Meeting: **Local Pension Committee**

Date/Time: **Friday, 6 September 2024 at 9.30 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

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

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

AGENDA

Item		Report By	Marked
1.	Minutes of the meeting held on 19 June 2024		(Pages 7 - 18)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	Local Government Pension Scheme - Current Developments.	Director of Corporate Resources	(Pages 19 - 38)
7.	Quinbrook Infrastructure Partners - Infrastructure Presentation.	Director of Corporate Resources	(Pages 39 - 60)
8.	Funding Risk Update and 2025 Valuation Planning.	Director of Corporate Resources	(Pages 61 - 96)
9.	Pension Fund - Budget Monitoring Update.	Director of Corporate Resources	(Pages 97 - 102)

10.	Summary Valuation of Pension Fund Investments.	Director of Corporate Resources	(Pages 103 - 122)
11.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 123 - 134)
12.	Responsible Investment Report.	Director of Corporate Resources	(Pages 135 - 152)
13.	Local Pension Board Annual Report 2023/2024.	Local Pension Board	(Pages 153 - 164)
14.	The Pension Regulator's Code of Practice.	Director of Corporate Resources	(Pages 165 - 350)
15.	Draft Pension Fund Annual Report and Accounts 2023/2024.	Director of Corporate Resources	(Pages 351 - 462)

16. Dates of future meetings.

Future meetings of the Committee are scheduled to take place on the following dates, all at 9.30am:

29 November 2024
31 January 2025
14 March 2025
27 June 2025
26 September 2025
5 December 2025

Members are also asked to note that the Fund’s Annual General Meeting will take place at 12 Noon on the following dates, which will be open to all scheme members to attend:

9 December 2024
10 December 2025

17. Any other items which the Chairman has decided to take as urgent.

18. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).

19.	Leicestershire Total Fund Summary Q2	Fund Manager	(Pages 463 - 466)
20.	LGPS Central Quarterly Investment Report - 30 June 2024	Fund Manager	(Pages 467 - 576)

Growth

21.	Ruffer Quarterly Report 30 June 2024	Fund Manager	(Pages 577 - 630)

TO:

<u>Leicestershire County Council</u>

Mr. T. Barkley CC (Chairman)
Mr. D. Grimley CC
Mr. P. King CC

Mr. D. Bill CC MBE
Mrs. H. Fryer CC

<u>Leicester City Council</u>

Cllr. G. Whittle
One Vacancy

<u>District Council Representatives</u>

Cllr. M. Cartwright
Cllr. R. Denney

University Representative

Mr. J. Henry

Scheme Member Representatives

Mr. N. Booth
Mr. C. Pitt
Mr. V. Bechar

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Leicestershire County Council

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Wednesday, 19 June 2024.

PRESENT

Leicestershire County Council

Mr. T. Barkley CC
Mrs. H. J. Fryer CC
Mrs. M. Wright CC

District Council Representative

Cllr. M. Cartwright

Staff Representatives

Mr. V. Bechar
Mr. N. Booth

University Representative

Mr. J. M. Henry

Independent Advisors in Attendance

Mr. Richard Law Deeks (CEO) – LGPS Central
Mr. Nadeem Hussain – LGPS Central
Ms. Anouska Ramsey – LGPS Central
Ms. Susan Martin – LGPS Central

1. Appointment of Chairman.

RESOLVED:

That Mr. T. Barkley CC be appointed Chairman for the period ending with the date of the Annual Meeting of the County Council 2025.

2. Appointment of Deputy Chairman.

RESOLVED:

That Mr. D. Grimley CC be elected Deputy Chairman for the period ending with the date of the Annual Meeting of the County Council 2025.

3. Minutes.

The minutes of the meeting held on 8 March 2024 were taken as read, confirmed and signed.

4. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

5. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

6. Urgent Items.

There were no urgent items for consideration.

7. 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.

8. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide information on any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice. The report also provided updates on the information provided to the Local Pension Board on the internal audit arrangements for the Pension Fund, outcomes of audits conducted during 2023/24 and outlined the internal audit plan for 2024/25. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion, the following points were made:

i. East Midlands Shared Service (EMSS) had ended its contract to provide payroll services for Leicestershire County Council schools and academies. Some difficulties had been experienced in getting all necessary data from their new provider, due to the number of new employers it had taken on over a short period. However, the Director provided reassurance that meetings were taking place weekly, and the number of data queries awaited had fallen from approximately 80 cases down to five schools and 19 academies. Any continuing issues during the next quarter would be reported to the Board and Committee in terms of impact on annual benefit statements.

ii. A Member asked, in terms of individuals transferring out of the Fund, what could be done within the regulations to ensure they did not transfer to a fraudulent scheme. It was noted that transfers and controls around this process were looked at every two years to ensure adequate approval processes had been followed. Alongside a tightening of regulations in 2023, the rules had introduced a Red / Amber / Green flag system to inform officers where a further detailed look at certain transfers, particularly overseas, was needed. In addition, any transfer over £100,000 went through a further legal check to establish the security of a scheme.

iii. Assurance was being sought from LGPS Central that work would commence on a Type 1 Audit and Assurance Facility (AAF) report and be delivered in August 2024 as planned, especially as the request for a Type 2 AAF report had been rejected, which had been a problem for all internal auditors.

iv. In response to a members' query regarding three deferred audits, it was confirmed that the charge applied was for work completed only, and the figure for 2024 was an estimate based on the number of days work required to complete the plan.

v. A Member questioned whether there was any historical data on payments made to deceased members, and the amount of money lost as a result. The Director reported that the Pension Section used to rely on the data provided by the two-yearly National Fraud Initiative (NFI) system, which was a large, time-consuming exercise undertaken by the Cabinet Office. However, because this process could take up to two years to reveal any such cases the Fund had enrolled on the six-monthly Mortality Screening Service (MSS), also managed via the Cabinet Office. This compliments the Pension Sections mortality screening service, which usually results in the Section being informed of deaths within a month of the person's passing. In response to a request from a Member, the Director undertook to provide further information on the number of cases that had resulted in overpayments, including where amounts had been written off.

RESOLVED:

(a) That the Risk Management and Internal Controls report be noted.

(b) That the revised Pension Fund Risk Register attached as Appendix A to the report be approved.

(c) That the Director of Corporate Resources be requested to provide further information to Members on the number of cases of continued payments to deceased members, and action taken including where amounts had been written off.

9. Responsible Investing Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on progress versus the Responsible Investment (RI) Plan 2024, the Fund's 2023 Taskforce for Climate-related Financial Disclosures report and the Fund's quarterly voting report and stewardship activities. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion, the following points were made:

i. Members thanked officers for the opportunity to discuss the Funds approach to monitoring and reporting on responsible investment outside of the meeting, which had helped Members understanding when approaching the subject.

ii. Officers were aware of the action taken by Exxon against its shareholders for putting forward a climate related motion to its Committee annual meeting. An update would be provided within the next quarterly report.

RESOLVED:

That the update report on Responsible Investing be noted.

10. McCloud Remedy Progress Report.

The Committee considered a report of the Director of Corporate Resources which provided an update on progress in respect of the implementation of the McCloud remedy for Leicestershire County Council Pension Fund. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Arising from discussion, the following points were made:

i. It was noted that only a small number of people had been aware of the McCloud decision and subsequently raised a complaint. Approximately 30 people had complained, however, only two of these had been eligible to receive a very negligible increase. If anyone wrote in to query a potential increase in their pensions due to McCloud, their case would be dealt with through the usual process.

ii. It was questioned what the cost of administering the implementation of McCloud had been over the cost of actual benefits paid out to Members. It was noted that the metrics were not confirm either way were not currently available, but that the question was being asked nationally.

iii. Members noted that the KPI figures highlighted in the Appendix to the report were reflective of those that were, and those that were not, affected by McCloud, noting that those on career average pensions since 2014 were not affected. It was further noted that the KPIs were reflective of the impact on workload, with additional overtime hours and extra resources required to assist with the McCloud implementation. Members were informed there were no additional grant payments from Government to meet the cost of the additional administration needed to complete this work. Members asked that the welfare of staff be considered above KPIs performance.

RESOLVED:

That the McCloud Remedy Progress Report be noted.

11. Summary Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources which provided an update on the investment classes and how individual classes were performing. The report also provided an update on progress with respect to the listed equity changes, as approved by the Investment Sub-Committee (ISC) on 19 April 2023, and update on progress at the ISC meetings on 11 October 2023 and 8 March 2024. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

Arising from discussion, the following points were made:

i. A Member questioned if the one-year figure at -2.5% below benchmark had anything to do with private equity not being revalued in time, or if it was a real loss. The Director reported that underperformance was driven by the growth asset class and within which private equity’s performance was lower, and it was correct to assume that it was due to a lag in valuations.

ii. With regards to cash holdings, term deposits and certificates of deposit having a maximum term of one year, it was questioned if, with a potential fall in interest rates, consideration had been given to longer term investments for cash flow purposes. The Director advised that the current policy did not allow for investments beyond the one year and that when premium levels for two-year investments over one year had previously been compared these were not found to be significantly better.

RESOLVED:

That the Summary Valuation of Pension Fund Investment report be noted.

12. Action Agreed by the Investment Sub-Committee.

The Committee considered a report of the Director of Corporate Resources which provided details of decisions taken by the Investment Sub-Committee at its meeting held on 1 May 2024. A copy of the report marked ‘Agenda Item 12’ is filed with these minutes.

RESOLVED:

That the report on actions agreed by Investment Sub-Committee be noted.

13. Training Policy Review.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek the Committee’s approval of the revised Training Policy. A copy of the report marked ‘Agenda Item 13’ is filed with these minutes.

A Member commented that whilst progress in training was encouraging, this was not mandatory and it was therefore disappointing that a six-month timespan was being put on Members to complete the training.

RESOLVED:

That the proposed changes to the Training Policy attached as Appendix A to the report be approved.

14. Investment Sub-Committee Membership.

The Committee considered a report of the Director of Corporate Resources, which informed Members of the membership of the Investment Sub-Committee for the period ending May 2025.

RESOLVED:

That the Investment Sub-Committee Membership be noted.

Cllr. Cartwright left the meeting at 11:06am and did not return.

15. LGPS Central Update.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to provide an update on the Leicestershire Pension Fund's (the Fund) investments with LGPS Central (Central). A copy of the report marked 'Agenda Item 15' is also filed with these minutes.

The Chairman welcomed Mr. Richard Law Deeks, Mr. Nadeem Hussain, Ms. Anouska Ramsey and Ms. Susan Martin from LGPS Central, who supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

It was noted that LGPS Central influenced and challenged investment managers for public markets through engagement. As a large pool it (Central) was a desirable investor and has used its leverage with managers to encourage more transparent reporting processes and encourage managers to make improvements.

RESOLVED:

That the report on the Leicestershire Pension Fund's investments with LGPS Central and presentation be noted.

16. LGPS Central - Infrastructure Presentation.

The Committee considered a report of the Director of Corporate Resources which provided information on the Leicestershire Pension Fund (the Fund) infrastructure investments with LGPS Central (Central). A copy of the report marked 'Agenda Item 16' is filed with these minutes.

Representatives from LGPS Central were again present and supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

Arising from discussion the following points were made:

i. It was recognised that infrastructure problems whereby solar and wind farms could not connect to the National Grid was currently an issue both nationally and internationally and caused a bottleneck to the delivery of projects, despite planning permission having been granted. However, the industry was evolving and other solutions were beginning to form, such as large scale hydrogen plants and utility scale batteries to manage grid fluidity.

ii. A Member questioned, should infrastructure projects not go ahead, particularly when looking at North America, what the implications would be for Fund investments. LGPS Central reported that in America trillions of dollars of tax credits to encourage investment in renewables would continue to be available. Also, the UK was further ahead than a lot of other advanced economies in terms of renewables which was one of its differentiators compared to other markets, and it was not expected to be a retracting investment.

RESOLVED:

That the report on the Leicestershire Pension Fund's infrastructure investments with LGPS Central and presentation be noted.

17. Date of next meeting.

RESOLVED:

That it be noted that the date of the next meeting would be 6 September 2024, at 9.30am.

18. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

19. Presentation on LCCPF and Infrastructure Investments

The Committee received a presentation by LGPS Central. A copy of the presentation marked ‘Agenda Item 20’ is filed with these minutes. The presentation was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the presentation on LCCPF and infrastructure investments delivered by LGPS Central be noted.

