to final salary at retirement. Conversely, lower than expected salary increases would reduce the Fund's contribution income and potentially affect the cashflow position and management of it.
- **Longevity** being materially different from current expectations. Higher than expected increases in longevity would put upward pressure on the Fund's liabilities. The Fund could also be exposed to a deterioration in longevity if it is symptomatic of an unhealthier population, which would increase the occurrence of ill-health retirements and death-in-service, both of which typically result in funding strains.

The Fund should consider the risks inherent in their funding and investment strategies and consider the implementation of risk management tools to seek to hedge some or all of the risk.

Key actions

- **Start planning** – it is important to start conversations with stakeholders well ahead of the valuation to plan effectively.
- **Monitor employer funding and covenant risks** and engage early with higher risk employers, or those with specific circumstances (eg approaching exit).
- **Seek to engage with all employers** in advance of the valuation to build up the appropriate messaging around funding in a surplus environment and any changes in policies.
- **Consider options for funding and investment**, such as prudence levels, maintaining a funding 'buffer' or changing investment risk (in additional to potential changes to contributions).
- **Carry out contribution modelling** for the secure, long-term employers to inform budget setting and financial planning

Summary and next steps

Risk monitoring and valuation planning best practice

As we approach the 2025 valuation, LGPS funds are now facing new challenges within a new economic environment. Planning and stakeholder engagement will be key to successful outcomes and funds should continue to refine their approach to managing risk within this evolving landscape.

Key considerations and next steps

Funding: continue to monitor the funding position and understand the key drivers of change. Consider the messaging of the funding position and what this means for different stakeholders.

Employers: monitor employer funding and seek to engage early with higher risk employer or those approaching exit. Consider employer covenant as a factor within the risk framework and where employer contribution flexibility may be afforded.

Beliefs: identify your Fund's beliefs about what the current economic environment means for future investment returns and consider what that means for contribution rates, investment strategy, prudence levels and any surplus retention.

Review funding and investment strategy: carry out modelling of longer-term secure employers and consider investment strategy options and implications of climate risk.

Risk monitoring and mitigation: consider the Fund's views on inflation, longevity climate risks, and whether additional prudence may be required in future assumptions or funding plans. Carry out modelling to understand the impact of future inflation (and potential contribution reductions) on the Fund's future cashflows.

Surplus management: if you are in surplus, develop the Fund's policy on surplus management and consider the best use of funding levers at the 2025 valuation.

Valuation strategy and planning: before 31 March 2025

Strategy

- Beliefs setting including views on economic outlook, climate & longevity
- Council contribution analysis and setting
- Assumptions analysis and setting
- Investment strategies analysis

Stakeholders

- Committee knowledge assessment and training
- Employer engagement and ‘early warning’
- Covenant assessments
- Consult on changes to the FSS

Operational

- Agreeing timetable/plan
- Data cleansing
- Employer ‘housekeeping’ and database
- Policy/FSS reviews

Earlier planning allows more time for engagement, analysis and decision-making

HYMANS ROBERTSON

Appendices

APPENDIX 1

Data

Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

	31 March 2022			
	Number	Average age	Accrued benefit (£000)	Payroll (£000)
Actives	37,228	52.4	130,520	731,068
Deferred	39,712	51.3	62,026	
Pensioners	31,523	68.6	143,602	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix 3 for details of the roll-forward methodology which includes the estimated changes in membership data which have been allowed for.

Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 June 2024. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 June 2024. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£000)	31 March 2022 to 30 June 2024
Employer contributions	558,931
Employee contributions	110,117
Benefits paid	394,043

Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

	Actual / Index	From	To	Return
Whole fund	Actual	1 April 2022	31 March 2024	8.3%
Whole fund	Index	1 April 2024	30 June 2024	1.8%

APPENDIX 2

Assumptions

Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	30 June 2024
Funding basis	**Ongoing**	
Discount rate methodology	Expected returns on the Whole Fund strategy over 20 years with a 75% likelihood	
Discount rate (% pa)	4.4%	6.4%
Pension increase (% pa)	2.9%	2.5%
Salary increases* (% pa)	3.4%	3.0%

*Salary increases are assumed to be 0.5% pa higher than pension increases, plus an additional promotional salary scale.

Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

Life expectancy (years)	Ongoing basis	
	Male	Female
Pensioners	21.6	24.4
Non-pensioners	22.3	25.8

APPENDIX 3

Technical information

Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 30 June 2024 using approximate methods. The roll-forward allows for

- estimated cashflows over the period as described in Appendix 1;
- investment returns over the period as described in Appendix 1;
- changes in financial assumptions as described in Appendix 2;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 June 2024 include a total adjustment of 11.4% to reflect the difference between actual September CPI inflation values (up to 30 September 2023) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 June 2024 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results. The fund should consider whether any such factors mean that the roll-forward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value, the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 30 June 2024 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 20.0%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

APPENDIX 4

Economic Scenario Service (ESS)

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

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

The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration). The following table shows the calibration (for a selection of asset classes) at 30 June 2024.

Time period	Percentile	Asset class annualised total returns								Inflation/Yields		
		UK Equity	Developed World ex UK Equity	Emerging Markets Equity	Listed Infrastructure Equity	Private Equity	Property	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Inflation (CPI)	17-year real yield (CPI)	17-year yield
10 years	16th	2.0%	1.7%	-0.2%	1.3%	1.1%	1.7%	4.4%	3.6%	0.9%	0.4%	3.4%
	50th	8.1%	7.9%	8.3%	7.4%	12.1%	6.9%	6.2%	4.9%	2.5%	1.6%	4.8%
	84th	14.0%	14.1%	16.9%	13.5%	23.0%	12.2%	8.0%	6.4%	4.2%	2.8%	6.5%
20 years	16th	3.4%	3.3%	1.9%	3.0%	4.1%	3.2%	5.1%	3.4%	0.8%	-0.5%	1.6%
	50th	8.0%	7.9%	8.1%	7.5%	11.9%	6.9%	6.7%	4.9%	2.3%	1.2%	3.6%
	84th	12.5%	12.7%	14.7%	12.1%	19.7%	10.9%	8.2%	6.8%	3.9%	2.9%	6.1%
40 years	16th	4.1%	4.0%	3.1%	3.5%	5.7%	3.5%	4.6%	2.7%	0.8%	-0.7%	1.2%
	50th	7.7%	7.5%	7.8%	7.1%	11.4%	6.5%	6.3%	4.5%	2.1%	1.2%	3.4%
	84th	11.3%	11.2%	12.7%	10.9%	17.2%	9.9%	8.4%	6.8%	3.7%	3.1%	6.2%
	Volatility (1yr)	17%	18%	25%	18%	30%	15%	6%	3%	3%	-	-

APPENDIX 5

Reliances and limitations

This paper is addressed to Leicestershire County Council as Administering Authority to the Leicestershire County Council Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing funding and risk monitoring ahead of the 2025 valuation. It has not been prepared for any other purpose and should not be used for any other purpose.

The results in this paper are wholly dependent on the valuation data provided to us for the 2022 valuation and the assumptions that we use in our calculations. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in Appendix 1. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority, and the results rely on the data.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

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

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

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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LOCAL PENSION BOARD – 16 OCTOBER 2024

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.

Policy Framework and Previous Decisions

2. The Local Pension Board's Terms of Reference state that the responsibility and role of the Board is to secure compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; such other matters as the LGPS regulations may specify.

Background

3. 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 Local Pension Board and Local Pension Committee agenda.

4. In order to comply with the Code, the risk register and an update on supporting activity is included on each agenda for this Board.

Risk Register

5. The 19 risks are split into six different risk areas. The risk areas are:

- Investment
- Liability
- Employer
- Governance
- Operational
- Regulatory

6. Risks are viewed by impact and likelihood and the two numbers multiplied to provide the **current risk score**. Officers then include future actions and additional controls, and the impacts and likelihoods are then rescored. These numbers are multiplied to provide the **residual risk score**.

7. The current and residual risk scores are tracked on a traffic light system: red (high), amber (medium), green (low).

8. The latest version of the Fund's risk register was approved by the Local Pension Committee on the 6 September 2024.

9. There have been no changes to the risk scores since the previously approved risk register. Some other minor changes are highlighted below.