20. LGPS Central Quarterly Report.

The Committee considered an exempt report by LGPS Central. A copy of the report marked ‘Agenda Item 21’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

21. Ruffer.

The Committee considered an exempt report by Ruffer. A copy of the report marked ‘Agenda Item 22’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

22. Aberdeen SL Capital.

The Committee considered an exempt report by Aberdeen SL Capital. A copy of the report marked ‘Agenda Item 23’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

23. Adam Street Partners.

The Committee considered an exempt report by Adam Street Partners. A copy of the report marked ‘Agenda Item 24’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

24. Catapult Ventures.

The Committee considered an exempt report by Catapult Ventures. A copy of the report marked ‘Agenda Item 25’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

25. Fulcrum.

The Committee considered an exempt report by Fulcrum. A copy of the report marked ‘Agenda Item 26’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

26. Legal and General Investment Managers.

The Committee considered an exempt report by Legal and General Investment Managers. A copy of the report marked ‘Agenda Item 27’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

27. LGPS Central Limited.

The Committee considered an exempt report by GGPS Central Limited. A copy of the report marked ‘Agenda Item 28’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

28. Colliers Property Performance and Investment.

The Committee considered an exempt report by Colliers Property Performance and Investment. A copy of the report marked ‘Agenda Item 29’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

29. Christofferson Robb & Company.

The Committee considered an exempt report by Christofferson Robb & Company. A copy of the report marked ‘Agenda Item 30’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

30. IFM Investors Quarterly Report.

The Committee considered an exempt report by IFM Investors. A copy of the report marked ‘Agenda Item 31’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

31. Infracapital Greenfield Partners.

The Committee considered an exempt report by Infracapital Greenfield Partners. A copy of the report marked ‘Agenda Item 32’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

32. LaSalle.

The Committee considered an exempt report by Lasalle. A copy of the report marked ‘Agenda Item 33’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

33. M&G Investments.

The Committee considered an exempt report by M&G Investments. A copy of the report marked ‘Agenda Item 34’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

34. Partners Group.

The Committee considered an exempt report by Partners Group. A copy of the report marked ‘Agenda Item 35’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

35. Quinbrook Infrastructure Partners

The Committee considered an exempt report by Quinbrook Infrastructure Partners. A copy of the report marked ‘Agenda Item 36’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

36. Stafford Timberland Quarterly Report.

The Committee considered an exempt report by Stafford Timberland. A copy of the report marked ‘Agenda Item 37’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

37. Aegon Asset Management.

The Committee considered an exempt report by Aegon Asset Management. A copy of the report marked ‘Agenda Item 38’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

38. Total Fund Summary 31 March 2024.

The Committee considered an exempt report by Hymans Robertson. A copy of the report marked 'Agenda Item 39' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

9.30am to 12.33pm CHAIRMAN
19 June 2024

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Agenda Item 6

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 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 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 Committee 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 Committee supported a proposed response on 8 September 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.

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 set out elsewhere on today's agenda.

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. On 7 August 2024 the Chancellor met with Canadian retirement funds and stated that she wants to see "schemes learn lessons from the Canadian model and fire up the UK economy, which would deliver better returns for savers and unlock billions of pounds of investment." Features of Canadian funds include scale, a proportion of in-house management, and diversified assets which tend to focus more on private markets (a reported 48% allocation on average) than listed equity as well as a focus on long-term value creation.

16. 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."

17. In terms of private markets and private equity (PE), the Fund itself already has a higher allocation to these than a lot of other LGPS Funds, but certainly not to the extent of the Canadian funds. Funds must manage their liquidity levels, and while PE is often focused on high-growth companies these are also far riskier, especially regarding venture capital, and have higher management costs. Ultimately the Fund must also 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.

18. 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.

<u>Fees</u>

19. 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.

20. 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.

21. 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.

22. The Fund's yearly investment management costs are set out below (£million). The total investment management costs rose from £37.4m in 2019/20 to £50.9m 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.

23. Investment management fees rose from £23.7m to £28.3m, 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 time frame below.

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%**

24. The Fund increased its allocation to private markets by 4% from 31 March 2019 to 31 March 2024 and is forecast to increase further as uncalled commitments are drawn by the investment manager. The Fund's allocation to private markets as at 31 March 2024 is 32% of all assets under management and will increase towards 40% over the coming years based on the current strategy. This is above the LGPS average of 20% but below a reported 48% average for the Canadian 'Maple 8' funds.

UK Investment (formerly Levelling Up)

25. As previously reported to the Committee 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 UK market to boost growth across the country.

26. The Fund's draft Annual Report is appended elsewhere on today's agenda and sets out the Fund's UK exposure in line with the revised annual report guidance. The Fund has c12% 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

27. 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.

28. 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

29. 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.

30. 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

31. 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.

32. 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."

33. 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.

34. 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 and Climate Change

35. As was presented by the Head of Law and Deputy Monitoring Officer to the 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). The paper 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.

36. The FMLC paper confirmed that schemes should take into account financially material environmental, social and governance factors. What these factors are, and whether or not they are financially material to a particular investment, is a matter for the trustees (for the LGPS this will be Local Pension Committee members) to judge, based on appropriate advice.

37. A one-off evidence session was then held by the Work and Pensions Committee on the 21 February 2024 on how climate risk is considered and whether changes to fiduciary duties are needed. Subsequently roundtables were set up for May and June, however, these were superseded by the 2024 General Election.

38. 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.

Economic Activity of Public Bodies

39. The 'Impact on Economic Affairs of Public Bodies (Overseas Matters) Bill' also known as the 'Boycott, Divestment and Sanction Bill' intended to prevent "public bodies when making decisions about procurement and investment from considering a country or territory of origin or other territorial considerations in a way that indicates political or moral disapproval of a foreign state". Neither the LGA nor SAB were aware of any funds making such decisions which would cause rise to this specific bill.

40. Following the dissolution of parliament on 30 May 2024, the bill fell as it had not proceeded through all stages. It remains to be seen if there is any appetite for such a bill in future within the new Government, however, it seems unlikely.

41. The Fund's approach to these matters is set out within the Investment Strategy Statement that "the Fund does not exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government."

Review of LGPS 2022 fund valuations

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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.

48. 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

49. 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

50. 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.

51. Officers will await any further information on the review, and any other topics within this report and consider next steps and update the Committee as necessary.

Recommendations

52. It is recommended that Committee note the report.

Background Papers

8 September 2023 – Local Pension Committee - Pooling Consultation: Next Steps on Investment
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7204&Ver=4

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

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.

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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:

Leicestershire County Council

- 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.

Leicestershire County Council

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?

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

Declan Keegan
Director of Corporate Resources

Corporate Resources

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Declan Keegan, Director of Corporate Resources

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Agenda Item 7

Leicestershire County Council

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUINBROOK INFRASTRUCTURE PARTNERS INFRASTRUCTURE PRESENTATION

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with information on the Leicestershire Pension Fund (Fund) infrastructure investments and the general performance of the Fund's infrastructure investments held with Quinbrook infrastructure partners (Quinbrook).

2. Appended to the report is a PowerPoint presentation which will be delivered at the meeting by representatives from Quinbrook.

Background

3. Hymans Robertson, the Fund's investment advisor, completed the 2024 Strategic Asset Allocation (SAA) as part of the Funds annual investment review. The Strategy was reviewed by officers and was approved by the LPC at the January 2024 meeting. As part of the review the allocation to infrastructure remained at 12.5% of Fund assets.

4. The Fund has an infrastructure allocation managed by seven managers, JP Morgan, IFM, LGPS Central, Stafford, KKR, Quinbrook and Infracapital who in total manage £667million or 10.4% of total fund assets. (30 June 2024).

Manager and fund	Open / closed ended	Geographic	Risk	30 June 2024 £m	% total of infra
JP Morgan Infra investment fund	Open	Developed Markets	Core / core plus	166	25%
IFM Global infra fund	Open	Global	Core plus / value add	160	24%
LGPS Central core/core plus	Open	Mainly developed markets	Core / Core plus	85	13%
Stafford Timberland 6,7,8	Closed	Global	Core / core plus	124	19%
Stafford Carbon offset opportunity fund (COOF)	Closed	Global	Value add	0	0%
KKR	Closed	Mainly developed markets	Core plus/ value add	49	7%
Infracapital	Closed	Developed markets	Value add	32	5%
Quinbrook net zero power fund	Closed	Developed markets	Opportunistic	52	8%

5. At the July 2022 and April 2023 meetings of the Investment Sub Committee (ISC) a total amount equating to $104million USD (USD being the Quinbrook funds local currency) was committed. As at 30 June 2024 a total $56million was yet to be called.

6. The Net Zero Power Fund reached its final close (no new investors can now invest) on 31 July 2024 with a total fund raise of just over $3billion USD.

7. The Quinbrook presentation will cover the following:

   a. What Quinbrook invest in, where they invest and track record;
   b. Outline the platforms the Net Zero Power Fund uses and highlight individual projects including a UK platform company;
   c. Responsible and sustainable investing;
   d. Quinbrook's view on USA, UK and Australian market developments.

Recommendation

8. The Committee is asked to note the report and presentation.

Environmental Implications

9. The Leicestershire County Council Pension Fund (LCCPF) has agreed a Net Zero Climate Strategy (NZCS). This 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. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

10. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material economic, social and governance (ESG) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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 through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

11. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material ESG factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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 through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Appendix

Quinbrook infrastructure partners presentation

Background Papers

19 April 2023 - Investment Sub Committee – Cash deployment, asset allocation update and infrastructure investment top ups
https://democracy.leics.gov.uk/documents/s175745/Cash%20update%20and%20infra%20top%20ups%2023%2024.pdf

Officers to Contact

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CONFIDENTIAL

POWERING THE NET ZERO TRANSITION

QUINBROOK INFRASTRUCTURE PARTNERS III
NET ZERO POWER FUND

Fund Update, September 2024

Quinbrook's Extensive Track Record

quinbrook infrastructure PARTNERS

USD 5.6 billion

Equity invested in energy infrastructure[2]

230+ investments

In renewable energy, low carbon and grid support[1]

25+ Years

In renewable energy, low carbon and grid support[1]

5 Prior Funds

Managed by Quinbrook[4]

ESTABLISHED INVESTMENT STRATERGY

- **Unwavering focus** on key infrastructure required to deliver Energy Transition
- >15-year developer relationships enable Quinbrook to **secure deals 1-2 years ahead** of the market
- Target portfolios diversified by technology, geography, customers, and revenues
- Seek **long term inflation linked revenues** for availability and generation services
- Leverage global portfolio's purchasing power, to secure MFN terms with suppliers
- Primary focus on identifying means of **securing capital protection** within initial contract term

AWARD WINNING & BEST PRACTICE SUSTAINABILITY

- Achieved ★★★★★ UN PRI 2023 Assessment across 3 categories[3] and 2021 ESG Investment Fund of the Year[3]
- Preqin 100% ESG transparency rating
- Gemini secured 57/60 GRESB rating, S&I cited during sale process as critical to project's appeal

INVESTMENT FUND OF THE YEAR ESG Investing Winner: Awards 2021

INVESTMENT FUND OF THE YEAR ESG Investing Winner: Awards 2021

[1] Includes transactions whilst at and prior to joining Quinbrook. IC comprised of David Scaysbrook, Rory Quinlan, Anne Foster, Keith Gains, John Lucas, and Brian Restall, note Brian Restall, Keith Gains and John Lucas joined the IC on 01/01/24); [2] Represents the total equity invested by the IC in prior or current investments. Includes both development and operational assets [3] Please refer to footnote 1 on slide 17; [4] Includes VoFF, QNZPF, QRIF I, QLCPF, & Cape Byron Infrastructure Fund.

Quinbrook Net Zero Power Fund + Co-Invest

quinbrook infrastructure PARTNERS

USD 3 BILLION RAISED, INVESTING IN RENEWABLE ENERGY SUPPLY, DECARBONIZATION OF DATA CENTERS, STORAGE AND GRID STABILITY INFRASTRUCTURE

- Targeting **long term contracts** with creditworthy counterparties
- **Control** investor, building **scaled thematic platforms** focusing on **greenfield project development**
- Targeting **15%+ gross/ 12%+ net IRR** over avg. **5-8 year** hold period[1]
- High visibility on deployment of **>USD 3bn+** owned, controlled and identified deal pipeline[2]

TARGET INVESTMENT SUB-SECTORS[2]

Sub-sector	Allocation
Solar PV + Storage	<35%
Decarbonization of Data Centers	≥35%
Renewables for Energy-Intensive Industries	≤15%
Distributed Energy Solutions	≤15%

TARGET GEOGRAPHIES AND ALLOCATIONS [3]

Geography	Allocation
United States	≤ 70%
United Kingdom	≤20%
Australia	≤20%

CURRENT INVESTMENTS (>USD 1,100.3 MILLION INVESTED[4])

PRIMERGY
Solar PV + Storage
>10GW Pipeline
75+ team members

rowan digital infrastructure
Decarbonization of Data Centers
>2.2 GW-IT Pipeline
50+ team members

PURPOSE ENERGY™
Renewable Fuels and Biogas
USD 95M Identified Pipeline with 7 projects built historically, 2 projects in construction

SUPERNODE
Renewables for Sustainable Data Centers
180 MW-IT DC campus with 1.5 GWh Battery Storage

SEVERN
Synchronous Condensers for National Grid
>2,500 MVA Grid Support Assets

[1]The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. [2]Source: Quinbrook Q2 2024. [3]No assurance can be given that QNZPF's target investment objectives will be achieved, that investments will be found to meet this strategy, or that an investor would receive a return of all or any part of such investor's investment; [4]As at Q2 2024 and includes both main and US co-invest funds

Net Zero Power Fund + Co-Invest: Performance as at Q2 2024

FIVE SEED PLATFORM INVESTMENTS TO DATE

(ALL FIGURES IN USD MILLIONS)	PRIMERGY Primergy Solar	Rowan Digital Infrastructure	SUPERNODE Supernode	PURPOSE ENERGY Purpose Energy	SEVERN Severn	TOTAL PORTFOLIO
LOCATION	US	US	AU	US	UK	
STATUS	Multi-Stage Developments	Multi-Stage Developments	Early-Stage Developments	Multi-Stage Developments	Development	
INITIAL INVESTMENT DATE	Jul-21	Jul-21	Oct-21	Oct-22	Jan-23	
OPERATIONAL CAPACITY (MW)	21.0	231	-	0.3	-	**252.3**
# OF OPERATIONAL SITES	36	1	n.a.	1	n.a.	**38**
# OF EMPLOYEES	76	52	n.a.	25	n.a.	**153**

The information provided in the table above is extracted from the QNZPF Quarterly Report as at 30 June 2024 and based on the Fund (including co-investment). The information is shown for illustrative purposes only.

Net Zero Power Fund – Progress Highlights

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FEBRUARY 2024

PRIMERGY

Financing facilities of USD c. 600m secured for 408 MW Ash Creek solar project in Texas

MARCH 2024

rowan digital infrastructure

15-year lease for Bauxite Stage 1 hyperscale data center campus executed with a Hyperscaler

MARCH / JUNE 2024

SUPERNODE

Long term offtake contracts executed with Origin Energy for Stages 1 and 2 of the 'Supernode' Battery Storage Project at South Pine Substation near Brisbane

Source: Quinbrook 2024

rowan digital infrastructure

Bauxite: Stage 1 15-year Lease Signed

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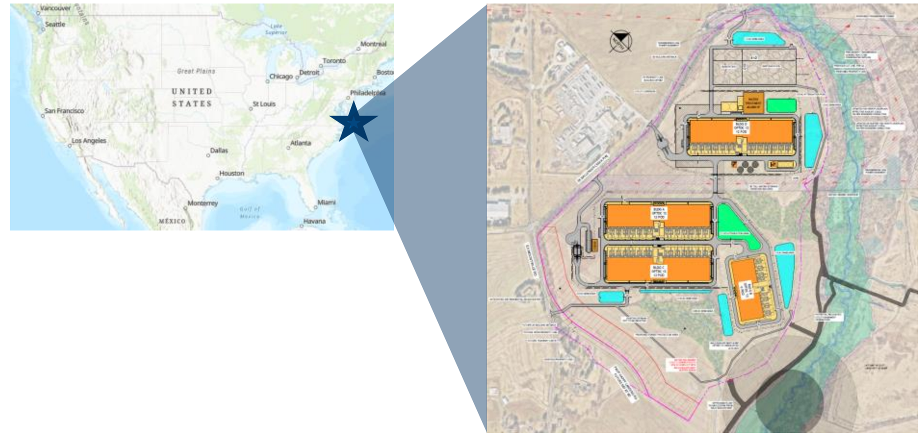
INVESTMENT SUMMARY

SECTORS	Host site for New Sustainable Data Center
CAPACITY	231 MW
STATUS	Mid-Stage Development
OFFTAKE	15-year lease executed with hyperscaler.
COD	Target Q3 2025

PROJECT DEVELOPMENT



INDICATIVE TIMELINE

1H 2022
- Site control achieved

1H 2023
- DC partner conversations commence

1H 2023
- Cost Recovery Agreement (CRA) executed

Q3 2023
- Commenced design and engineering

Q1 2024
- Lease executed and start of construction

Q3 2025
- Start of commercial operations

SUSTAINABLE APPROACH

- **23% lower carbon footprint** than average data centre estimated by third-party life cycle assessment due to use of **decarbonised steel, cement, construction, logistics, recycled materials**
- Up to **85% reduction in water consumption** implemented with immersion cooling design
- Circularity and waste: **75% waste reduction, 30% logistics** and trucking reduction
- Supporting Hyperscalers' **Net Zero goals through 100% renewable energy access**, responsible resource stewardship, and sustainable materials and construction practices.

Source: Quinbrook 2024. There is no guarantee that project cash flows forecast here will be met, these are based on assumptions within the Quinbrook Net Zero Power Fund Model as at January 2024. [1]Exit now assumed in June 2028 at an unlevered cap rate of 6.5% on unlevered NOI. Net performance figures for "extracted performance" (e.g., individual investments or investments representing subsets of an individual Fund's performance) are estimated and do not represent actual performance experienced by investors. These figures have been calculated on a model basis by applying to the investment(s) shown the gross and net performance "spread" of the relevant Fund, using the ratio of the relevant gross and net performance at the Fund level and applying such "spread" to the performance of such investment(s) (regardless of when such "spread" was incurred by such investment(s) or the relevant Fund). These figures illustrate the potentially substantial impact of fees, carried interest and expenses on the gross returns of extracted performance, even though these amounts are charged or allocated at the Fund level and do not represent actual performance experienced by investors. Please note logos displayed are protected trademarks of their respective owners and Quinbrook disclaims any association with them and any rights associated with such trademarks.

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Bauxite Expansion Phases

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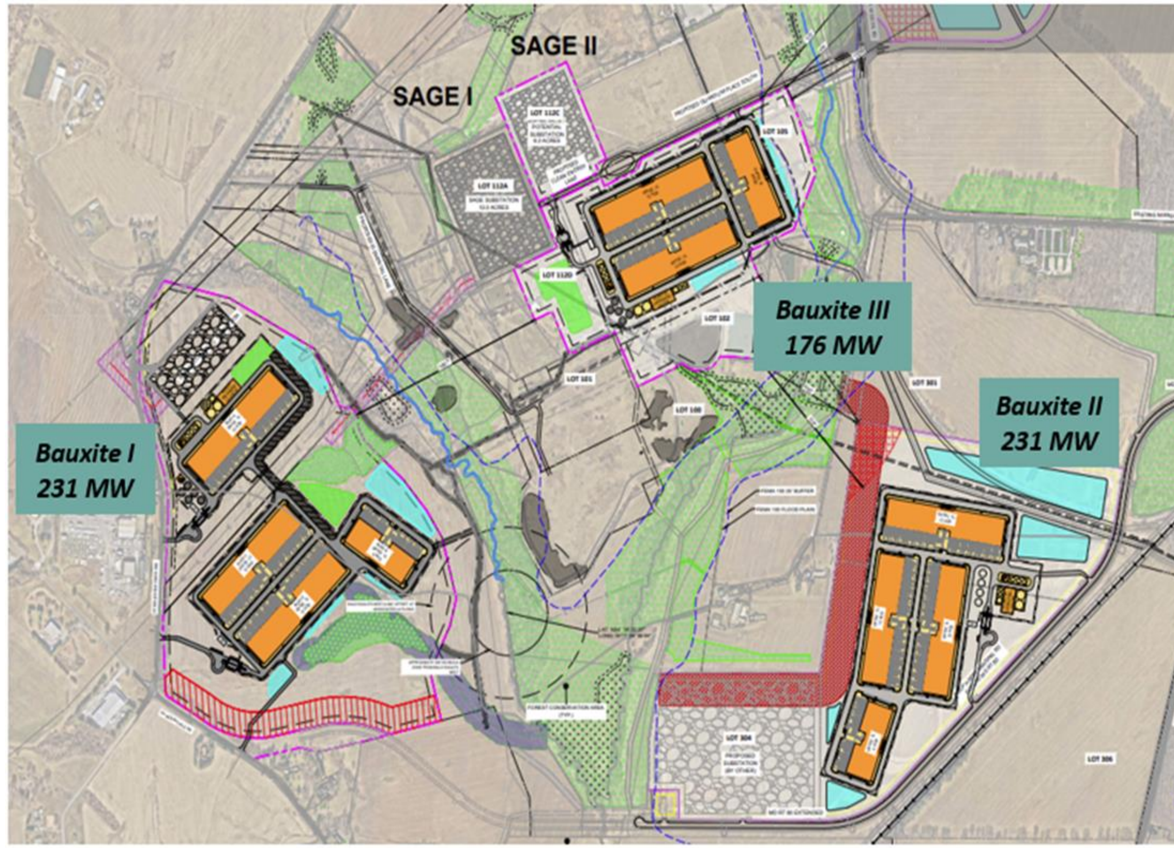
PROJECT DETAIL

- Bauxite II and Bauxite III offer a line of sight to 407 MW of potential additional capacity with same Tenant in rapid succession to Bauxite I
- Expansion projects are located in the same location as Bauxite I with similar site conditions, utility and permitting authorities and offer scaling benefits to Tenant

	BAUXITE II	BAUXITE III
LOCATION	Frederick County, MD	Frederick County, MD
CAPACITY	231 MW	176 MW
ACRES	135 acres	90 acres
TARGET LEASE EXECUTION	September 2024	September 2024
TARGET SUBSTANTIAL COMPLETION	Q1 2026	Q1 2027
COMMERCIAL	CRA executed with Tenant; lease terms expected to mirror Bauxite I	CRA executed with Tenant; lease terms expected to mirror Bauxite I



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Sources: Quinbrook Net Zero Power Fund Model as at January 2024 ("2024 01 NZPF Model vF")

SEVERN

Retirement of Synchronous Thermal Capacity Threatens Grid Stability

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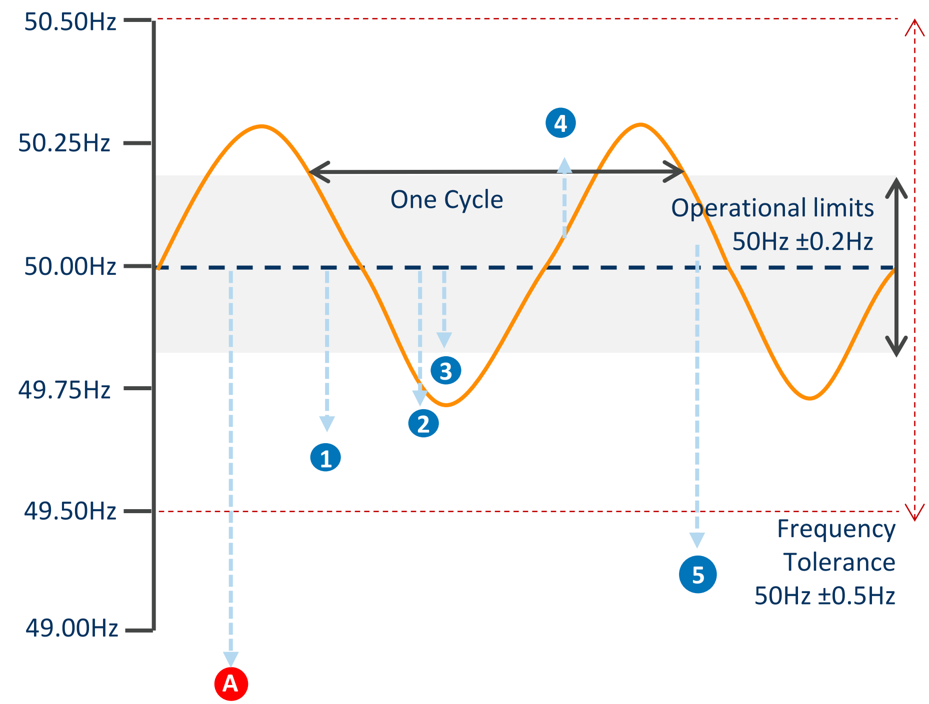
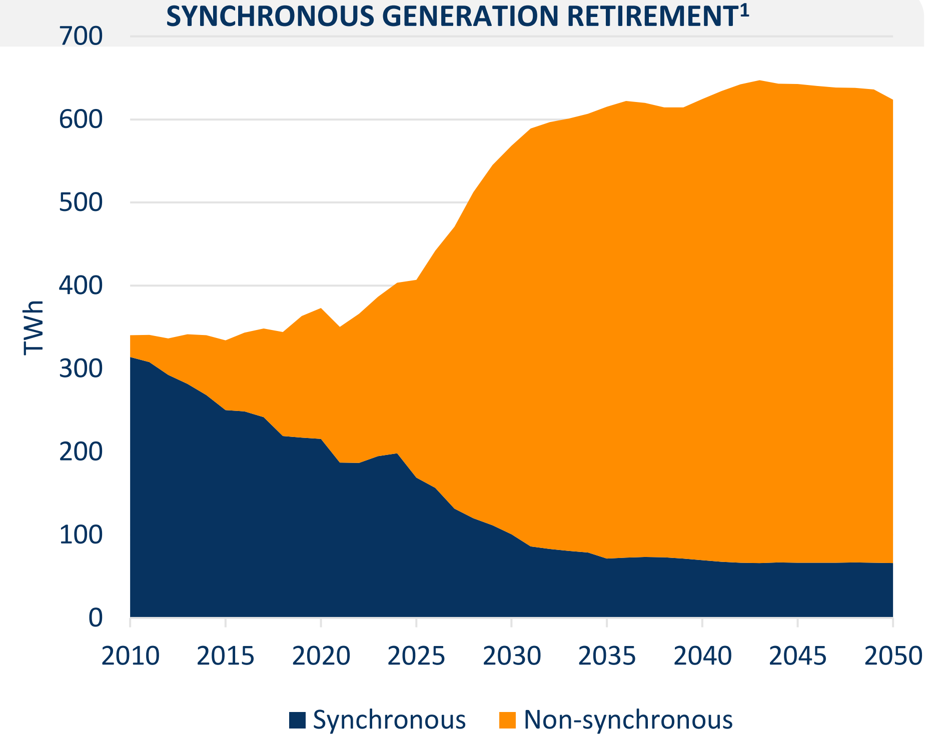
FREQUENCY TOLERANCE OF UK GRID 50Hz ±0.5Hz



SYNCHRONOUS GENERATION RETIREMENT[1]



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FIVE MAJOR DISTURBANCE EVENTS IN UK GRID FROM 2021-2023[2]

A **August 2019 – Frequency dropped to 48.89Hz, over 1 million customers affected by consequential blackout[3]**

1 **22nd Jul 2021 Heysham – drop to 49.65 Hz. Rate Of Change Of Frequency (“ROCOF”) – fall of -0.30 Hz in 15 sec**

2 **19th Jan 2022 NSL – drop to 49.72 Hz, ROCOF -0.21 Hz / 15 seconds**

3 **18th Feb 2022 Hinkley Point B – drop to 49.79 Hz ROCOF -0.22 HZ / 15 seconds**

4 **4th Nov 2022 Interconnector Dispatch Changes – Frequency rose to 50.22Hz ROCOF +0.08 HZ / 15 seconds[3]**

5 **22nd Dec 2023 Interconnector Dispatch Changes – Frequency drop to 49.3Hz ROCOF -0.6 HZ / 15 seconds[4]**

[1]Quinbrook analysis based on GB historic and forecast generation data from BNEF; [2] Enappsys UK country data; [3] HM Government E3C Interim Report into GB Power Disruption Sep 2019; [4] https://www.current-news.co.uk/ifa-interconnector-fault-causes-49-2hz-frequency-event/.