10. To meet Fund Governance best practice, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

11. The risk register is attached to the report at Appendix A and Risk Scoring Matrix and Criteria at Appendix B.

<u>Revisions to the Risk Register</u>

Risk 4: Risk to Fund assets and liabilities arising from climate change

12. Wording has been updated in the further action column reflecting the new Net Zero Investors Framework 2.0 has been produced by the Institutional Group for Climate Change, which provides further asset class guidance which will need to be considered as part of the Fund's Net Zero Climate Strategy review in 2025.

Risk 9: If the Funds In-House Additional Voluntary Contribution (AVC) provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members

13. An update to the further action column has been made to reflect that a national procurement framework for AVC provision is now live which the Fund has signed up to. This will enable the Fund to commence a future tender to procure for a AVC provider. The Board will continue to be kept updated on this matter.

Risk 19: Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.

14. The cause of the risk has been updated to reflect the ongoing pensions review with respect to potential consolidation. Given the unknowns surrounding the review and next steps no further updates have been made to the risk register yet. Committee and Board will be kept informed on related matters.

Recommendation

15. The Local Pension Board is asked to note the report.

Equality Implications

16. There are no equality implications arising from the recommendations in this report.

Human Rights Implications

17. There are no human rights implications arising from this report.

Background Papers

None

Appendix

Appendix A – Risk Register
Appendix B – Risk Scoring Matrix and Criteria

Officers to Contact

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Appendix A

All risks owned by the Director of Corporate Resources

Risk no	Category	Risk	Causes (s)	Consequences	List of current controls	Impact	Likelihood	Current Risk Score	Risk Response	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score	Residual Risk Change since January 2024	Action owner
1	**Investments**	**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, global recessions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	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 2024.	**4**	**2**	**8**		Investments - SFA
2	**Investments**	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation. Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Ensuring that the causes of underperformance are understood and acted on where appropriate. Shareholders' Forum, Joint Committee and 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.	**3**	**3**	**9**	Treat	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative performance will occur. Decisions regarding manager divestment to consider multiple factors including performance versus mandate and reason for original inclusion and realignment of risk based on revised investment strategy. 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**	**2**	**6**		Investments - SFA
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**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment. These risks may include, but are not limited to the risk of global economic slowdown and geopolitical uncertainty and failure to consider Environmental, Social and Governance factors effectively.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.	Ensuring that all factors that may impact onto investment returns are taken into account when setting the annual strategic 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. The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and corporate responsibility. The Committee has approved a Net Zero Climate Strategy to take into account the risk and opportunities related to climate change. Climate Risk Report and Climate Stewardship Report. The Fund also produces an annual report as part of the Taskforce on Climate-related Financial Disclosures.	**3**	**4**	**12**	Treat	Responsible investment aims to incorporate environmental (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. This can take into account geopolitical uncertainty, the impact of climate change on the portfolio including risk from stranded assets. 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. LGPS Central are in the process of developing an ESG report for the Fund which can be used to monitor the Fund's portfolio exposure, and support engagement with underlying companies	**3**	**3**	**9**		Investments - SFA