UK Investment Overview

SEVERN

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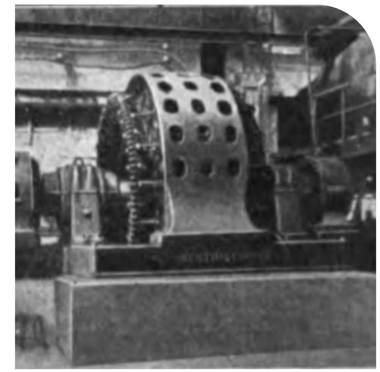
GRID SUPPORT INFRASTRUCTURE[1]

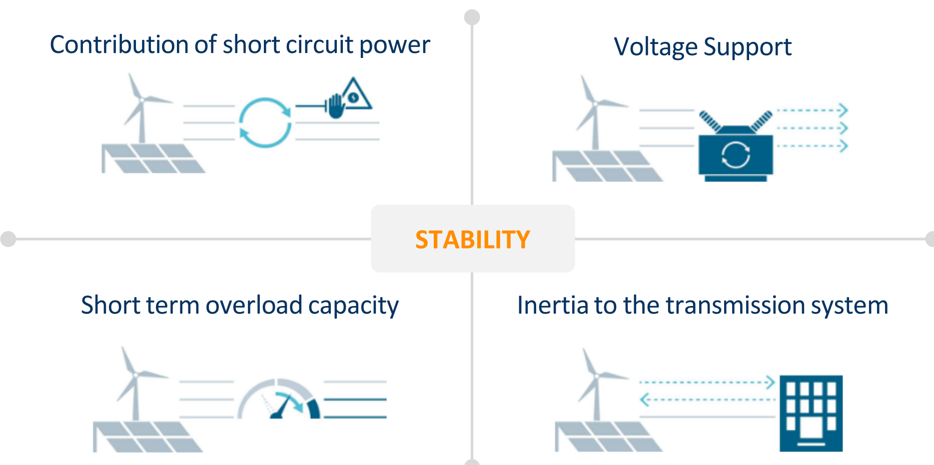
Geography	England and Wales, UK
Description	Well established Synchronous Condenser equipment that provides critical inertia to the grid, helping the system operator manage changes in frequency and voltage challenging system stability due to growth in variable renewables[2]
Contracted Revenue	**10 year, 100% CPI linked contracts with National Grid to provide stability services**
Recent Developments	Contracts executed for EPC, grid and land

WELL ESTABLISHED POWER SYSTEM EQUIPMENT


Rassau, 2021


USA, 1917

FEATURES OF SYNCHRONOUS CONDENSERS



SEVERN OVERVIEW c. GBP 200M CAPEX[3]

[1] Q1'24 NZPF Report [2] Siemens, Synchronous Condenser, June 2020 [3] These are project level returns, there is no guarantee that project cash flows and returns forecast here will be met and these are based on assumptions within 'November 2022 Severn Financial Model_Investment Paper' as at November 2022. Please note logos displayed are protected trademarks of their respective owners and Quinbrook disclaims any association with them and any rights associated with such trademarks

Climate Risk and Opportunity Third Party Support

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Quinbrook has worked extensively to embed climate risk, opportunity, reporting, and governance processes across portfolios

QUINBROOK'S CLIMATE REPORTING ASSESSED ON ALIGNMENT WITH GLOBAL STANDARDS

- PCAF / GHG Protocol
- TCFD – Task Force on Climate-Related Financial Disclosures
- UN Convened Net-Zero Asset Owner Alliance (NZAOA)
- *Most Relevant Reporting Standard* – IIGCC: Paris Aligned Investment Initiative (PAII)'s Net Zero Investment Framework (NZIF)
- Science Based Targets
- European Commission: Sustainable Finance Disclosures Regulation (SFDR) and 'Article 9'

CLIMATE RISK ASSESSMENT SUPPORTED BY THIRD PARTY EXPERTS AND SCIENTIFIC DATA

- Climate Central: Used in addition to third party experts for physical climate risk analysis
- IBAT: Used in addition to third party experts for initial screening of biodiversity risk assessments
- DNV / natural power: Technical assessment of equipment and sites under climate scenarios
- KPMG: 2021 completed Quinbrook wide Climate Scenario Analysis and TCFD gap analysis
- APEX: Assessment of alignment of assets to the EU Taxonomy (EU Funds only)
- Carbon Intelligence, Part of Accenture: 2022 assessed Quinbrook's climate methodology seeking alignment with best practice

REPORTING TO INVESTORS UNDER GLOBAL FRAMEWORKS

- Net Zero Asset Managers Initiative / CDP: Member of the Net Zero Asset Managers and continues to drive change at both portfolio company and industry level
- PRI – Principles for Responsible Investment: ★★★★★ **UNPRI 2023 Assessment** across 3 categories[1]
- European Commission: Sustainable Finance Disclosures Regulation and 'Article 9'
- GRESB: Select assets reporting under GRESB Infrastructure Asset Standard in 2023

PREPARING FOR INCREASING MARKET TRANSPARENCY AND OPPORTUNITY

- quintrace: Advanced blockchain solution developed by Quinbrook to track, trace and match renewable power production
- TNFD – Taskforce on Nature-related Financial Disclosures: Consultation group member for Task Force for Nature Related Disclosures

Quinbrook continues to prepare for upcoming standards, including in industry groups and submissions:

- FCA – Financial Conduct Authority: Proposed Sustainability Disclosure Requirements
- IFRS: International Sustainability Standards Board Climate Related Disclosures expected to be effective January 2024
- SEC: Proposed Climate SEC Disclosure Rules

The third-party experts depicted are for illustrative purposes only and are subject to change. [1]As of December 2023. Quinbrook received a full 5 stars (100% in Direct – Infrastructure, 100% Confidence building measures and 98% Policy Governance and Strategy) scores. Read the full Transparency and Assessment reports from the UN PRI here https://www.quinbrook.com/esg-and-impact/ (see UNPRI 2023 section). Please note logos displayed are protected trademarks of their respective owners and Quinbrook disclaims any association with them and any rights associated with such trademarks

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Quinbrook's Leadership in Sustainable Investing

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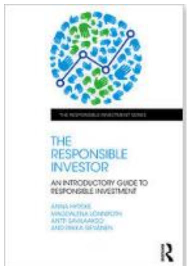
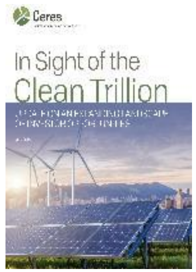
LEADERSHIP IN SUSTAINABLE INVESTING INDEPENDENTLY RECOGNISED BY A MULTITUDE OF LEADING BODIES

THOUGHT LEADERSHIP



*Selected **Social Impact** case study by The Responsible Investor*



Co-authored Ceres' report investment in the energy transition

***'Best Practice'** case study in KPMG's Human Rights and Climate Change Report*

Contributor to the LDES Council Path towards full grid decarbonisation report

INDUSTRY LEADERSHIP[1]

Imperial College Business School | Centre for Climate Finance & Investment

UTS Institute for Sustainable Futures

TNFD Taskforce on Nature-related Financial Disclosures

LDES

Power-to-X Leadership Council

United Nations ENERGY COMPACT

24/7 CARBON-FREE ENERGY COMPACT[1]

ESG Data Convergence Initiative

AWARD RECOGNITION[1]

Investment Fund of the Year – ESG Investing – Winner: Awards 2021

IJGlobal ESG Awards 2021 – ESG Award Social – Highly Commended

IJGlobal ESG Awards 2021 – Technology Award – Winner

IJGlobal ESG Awards 2021 – Individual Award for outstanding contribution to ESG – Winner

PFI Awards 2022

IJGlobal Awards 2022

Infrastructure Investor Awards 2022 – Energy Deal of the Year: North America

Infrastructure Investor Awards 2023 – Equity Fundraising of the Year: Europe

TRANSPARENCY AND REPORTING[1]

PRI Principles for Responsible Investment

5 stars in each submitted module for UN PRI 2023 Assessment

PREQIN

100% ESG Transparency Rating

The Net Zero Asset Managers initiative

IIGCC The Institutional Investors Group on Climate Change

GRESB

GREENHOUSE GAS PROTOCOL

TNFD Taskforce on Nature-related Financial Disclosures

PCAF Partnership for Carbon Accounting Financials

TCFD Task Force on Climate-Related Financial Disclosures

[1] *For Award Notes, please refer to the "Award Notes" on slide 17 and 18*

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US Energy Market

QUINBROOK'S REFLECTIONS OF US MARKET DEVELOPMENTS

The Inflation Reduction Act has unleashed an investment and manufacturing boom in the United States unlike anything seen in decades[1]

Inflation Reduction Act has created a flood of interest in renewables and domestic manufacturing

Increased tariffs on Chinese renewable supply chain products to promote growth in the U.S. clean energy industry

PPA pricing has increased materially and remains robust in certain states

Access to tax equity, however, remains a major financing challenge

Inflation indexed revenues are rare but becoming more important

Grid access and congestion is a major obstacle to new projects

Solar PV expected to dominate new capacity build

Battery storage investment increasing but unevenly spread and still largely merchant exposed

Location, Location, Location is a critical success factor for investing in the US market

Source: Quinbrook June 2024. [1] https://home.treasury.gov/news/press-releases/jy1830

UK Energy Market

QUINBROOK'S REFLECTIONS OF UK MARKET DEVELOPMENTS

Newly elected Labour government featured energy policy at forefront of campaign

Power and gas price volatility continuing in 2024, due to growing penetration of intermittent renewable generation in the UK Grid

Price volatility resulting in more frequent instances of negative half hourly pricing, providing further opportunities for BESS assets to be paid to charge

Positive progress on permit/planning reforms

Grid access and congestion continues to be major obstacle to new projects

Interest rates unchanged between August 2023 and June 2024, with CPI inflation at 2% as at May 2024. August 2024 marks first interest rate cut since March 2020

Investment sentiment remains positive, however, strategic focus and deal selection is key given widening risk/reward spread

Significant value available from project development de-risking in the UK, role of PEP[1] will be fundamental to capture additional value to returns

Source: Quinbrook June 2024. [1]Private Energy Partners ("PEP") is an affiliate enterprise that seeks to enhance Quinbrook's asset management, construction and project development capability with specialist services

Australian Energy Market

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QUINBROOK'S REFLECTIONS OF AUSTRALIAN MARKET DEVELOPMENTS

MAJOR DEVELOPMENTS

National emissions reduction target legislated
Net zero emissions by 2050. Committing to reduce Greenhouse gas emissions by 43% from 2005 levels by 2030. Queensland targeting 80% renewable energy by 2035

High volatility & high prices
Unprecedented levels of high-price and volatility events never seen before in the Australian market

Divergence from Chinese clean energy supply chains
Passing of the IRA has accelerated the diversification of clean energy supply chains and Australia's role in delivering critical minerals. Western Australia and the Northern Territory positioned as the up-and-coming focal points for sustainable data centers

Grid stability and system strength issues
High penetration of renewables, specifically solar, has driven grid stability issues throughout the National Electricity Market

OPPORTUNITIES

Increasing legislation
The Future Made in Australia policy was officially announced in Q2 2024, signaling a dramatic shift towards using industry policy to speed up the energy transition. AUD 23 billion dedicated to establishing National Interest Framework over the next ten years

Attractive energy storage and firming market
Battery storage and flexible assets will be able to capitalise on high price and volatility periods

Australia's opportunity to become a critical minerals superpower
Australia has the critical minerals necessary to support the energy transition and it may also play a larger role in supply chain manufacturing and processing

Capacity and other market mechanisms to provide new revenue streams
Batteries and other grid support assets will be rewarded for stabilizing the grid

An accelerated shift to renewable energy and the divergence of the East and West in relation to the supply of clean energy equipment and technology has provided Australia with a huge new opportunity

Source: Quinbrook June 2024

Key Risks and Important Information

This document has been prepared by professionals within the Quinbrook group (“Quinbrook”) on behalf of Quinbrook Infrastructure Partners (Jersey) Limited (the “Manager”) for the sole use of the recipient for the purpose of evaluating a potential investment in Quinbrook Infrastructure Partners III – Net Zero Power Fund (“QNZPF” or the “Fund”). Nothing contained herein shall constitute any representation or warranty and no responsibility or liability is accepted by Quinbrook as to the accuracy or completeness of any information supplied herein, including the accuracy or completeness of the Fund Model or the assumptions made therein (inherent or explicit).

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Gross returns are calculated on the timing of expected cashflows between the Fund and the platform companies. Net returns are calculated on the timing of expected cashflows between the Fund and its investors, and include the effect of management fees, vehicle expenses and carried interest. The Fund does not use subscription facilities.

Net performance figures for “extracted performance” (e.g., individual investments or investments representing subsets of an individual Fund’s performance) are estimated and do not represent actual performance experienced by investors. These figures have been calculated on a model basis by applying to the investment(s) shown the gross and net performance “spread” of the relevant Fund, using the ratio of the relevant gross and net performance at the Fund level and applying such “spread” to the performance of such investment(s) (regardless of when such “spread” was incurred by such investment(s) or the relevant Fund). These figures illustrate the potentially substantial impact of fees, carried interest and expenses on the gross returns of extracted performance, even though these amounts are charged or allocated at the Fund level and do not represent actual performance experienced by investors.

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Award Notes I

- Awards represented on slides 10 and 11 are not indicative of future performance.

- [1]Awarded October 2021 and based on self-submitted or third-party nominations that were peer-reviewed by an international judging committee (selected by IJGlobal) who debated openly and secretly voted. Condition of eligibility did not include any membership, subscription, or payment. From top to bottom: 'Individual Award for Outstanding Contribution to ESG' awarded to Anne Foster as the sole winner (sole winner in the category), 'Technology Award' awarded to Quinbrook as a firm and the sole winner (out of 2 companies short-listed). Quinbrook (as a firm) was Highly Commended in the 'ESG Award – Social' category (only honorable mention given other than the first-place winner).

- [2]Awarded February 2021 to Quinbrook as a firm and based on nominations by market participants, including Quinbrook, and assessed by a panel of independent experts. Condition of eligibility did not include any membership, subscription, or payment. From top to bottom: 'Investment Fund of the Year' only winner among more than 90 finalists in 17 investment fund categories, 'Infrastructure Fund of the Year' only winner among 7 finalists, 'Energy Transition Fund of the Year' only winner among 5 finalists.

- [3]From left to right: (i) Awarded May 2021 to Quinbrook as a firm and based on nominations by market participants, including Quinbrook, and assessed by a panel of independent judges comprising financial market professionals, academics and independent experts selected by IJGlobal. Condition of eligibility did not include any membership, subscription, or payment. Quinbrook was one of two finalists in the category and the only firm designated as '2020 North American Investor of the Year' among a group of four investors. (ii) Awarded March 2020 to Quinbrook as a firm in connection with the Quinbrook Low Carbon Power Fund ("QLCPF") and based on nominations from market participants and votes cast by readers. Quinbrook is an annual subscriber to Infrastructure Investor, however, condition of eligibility did not include any membership, subscription, or payment. Quinbrook was the only winner in its category out of 4 finalists. (iii) Announced February 2020. QLCPF was featured as one of the 20 largest funds (rank: 11th) recorded as unlisted infrastructure funds closed in 2019, out of a population of 125 funds, and one of the five largest funds (rank: 1st) recorded as RoW-focused Natural Resources funds closed between 2017 and 2019; Quinbrook is an annual subscriber to Preqin, however, condition of eligibility did not include any membership, subscription, or payment. "Global Sponsor of the Year" awarded to Quinbrook by the Project Finance International (PFI) Awards 2022 in December 2022. Quinbrook is not a paid subscriber of PFI. Condition of eligibility did not include any membership, subscription, or payment. The Project Finance International (PFI) Awards are based on nominations by market participants, including Quinbrook, and assessed by a panel of independent experts. The award is not indicative of future performance. Quinbrook was the only firm designated as "Global Sponsor of the Year" for 2022. "North America's Energy Deal of the Year" awarded by the Infrastructure Investor Awards 2022 in March 2023. While Quinbrook is a paid subscriber to Infrastructure Investor, award nominees do not have to be subscribers or make any payments as a condition of eligibility. The award is not indicative of future performance. The Infrastructure Investor Awards are made based on nominations by market participants, including Quinbrook, assessed by the outlet's editorial team to shortlist nominees for each category and voted on by the readers of this publication. Gemini was the only project designated as winner of "Energy Deal of the Year, North America" for 2022 among a group of 4 shortlisted finalists. "Renewable Energy Solar & Storage Deal of the Year for North America" awarded by the IJGlobal Americas Awards 2022 in March 2023. The awards are based on nominations by market participants, including Quinbrook, and assessed by IJGlobal's editorial team. Condition of eligibility did not include any membership, subscription, or payment. The award is not indicative of future performance. Gemini was the only project designated as "Renewable Energy Solar & Storage Deal of the Year for North America" amongst over 1000 submissions.

- [4]As of 31 December 2021. Quinbrook scored the full 100% rating in each of its 2 submission modules. A total of 3,097 groups made submissions. The median for Stewardship/Investment Policies was 60%, and the median for Direct Infra was 73%. A copy of the assessment report and transparency report is available here: https://www.quinbrook.com/esg-and-impact/

- [5]Quinbrook was added as a signatory to the UN Energy – 24/7 Carbon-Free Energy Compact in early November 2021, during COP26 on a panel with Google, Sustainable Energy for All and others, in the session: "24/7 Carbon-free Energy Compact: Accelerating decarbonization of the world's electricity grids (co-organized with UN-Energy)"

Award Notes II

- Awarded March 2024. While Quinbrook is a paid subscriber to Infrastructure Investor, award nominees do not have to be subscribers or make any payments as a condition of eligibility. The award is not indicative of future performance. The Infrastructure Investor Awards are made based on nominations by market participants, including Quinbrook, assessed by the outlet's editorial team to shortlist nominees for each category and voted on by the readers of this publication. QRIF was the only fund designated as winner of "Equity Fundraising of the Year, Europe" for 2023.

LOCAL PENSION COMMITTEE - 6 SEPTEMBER 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 Committee 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 brought to committee over the coming year to ensure governance best practice.

5. Fund officers have already begun planning discussions with Hymans Robertson, the Fund Actuary. As part of these discussions Hymans Robertson has prepared a paper which forms the annex 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

6. 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.

7. 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.

What has happened since the 2022 valuation?

8. 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.

9. 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.

10. 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.

11. As at 30 June 2024, Hymans Robertston 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).

12. 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).

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

14. 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

15. 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

16. 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.

17. 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).

18. 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) to position the fund for whilst reviewing existing investments suitability.

Inflation risk

19. 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).

20. 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%.

21. 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

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

23. 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.

24. 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.

25. 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

26. 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.

27. 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.

28. 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

29. 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.

30. 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.

31. 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 Robertson 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.

32. 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

33. 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.

34. 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

35. 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.

36. 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.

37. 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.

38. 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.

39. 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

40. For the 2025 valuation, Officers intend to split the employers into two working groups. This is simply 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, District Councils, and Police and Fire.

41. The following table provides a guide to the estimated timeline for the 31 March 2025 valuation. Note, these dates are intended to provide the LPC 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 Robertson.

Date	Topic	Stakeholder(s)
September 2024	Funding risk update & 2025 valuation planning	LPC
October/November 2024	Calculate indicative stabilised employer rates	Hymans
November 2024	Agree funding strategy and assumptions principles for the 2025	LPC
March 2025	Results of the stabilised employer modelling	LPC
March/April 2025	Review funding policies and employer risk management	Pension Section
April 2025	Provide the stabilised employers with their indictive rates. 1 April 2026 to 31 March 2029	Pension Section/Stabilised employers
June 2025	Agree final valuation assumptions	LPC
August 2025	Provide Hymans with all Fund data	Pension Section
September 2025	Calculate Fund results	Hymans
September/October 2025	Whole Fund valuation results	LPC/Local Pension Board (LPB)

Date	Topic	Stakeholder(s)
October/November 2025	Provide the other employers with their indicative rates. 1 April 2026 to 31 March 2029	Pension Section/Fund employers
November/December 2025	Changes to Fund Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
February 2026	Finalise funding Strategy Statement and Investment Strategy Statement	LPC/LPB
March 2026	Final valuation report produced with final employer rates	Hymans
April 2026 to March 2029	Employer rates implemented	Pension Section/Fund employers

Recommendation

42. It is recommended that the Local Pension Committee note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix – Funding risks update & 2025 valuation planning

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Leicestershire County Council Pension Fund

Funding risk update & 2025 valuation planning

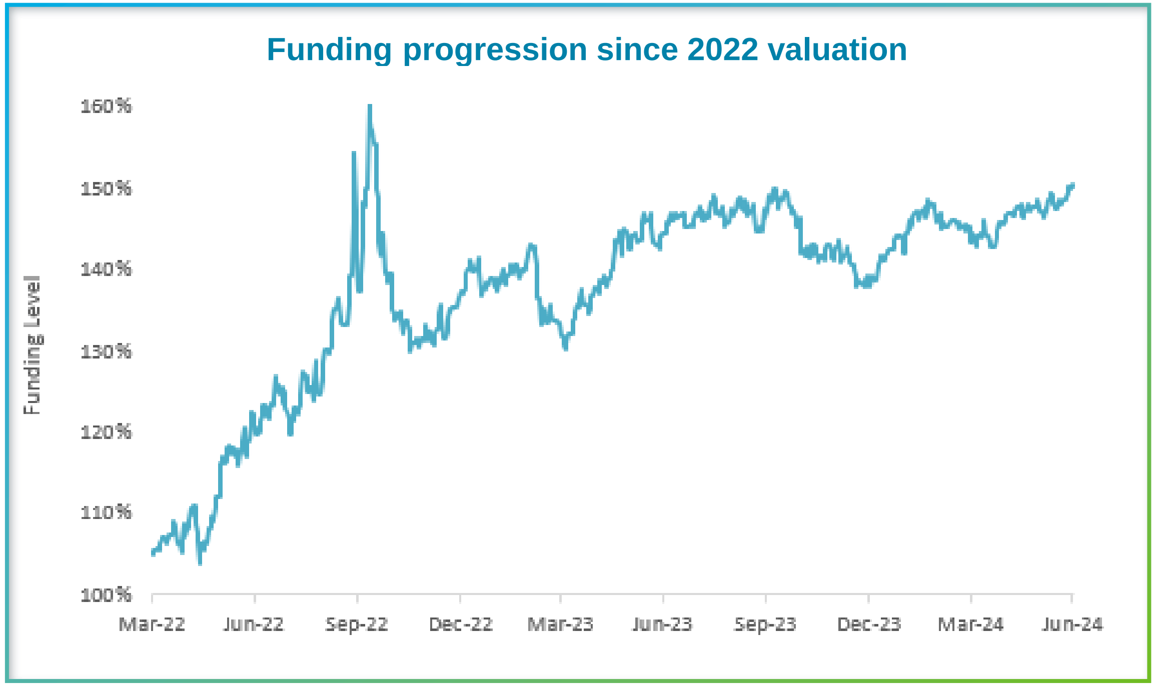
Tom Hoare FFA

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

HYMANS ROBERTSON

Changes in the funding environment

Investment outlook

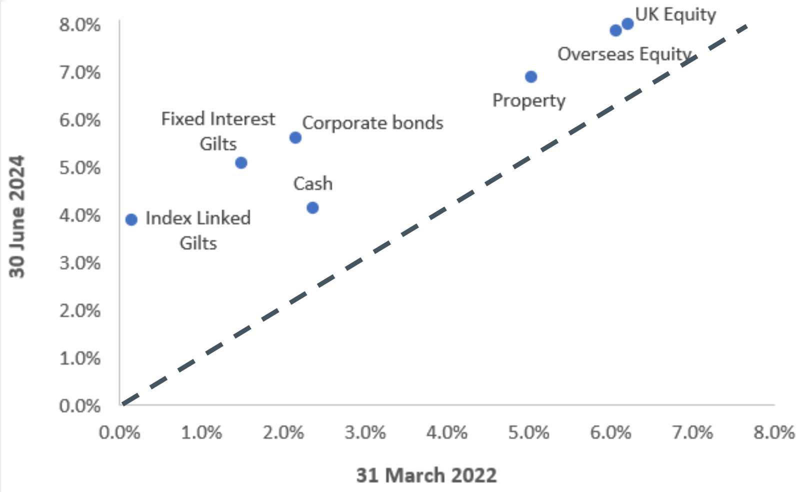
Investment returns since the 2022 valuation have been positive, with the Fund achieving a return of c.10% over the period from 31 March 2022 to 30 June 2024. This is broadly in line with the Fund's investment return assumption (at the valuation) of 4.4% pa.