4	**Investments**	**Risk to Fund assets and liabilities arising from climate change**	The impact on global markets and investment assets from the transition to a low carbon economy, and/or the failure to achieve an orderly transition in line with the Paris agreement.	Failure of meeting return expectations due to risks, or missed investment opportunities, related to the transition to a low carbon economy, and/or the failure to achieve an orderly transition. Resulting in increased employer contributions costs. Some asset classes, and carbon intensive sectors may be overexposed to transition risks, and/or the risk of stranded assets	Net Zero Climate Strategy, targeting by 2050 with an ambition for sooner. Climate metrics, including decarbonisation targets monitored annually through the Climate Risk Report, and reporting under TCFD recommendations. Supporting real world emissions reduction with partners (LAPFF, and LGPS Central) as part of the Fund's Climate Stwarship Plan. Consideration of clmiate change in investment decisions including investment in climate solutions and funds titled towards clmiate factors. Climate scenario analysis is undertaken biennially on impact to Fund assets. The Funding Strategy Statement's resilience to climate risk was also tested through the 2022 triennial valuation	**3**	**4**	**12**	Treat	Annual refresh of the Fund's asset allocation allows for an up to date view of climate risks and opportunities to be incorporated and avoids significant short term changes to the allocation. This will take into account the Fund's latest Climate Risk report. Increased asset coverage for climate metric reporting. Increased engagement with investment managers and underlying companies through Net Zero Climate Strategy and further collaboration. Expected regulatory change on climate monitoring. The IIGCC has produced a Net Zero Infrastructure Framework 2.0 that will be incorporated into the Fund's Net Zero Climate Strategy review to include further asset classes.	**3**	**3**	**9**		Investments - SFA
5	**Liability**	**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.	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 Early engagement with the Fund's higher risk employers to assess their overall financial position. Ongoing review of Community Admission Bodies (CABs)	**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 2022 valuation assessed the 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. GAD Section 13 comparisons. Funding Strategy Statement approach is to target funding level of 120%.	4	2	8		Pensions Manager
6	**Employer**	**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.	Training provided for new employers alongside guidance notes for all employers. Communication and administration policy Year-end specifications provided Employers are monthly posting Inform the Local Pension Board quarterly regarding admin KPIs and customer feedback.	**3**	**2**	6	Tolerate	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. Monitor employers that change payroll systems.	3	1	3		Pension Manager
7	**Employer**	**If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected**	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary	Pension Section provides employers with the annual 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 Finance reconcile monthly contributions to payroll schedule	**3**	**2**	6	Tolerate	Pension Officers check sample cases Pension Officers to report major failings to internal audit before the annual audit process Major failings to be reported to the Pensions Board	**3**	**1**	3		Pensions Manager
8	**Employer**	**Employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	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**	**3**	6	Tolerate	Late payers will be reminded of their legal responsibilities.	**2**	**3**	6		Pensions Manager
9	**Governance**	**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**	Prudential implemented a new administration system in November 2020	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Prudential attended a meeting with the Local Pension Board with improvement plan agreed	**3**	**3**	9	Treat	Prudential continue to engage with Fund Officers positively to quickly resolve issues National meetings with LGPS Funds and the Prudential continue to develop improvements. The national Framework is live and the Fund has signed up enabling the Fund to commence a future tender to select AVC providers.	**3**	**1**	3		Pensions Manager

10	**Governance**	**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.	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 accounted for in the Funding Strategy	**4**	**2**	**8**		Pensions Manager
11	**Governance**	**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. Turnover of Committee Membership requiring time to retrain.	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions. Improved training at Committee. Additional experience at LGPS Central added who make investment decisions on behalf of the Fund. Revised Training Policy agreed March 2024. Committee are required to comlpete all modules of the Hymans Aspire Online Training within 6 months of appointment or revision of modules.	**3**	**3**	**9**	Treat	On-going process of updating and improving the knowledge of everybody involved in the decision-making process. Members undertake Training Needs Assesment and get issued individual training Plans.	**2**	**2**	**4**		Investments - SFA
12	**Operational**	**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	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 Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	**3**	**2**	**6**	Tolerate	Ongoing monitoring on a case by case basis	**2**	**1**	**2**		Pensions Manager
13	**Operational**	**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.	Regular LCC Penetration testing and enhanced IT health checks in place. LCC have achieved Public Sector Network (PSN) compliance. New firewall in place providing two layers of security protection in line with PSN best practice. Contractual arrangements in place with system provider regarding insurance. 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. Developed a new Cyber risk policy	**5**	**2**	**10**	Treat	Liaise with Audit to establish if any further processes can be put in place in line with best practice. Good governance project and the TPR new code of practice to include internal audit reviews of both areas. Under review and findings will be reported to the Board.	5	1	5		Pensions Manager