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.

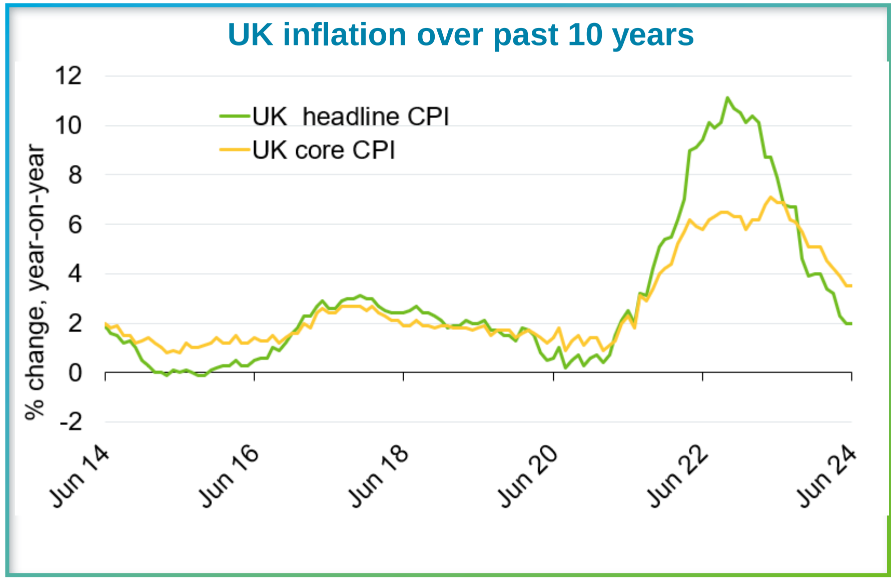
The improvement in funding level is being driven by the promise of greater *future* investment returns rather than investment returns actually earned by the Fund.

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.



Source: Datastream

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%

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

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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.

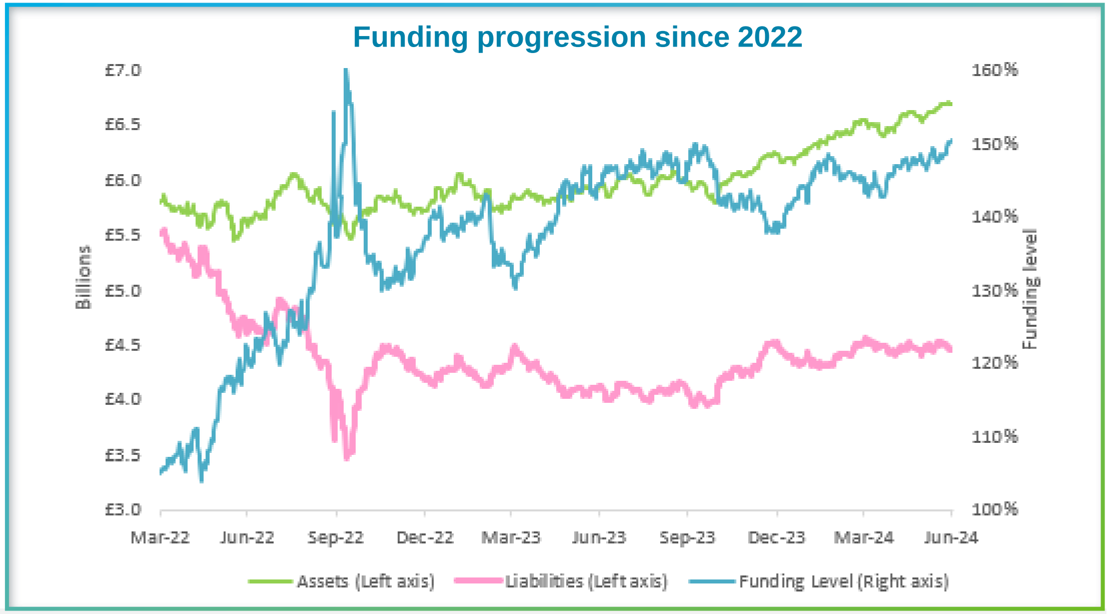
How have assets changed?

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

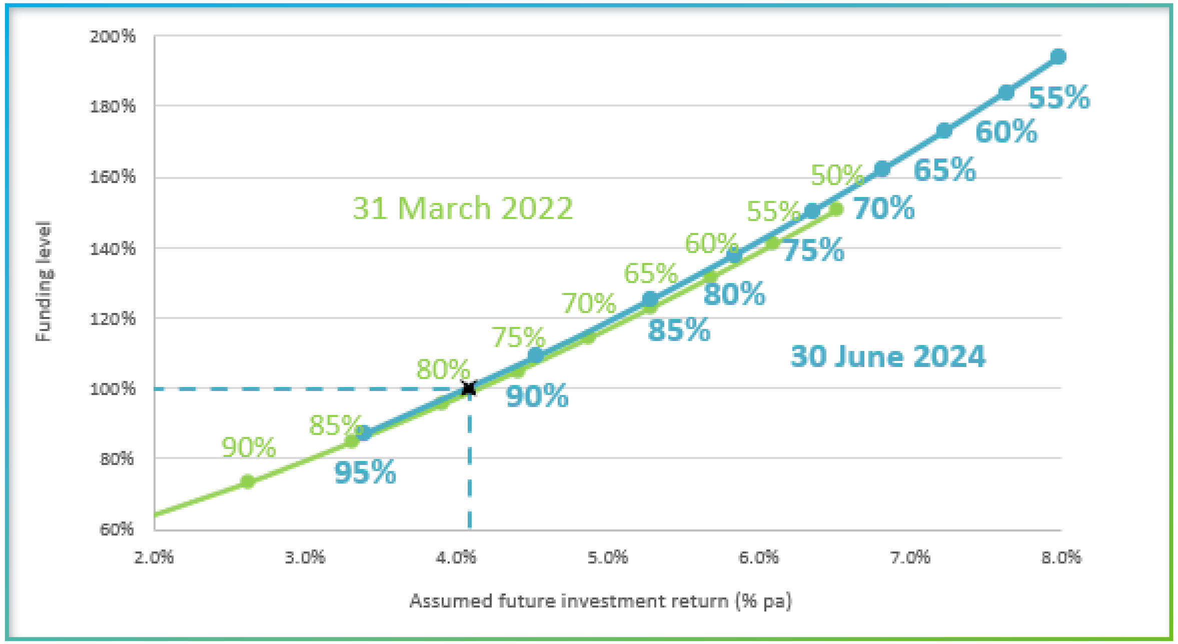
The Fund's funding level of 150% as at 30 June 2024 has been calculated using a future investment return assumption which has a **75%** likelihood of being achieved. This is in line with the Fund's Funding Strategy Statement, allowing for updated market conditions). However, this reported funding level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

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

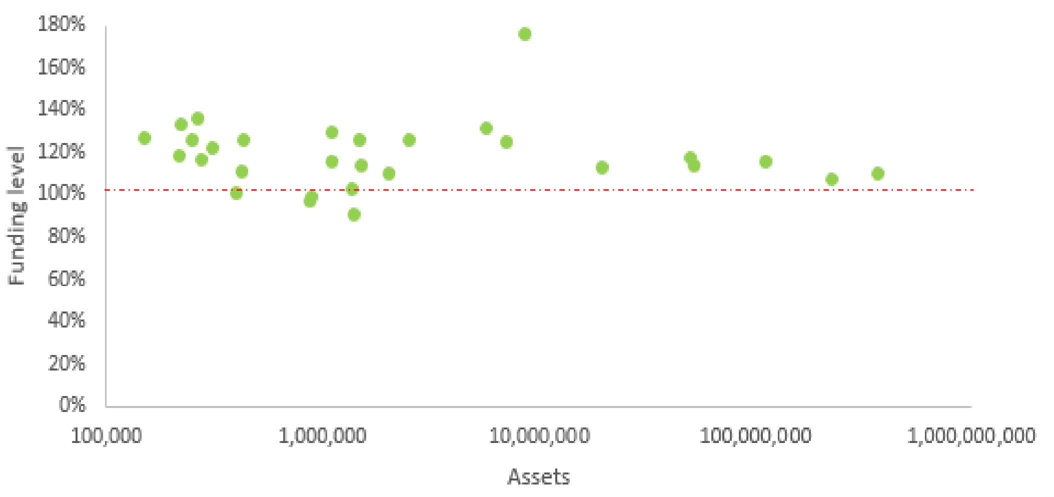
Employers with no tax raising powers or guarantee are typically viewed as 'higher risk'. If these bodies were to exit the Fund, their exit payment would be valued on the Fund's 'low risk' basis which allows for more prudence. At 30 June 2024, the aggregate position of the higher risk employers (on the 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

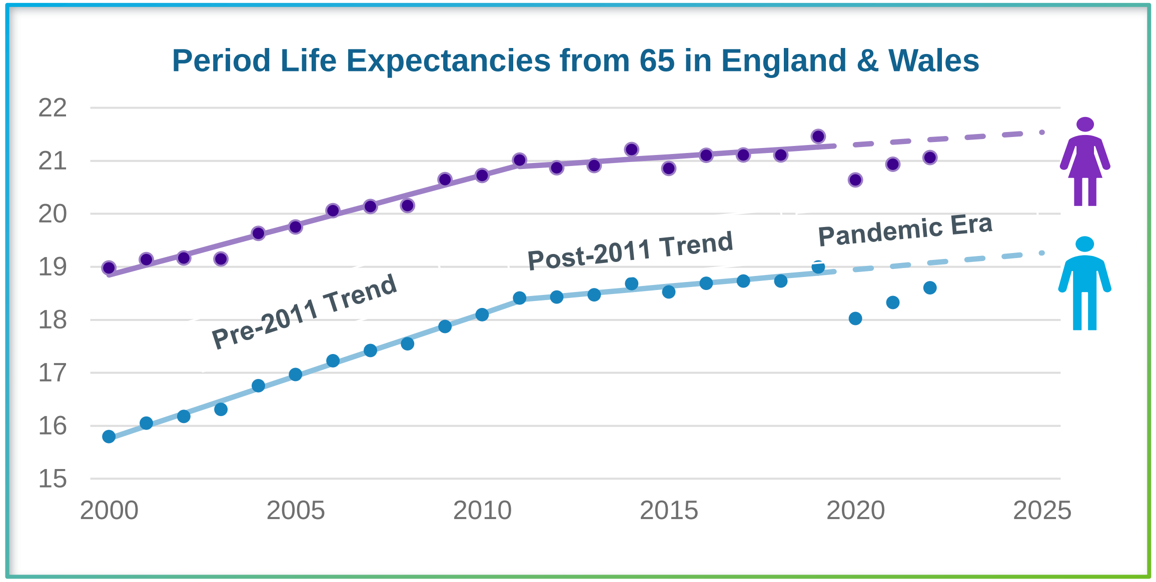
Key funding risks update

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

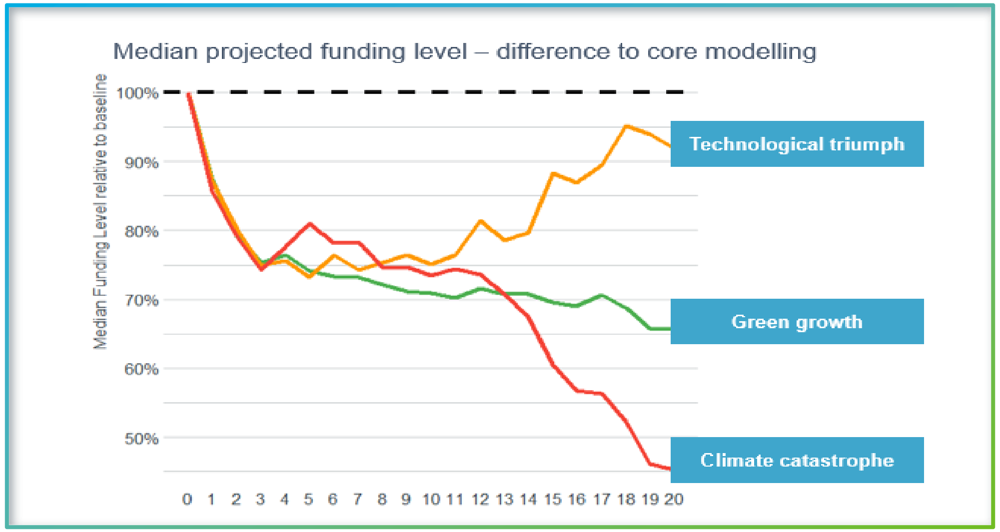
Climate change is now widely regarded as one of the main sources of risk for pension schemes, with potential implications for future inflation, investment returns and longevity. Scenario testing is an effective way for LGPS funds to test how resilient funding strategies are to climate risk.

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?

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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%

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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.

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

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.

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.

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.

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

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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%	-	-

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APPENDIX 5

Reliances and limitations

This paper is addressed to Leicestershire County Council as Administering Authority to the Leicestershire County Council Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing 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).

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

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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Leicestershire County Council

LOCAL PENSION COMMITTEE - 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND – BUDGET MONITORING UPDATE

Purpose of the Report

1. The purpose of this report is to update the Local Pension Committee (LPC) on the Leicestershire County Council Pension Fund (Fund) budget and forecast for 2024/25 and forecast for future years.

Background

2. To demonstrate good governance, the Pension Fund's Budget and Business Plan were presented to the Local Pension Board (LPB) for consideration on 7 February 2024 and to the LPC on 8 March 2024.

3. The 2024/25 Budget is designed to provide sufficient funding to maintain the level of service required by scheme members and Fund employers over the current financial year.

4. The LPC approved the Pension Fund budget and annual business plans for investments and administration for the Fund.

Pension Fund Budget

5. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Corporate Resources is the Fund's LGPS (Local Government Pension Scheme) senior officer who is responsible for the delivery of the LGPS function and as such must be able to ensure that the Fund is sufficiently resourced. The Pension Fund budget has been considered independently taking into account the needs of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal:

    - Each administering authority must ensure their committee is included in the business planning process. Both the Committee and LGPS senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.

6. The current budget covers the financial year 2024/25 with projected estimates up to 2026/27. A summary of the budget is shown below including current forecasts for 2024/25 to 2026/27. The 2024/25 to 2026/27 forecast has been updated and is expected

to be sufficient to meet the Fund's statutory requirements. The LGPS Central 2024/25 costs show a reduction due to a forecast used for the original budget that has now been agreed between LGPS Central and the administering authorities which is lower than originally proposed.

7. The annual management fees for 2024/25 have been updated and are higher than the budget based on a higher average assets under management assumed for 2024/25 and the higher annual management fee experience in 2023/24. The transaction fee for 2024/25 and subsequent years has also been reforecast higher again based on higher assets under management and expected higher fees arising from transacting into private markets. A nominal increase in performance fees reflects that more of the Fund is exposed to mandates that exhibit performance fees although this part of the total investment fee is highly subjective.

Budget Heading	2023/24 Budget £'000s	2023/24 Actual £'000s	2024/25 Budget £'000s	2024/25 Forecast £'000s	2025/26 Forecast £'000s	2026/27 Forecast £'000s
Investment Management Expenses (split into three areas)						
○ Management	25,792	27,968	27,518	30,298	33,187	35,310
○ Transaction	6,642	13,251	7,087	9,651	10,020	10,661
○ Performance	10,500	9,268	10,000	10,000	10,500	11,000
Sub Total	**42,934**	**50,487**	**44,605**	**49,949**	**53,707**	**56,972**
LGPS Central costs (Governance, operator running costs, product development)	1216	1292	1298	1160	1350	1417
Staffing	1,551	1,776	1,848	1,848	1,913	1,980
IT costs	520	476	530	530	540	550
Actuarial costs	150	97	150	150	400	150
Support Services / other	630	690	650	650	670	700
Total	**47,001**	**54,818**	**49,081**	**54,286**	**58,580**	**61,769**
% of assets under management	**0.85%**	**0.92%**	**0.78%**	**0.84%**	**0.88%**	**0.87%**
Average assets under management in year	**5,500,000**	**5,939,220**	**6,265,488**	**6,434,000**	**6,680,089**	**7,107,494**

Investments

8. The Fund holds no reserves and has no capital expenditure planned.

9. The total budget being forecasted is £54.3million for 24/25. Increase versus the budget are explained at point 7 of this paper. A reduction of £0.2million from the 2024/25 budget is included for the LGPS Central budget . A breakdown of the expenses is set out below.

Investment Management Expenses

10. Investment Management Expenses have been split into three sections; management fees, transaction costs and performance fees. There could be deviations from these

numbers given the changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling or increased performance fees if mandates which are subject to performance fees when product investment returns are ahead of the hurdles required.

11. Investment management fees are expected to increase over time given they are based on assets under management. Each mandate has its own level of fees agreed with some types of investment incurring higher management fees than others. For example, passive listed equity is one of the cheapest in terms of management fees given the reduced management required compared to private credit where regular and extensive management time is required in order to originate and manage the underlying loans.

12. Given the Fund is moving towards a higher allocation to private markets and its assets under management has been increasing, management fees as a percentage of assets under management increases. To mitigate this, pooling of private market investments via LGPS Central allows the Fund to access these strategies at a lower cost than the Fund may have if acting alone whilst improving the Fund's diversification. The transition towards higher allocations to private markets will also mean at times, transaction costs will be higher in some years. Over time this is expected to normalise.

13. Total investment costs were higher than the budget for 2023/24 by circa £7.5million. The primary driver was an increase in transaction fees (+£6.6million) and management fees (+£2.2million) versus the budget.

    - A portion of the management fee increase (+£2.2million) is explained by higher average assets under management through the year, which as explained earlier would naturally increase management fees. Another driver of higher management fees is the move towards private market investments which are more costly versus the public market investments where the Fund was divesting from.

    - The transaction fee increase (+£6.6million) versus budget is largely due to a £4.5million increase in transaction fees associated with the Fund's emerging market debt investment. Compared to the previous year the EMD fund transacted around double the value of purchases and sales. The Fund also incurred a one off £3million charge (stamp duty) for direct property purchases whilst building up an allocation to this asset class. The Fund, on advice from Hymans Robertson and agreed by the LPC decided to divest from Central EMD Fund and have exposure to the emerging market debt class via the Central multi asset credit fund which can invest in emerging market debt.

14. The performance fee estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. At the time of setting the budget for 2023/24 markets were far more stable and as such a prudent estimate was included within the 23/24 budget based on the prior year forecast. For future years, the performance fee estimate is likely to rise as the Fund invests more into private market funds which usually attract performance fees.

15. Assets under management (AUM) has been estimated to grow over time plus an estimate for net contributions which is the sum of employer and employee contributions less pensions and lump sums paid. As the AUM increases, the monetary value of

investment managers fees will increase given investment management fees are paid based percentages of asset values.

LGPS Central costs oversight, governance and product development

16. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have been agreed based on last year's budget plus Retail Price Index (RPI) as at September 2023.

17. The Fund's expected share of costs has been estimated at £1.2million. The governance costs for LGPS Central are split equally between the eight member local authorities. Operator running costs are split based on assets under management and product development costs are allocated based on products that our Fund has expressed an interest in. As time has passed the level of product development fees has reduced as fewer Central products have been bought forward. There is likely to be continual product development as Partner Funds have their own investment advisors with differing allocations and strategies being approved each year.

Administrating authority costs

18. The costs to run the Leicestershire LGPS fund are at present in line with the budget at £3.2million. Future years costs are expected to rise marginally in line with inflation being the main driver. Total costs incorporate staffing, IT costs, actuarial costs and support services. Staffing costs incorporate an increase of 6% and 3.5% in staffing related costs in the following two years in line with the County Council's assumptions.

19. The salary spend in 2023/24 was higher than anticipated by £0.2million. This was primarily due to higher than anticipated inflation and pay award and the increased work associated with McCloud. Additional resources have been included in the budget for 2024/25 to continue work on McCloud.

20. Officers have now agreed to purchase an Integrated Service Provider (ISP) from Heywood. This will enable the Fund to comply with the new national Pensions Dashboard programme, which will allow people to view all their pensions in "one single Dashboard". The ISP is required so that the Fund can link its data from the Heywood pensions administration system to the Dashboard. The cost of the ISP will not take effect until 2025/26 as the connection will not be required until then.

21. Actuarial charges are budgeted at £150,000 each year, and at £400,000 during Fund valuation years. The next valuation is the 31 March 2025 so the 2025/26 budget for actuarial costs is £400,000 although elements of the valuation work will be brought forward into 2024/25 to assist administration.

22. Support Services were made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit, Central Print, Democratic Services and Legal Services.

23. The actual spend for 2023/24 was £60,000 over budget. This is primarily due to higher inflation and greater amounts of work provided by Central Print. Other costs include

annual subscriptions, tracing service charges, Officer qualifications, training for Officers, Committee and Board Members.

24. The 2024/25 budget for Support Service is £650,000 which is £40,000 less than the anticipated spend for 2023/24 primarily due to a reduction in East Midlands Shared Services payroll charge.

Budget Summary

25. Over 90% of the budget is spent on investment manager related expenses. Given that most investment manager expenses are based on percentage of assets under management, an increase in asset values, for example an increase in stock market returns, will result in higher management fees paid in total.

26. Total investment management costs are volatile (given they include transaction and performance costs) and are likely to be higher than expected if investment performance exceeds assumptions and performance fees are paid. Therefore, the costs detailed in the report could significantly change if returns exceed expectations.

Recommendation

27. It is recommended that the Local Pension Committee note the increased forecast for the current and future years.

Equality Implications

28. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Human Rights Implications

29. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Appendices

None

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

SUMMARY VALUATION OF PENSION FUND INVESTMENTS

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with an update on the investment markets and how individual asset classes are performing.

2. The report also provides an update on action taken by the Investment Sub Committee (ISC) at the meeting on 24 July 2024 with respect to infrastructure and private equity investments and progress with respect to the listed equity changes, as approved by the Investment Sub-Committee (ISC) on 19 April 2023. An update on progress was provided to the meeting of the ISC on 11 October 2023 and to the LPC on 8 March 2024 and 19 June 2024.

Markets Performance and Outlook

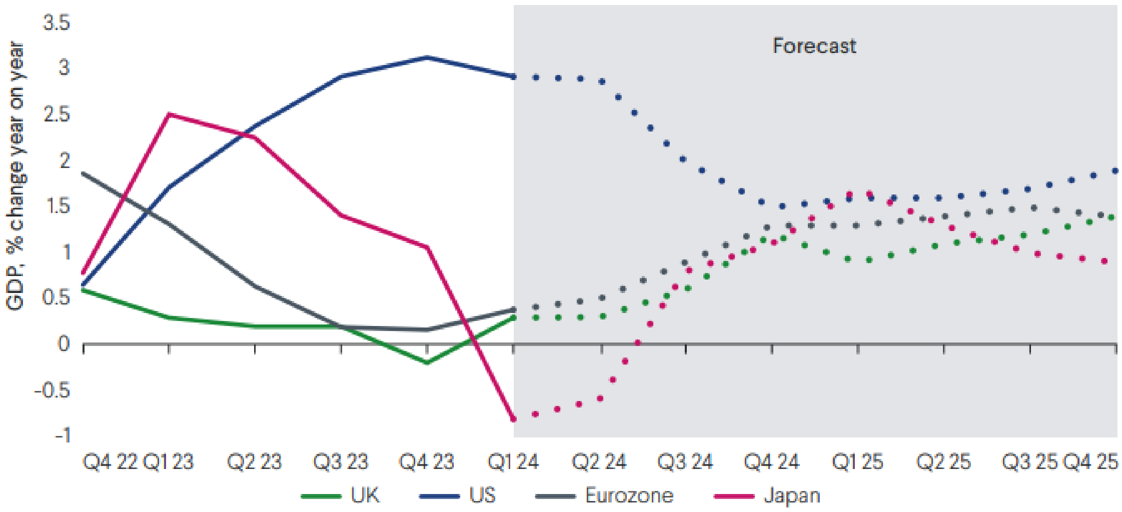
3. Global equity markets rose over the second quarter, though not as strongly as the first quarter which was the strongest for global equity since 2019 (+8.2%). The key drivers in Q2 were improving inflation figures, growing hopes over interest rate cuts, and positive corporate earnings momentum, driven by the technology sector. The MSCI (Morgan Stanley Capital International) World Index and several local indices reached new all-time highs.

4. United States (US) equities rose over the quarter and outperformed global equities, with the S&P 500 and Nasdaq trading at new highs. Chipmaker Nvidia achieved a $3trillion market cap and was at one point the most valuable company in the world by market capitalisation.

5. United Kingdom (UK) equities rose, with the FTSE (Financial Time Stock Exchange)100 hitting new all-time highs. The market was supported by CPI inflation declining to 2% in May (since rising to 2.2% in July) the lowest figure since July 2021 which, importantly, hit the Bank of England’s (BoE’s) target level.

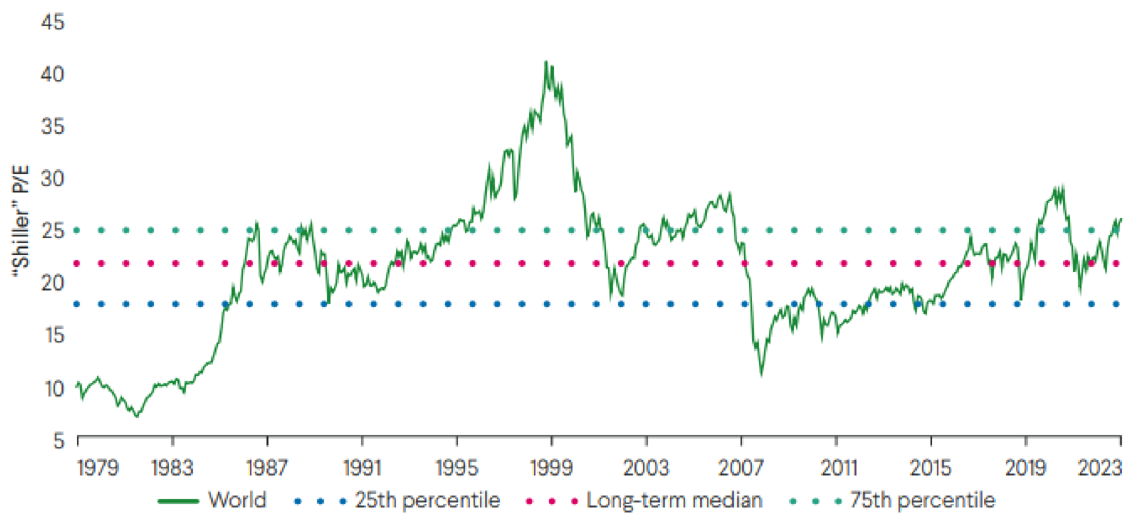
6. European shares were lower over the quarter. There were signs that the eurozone economy was recovering from the weakness seen in 2023, with first quarter 2024 GDP (Gross Domestic Product) beating expectations and expanding by 0.3%. The European Central Bank went ahead with its first rate cut in June (cutting the benchmark interest rate by 25 basis points to 3.75%), becoming the first of the major central banks to do so. The BoE has since reduced its bank rate by 0.25% to 5% at the 31 July 2024 meeting.