14	**Operational**	**If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong**	Human error when setting up immediate payments or calculating a pension System failures Over or under payments Unable to meet weekly deadlines	Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly Officers re-engineered the retirement process using member self service (MSS) which speeds up process and reduces risk New immediate payments bank account checks system Use of insights report to identify discrepancies between administration and payroll sides of the system Funds over and under payment policy	Task management used within pensions administration Segragation of duties, benefits checked and authorised by different Officers Training provided to new staff Figures are provided to the member so they can see the value and check these are correct A type of bank account verification applied to all pensions and transfer payments.	**4**	**1**	**4**	Tolerate	Monitor the structure of the Pension Section to resource the area sufficiently Ongoing officer training notes Continued develop the workflow tasks	4	1	4		Pensions Manager
15	**Operational**	**If transfer out checks are not completed fully there may be bad advice challenges against the Fund** **There are some challenges being lodged from Claims Management Companies on historic transfers out**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers Manual calculation of transfer values due to McCloud.	Reputation Financial consequence from 'bad advice' claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	The Pensions Regualtor (TPR) checks Follow LGA guidance Queries escalated to Team Manager then Pensions Manager Legislative checks enable the Fund to withold a transfer in certain circumstances. Signed up to The Pension Regulator's national pledge "To Combat Pension Scams"	**2**	**4**	**8**	Treat	Escalation process to officers to check IFA, Company set up, alleged scam activity Further escalation process to external Legal Colleagues National change requires checks on the receiving scheme's arrangements. Some McCloud calculations using an LGA template. Internal audit review of both transfers in and out of the Fund.	**2**	**3**	**6**		Pension Manager
16	**Operational**	**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	Tracing service provides monthly UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes Moved to 6 monthly checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners	**3**	**1**	**3**	Tolerate	Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors. Informal review of tracing service arrangements.	3	1	3		Pensions Manager
17	**Regulatory**	**The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	The Regulations were laid on the 8 September 2023 and became active on the 1 October 2023. The legislation requires Fund Officers to review and calculate in scope member's pension benefits, backdated to April 2014 when the LGPS commenced the career average revalued earnings scheme. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful	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 Increased costs	Guidance from LGA, Hymans, Treasury Employer bulletin to employers making them aware of the current situation on McCloud Team set up in the Pension Section to deal with McCloud casework. Quarterly updates to the Board. Internal Audit completed an audit on the first phase of McCloud implementation in the final quarter of 2023/24.	**3**	**3**	**9**	Treat	Final system changes have been loaded into the system. Fund Officers are adopting a phased approach starting with new in scope retirements and leavers. Phase two will require a review of existing in scope pension benefits with revision and payment of any arrears, as necessary.	2	2	4		Pensions Manager

18	**Regulatory**	**The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service**	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications	Initial data cleaning started Contract made with the system provider on building the data link	**3**	**3**	**9**	Treat	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board Work with the Prudential regarding the transfer of AVC information	3	2	6		Pensions Manager
19	**Regulatory**	**Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.**	National pressure from Government and as part of the Pensions Review, to reform the LGPS, and/or direct investment decisions towards specific asset classes that may not completely correlate with the Fund's fiduciary duty. Pensions review underway with respect to further consolidation.	Conflicting pressure on the Fund to make specific investments or investment transitions contrary to the Fund's investment approach. Some proposed changes may present additional management fees. Changes to the Fund's pooling approach and subsequent reduction in pools in the medium-term which may lead to administrative, legal and transition burdens and pressure on the Fund if not managed appropriately.	Response provided to the DLUHC consultation on 'Next Steps in Investing' alongside LGPS Central partners on challenges that may arise from proposed changes. Productive participation with LGPS Central at officer and Joint Committee level. Investment in pool products where possible and in line with the Fund's strategy as approved by it's investment advisor.	**3**	**4**	**12**	Tolerate	Officers to review all relevant guidance and/or regulation changes. Continue to work with the Fund's Investment Advisor and LGPS Central on progressing pooling. Continually monitor national position.	3	4	12		Investments - SFA

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Appendix B: Risk Scoring Matrix

Impact					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1	**2**	3	4	5
	Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/Likely	Almost certain

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)

Residual Risk Score Change since last meeting indicator

↑	Risk Increase
–	No Change
↓	Risk Decrease

Impact Risk Scoring Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Impact on the Environment
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	None or insignificant damage
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	Minor local impact
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	Moderate local impact
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	Major Local Impact
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	Major regional or national impact

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths) Risk Scoring 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%

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