7. Looking forward Hymans Robertson see solid but unspectacular growth in the major advanced economies through 2024 and 2025 as illustrated below which will have taken declining interest rates and revised employment and other data into account.



Source: Datastream and Consensus Economics

8. As previously cautioned, global equity markets are valued at the high end of historical standards as measured by the price to earnings (PE) metric with some markets valued at much higher rates than others. The illustration below shows that cyclically adjusted PE to be around the 75th percentile looking back as far as 1979. The risk reward narrative can start to look precarious but the Fund is a long term investor which reviews its asset allocation every year and is invested across both passive and active managers in order to provide as much flexibility over various market conditions.



Source: Datastream

(The cyclically adjusted price-to-earnings ratio, commonly known Shiller P/Eis a stock valuation measure defined as stock price divided by the average of ten years of earnings, adjusted for inflation, it was invented by economist Robert Shiller)

9. In terms of currencies, Sterling was flat against the US dollar and the euro and rose against the Japanese yen through the quarter ending 30 June 2024. There has been more movement in the major currency pairs since the end of the quarter with large, sometimes volatile moves that have not been seen for many years which have spooked equity markets. At time of writing Sterling versus the US dollar is at the strongest rate since quarter one of 2022.

10. On balance, some commentators believe the backdrop for equities remains positive given Inflationary pressures are subsiding leading to interest rate cuts and companies

are recording solid earnings growth. However, valuations (PE) remain a concern, particularly among large US technology stocks.

11. A summary of global asset class performance over various time frames as at quarter end 30 June 2024 is shown below. Gold is the only asset class with returns over 10% pa over the last 20 years having dipped below 10% (9.8%) for the quarter ending 30 September 2023. Performance of gold going forward on the 20-year timeframe will become more difficult given its increase in price during the period from 2004 and 2008 when it doubled in price from around $400 / ounce to over $900 by March 2008.

	3 months*	One year	Three years	Five years	Ten years	Twenty years
GLOBAL EQUITIES	2.9%	19.8%	6.0%	11.1%	9.0%	8.4%
PRIVATE EQUITY	0.8%	33.6%	9.6%	12.5%	13.3%	NA
PROPERTY	-0.9%	5.7%	-1.7%	3.5%	6.1%	7.9%
INFRASTRUCTURE	2.6%	7.0%	5.6%	4.4%	4.5%	7.4%
HIGH YIELD	1.6%	15.7%	2.6%	4.2%	5.0%	9.6%
PRIVATE DEBT	-0.1%	2.4%	-0.6%	0.0%	-0.2%	-0.1%
UK GILTS	-1.1%	4.7%	-8.8%	-4.6%	0.5%	3.0%
UK INDEX-LINKED	-2.2%	-0.8%	-12.2%	-6.6%	1.1%	4.0%
GOLD	4.2%	21.7%	12.9%	10.9%	9.0%	11.3%

Source: Bloomberg, note: listed proxies have been used for infrastructure, property, private debt and private equity

Portfolio changes in the quarter ended June 2024

12. The main changes during the April to June 2024 are shown below. All changes listed below were in cash.

Central multi asset credit (MAC) fund	June 2024	Added £55million
Central emerging market debt (EMD) fund	April and June 2024	Divestment in total spread over two roughly equal amounts totalling circa £120million
Stafford carbon offset opportunity fund	June 2024	First call, circa £7million

13. The net effect on cash quarter on quarter has been a small increase from £386million to £417million.

Listed equity reorganisation update

14. On 11 October 2023 the ISC received an update on the listed equity transition which it approved in April 2023.This summarised:

a. The decision taken to re organise the listed equity holdings and reduce the total Fund weight to 37.5%;
b. The appointment of a transition advisor; and
c. Described a four-phase plan to reorganise and reduce the listed equity weight to 37.5% of total Fund assets.

15. Phase one of this plan was completed in September 2023 and £220million was received by the Fund when the LGPS Central climate multi-factor fund holding was reduced to the target weight of 12% of total Fund assets.

16. Phase two, which was the reorganisation of the Legal and General Investment Management (LGIM) passive holdings, was completed in mid-November 2023 which collapsed the LGIM geographic holdings and single stock holdings into three funds.

17. Phases three and four which are the divestment of the Central Emerging Market Fund and investment into the LGPS Central Global Equity fund were planned to coincide with the appointment of a fourth manager to the Central Global Equity fund. The divestment from the Central global emerging market fund and investment into the Central global equity fund were concluded in July 2024. The investment of £120million into the global equity fund attracted no additional fees given the timing of the additional cash was beneficial to all investors and negated the need to sell assets to raise cash when adding the fourth manager. This saved the Fund approximately £120,000. Fees were payable for the divestment of circa £190million from the emerging market equity fund at 23.2 basis points in line with expectations. This stage of the transition added circa £70million to cash after the quarter ended.

18. The final part of the reorganisation of the listed equity portfolio will come from reducing the listed equity weight down towards 37.5% of total fund assets which will be completed in stages, taking into account the cash the Fund already holds, future timing of calls, advice from the Fund's investment advisor and the Fund's rebalancing policy. The overweight position resides within the two funds; the FTSE all world passive equity investment via LGIM estimated at circa £200million and the Central Climate multi factor fund at circa £60million.

Cash holdings and outstanding commitments

19. The level of cash held by the Fund is higher than the Strategic Asset Allocation (SAA) limit of 0.75% of total Fund assets. This, alongside a cash flow is presented to the ISC each quarter. At the quarter end the Fund held £417m (£386m last quarter) in cash and an additional £59m (£51m last quarter) with Aegon as collateral in order to support the currency hedge. Taken together this represents 7.3% (6.9% last quarter) of total Fund assets.

20. The additional cash is a result from the SAA recommendations in 2022 and 2023 which prompted a switch from liquid assets, mainly listed equity and targeted return into illiquid assets within the income asset group. These illiquid assets take time for money to be invested (called) by the underlying managers. The managed reduction in liquid assets has continued, however the Fund is still overweight to these asset classes. The final alignment to the 2024 SAA target weight of 37.5% to listed equity is planned to complete during 2024/25. Completing this alignment would add further cash whilst commitments are awaiting to be called and at present the Fund has ample cash to meet those existing commitments. If calls for commitments the Fund has made are received slower than anticipated, then officers whilst taking advice from the Fund's investment advisor may chose to remain overweight listed equities longer rather than hold higher levels of cash.

21. The Fund has made relevant commitments to the underlying mangers which are in the process of being called and at the time writing there are commitments totalling over circa £700million awaiting to be called with over £100million in commitments being added over the last quarter. In addition, the Fund has approval to commit a

further £540million (up from £360million as at last quarter) in 2024, 2025 and 2026 across private equity, private credit and infrastructure asset classes. Officers are in regular contact with LGPS Central to ascertain a likely launch date for the private credit vintages and we anticipate a launch later in 2024 which if fund particulars are as expected will allow £280m to be committed from approvals made in 2023.

22. Over the financial year 2023/24 the cash has been held in a mixture of money market funds (MMFs) and fixed deposits. Given the higher cash holdings a cash management strategy was presented to the October 2023 meeting of the ISC which formalised the limits and types of institutions the Fund can use. The majority of the cash is currently held in three of the available types; MMFs, term deposits and certificates of deposit. The final two having maximum terms of one year.

23. At the time of the Committee meeting the Fund is expected to have cash holdings of around £475million split between MMFs and fixed term deposits. The Fund, at the time of writing has £280million invested in fixed term deposits with a weighted average interest rate of 5.18% (was 5.24% at the last update) with an average term to maturity of 3.1 months.

24. A cashflow forecast for the Fund estimates that cash should reduce gradually over the calendar year towards £400million. The reduction in cash is dependant on a number of factors:

    a. The speed at which the significant commitments already made by the Fund are called.
    b. The pace at which to reduce listed equity overweight towards the target 37.5% of total assets.
    c. The pace at which investments into the LGPS Central MAC fund are made

LGPS Central Multi Asset Credit (MAC) Fund update

25. The Fund has a target weight to this investment of 9%. At the June snapshot the actual weight was 6.3%, implying a 2.7% (or £170million) underweight. The underweight position has been gradually closing during 2024, with the Fund having made three investments of totalling £175million during the year to date. Three more investments were planned during 2024 to bring the Fund towards the target weight.

26. On the 22 August 2024 LGPS Central informed partner funds of news at one of the two managers who manage the MAC fund. The news related to the Co-Chief Investment Officer (CoCIO) at Western Asset Management (WAM) taking an indefinite leave of absence to defend allegations made in a "Wells Notice" (a preliminary warning issued by the U.S. Securities and Exchange Commission (SEC) to individuals or entities that are being investigated for potential violations of securities laws) from the SEC. The investigation centres on the allocation of US Treasury Futures trades in a limited number of accounts.

27. LGPS Central have informed investors in the MAC fund that this fund is in no way connected to the trades in question. In addition, LGPS Central have held a call with WAM on 22 August to further understand the internal investigations WAM are undertaking. WAM confirmed the Co-CIO in question never directly traded on the MAC fund and his input was limited to high level strategic asset allocation and markets.

28. There is a likelihood of investors removing cash from WAM which could depress, in the short-term values of less liquid securities WAM are forced to sell. The MAC fund is a segregated mandate and so is less directly impacted from sales but will have common positions.

29. The Fund is a long-term investor and as such does not make short term tactical decisions but given the potentially serious nature of the allegations feel it is prudent to halt the planned investments which would have taken place during August, October and December 2024. The LPC will be updated further at the next meeting scheduled on the 29 November 2024.

30. Other changes to align to the 2024 SAA are shown in the tables below. The 'commitments / investments approved' will be called over a number of years whilst the 2024/25 cashflow column shows expected movements over 2024/25. In summary the Fund is overweight cash and growth assets and underweight income assets. Although significant commitments have been made to income asset classes, they will take time to be fully called.

	30/6/24 £m	2024 SAA	30/6/24 Actual weight %	Difference, actual to 2024 SAA	£m to SAA weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Growth	3,474	50.0%	54.0%	4.0%	257	214	-392	79	-1.2%
Income	2,034	42.0%	31.6%	-10.4%	-668	735	-119	-53	0.8%
Protection *	509	8.0%	7.9%	-0.1%	-6	0	16	10	-0.2%
Cash	417	0.0%	6.5%	6.5%	417				
	6,434	**100.0%**	**100.0%**						

** includes hedge collateral at 0.75% of total fund assets*

Growth	30/6/24 £m	2024 SAA	30/6/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Listed Equity	2,765	37.50%	43.0%	5.5%	352		-352	0	0.0%
Targeted Return Funds	303	5.00%	4.7%	-0.3%	-19		20	1	0.0%
Private Equity	407	7.50%	6.3%	-1.2%	-76	214	-60	78	1.2%

Income	30/6/24 £m	2024 SAA	30/6/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Infrastructure	667	12.50%	10.4%	-2.1%	-138	250	-30	82	1.3%
Global private credit / CRC	507	10.50%	7.9%	-2.6%	-168	201	-85	-53	-0.8%
Property	455	10.00%	7.1%	-2.9%	-189	104	-4	-88	-1.4%
Global Credit - liquid MAC	405	9.00%	6.3%	-2.7%	-174	180		6	0.1%

Protection	30/6/24 £m	2024 SAA	30/6/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	230	3.50%	3.57%	0.1%	5		-5	0	0.0%
Investment grade (IG) credit	160	3.25%	2.48%	-0.8%	-50		50	0	0.0%
Short dated IG credit	61	0.50%	0.95%	0.4%	29		-29	0	0.0%
Active currency hedge	59	0.75%	0.91%	0.2%	10			10	0.2%

Cash	417	0.00%	6.5%	6.5%	417				

<u>Overall Investment Performance</u>

31. Investment performance analysis over various time frames to the period quarter ending 30 June 2024 is conducted by Hymans Robertson, the Fund's Investment

Advisor (Hymans), who collate information directly from managers and calculate performance, which provides an independent check of valuations. The valuation summary is included with the managers reports within the exempt part of today's agenda.

32. It is important to note that the valuations produced can be different to those provided by managers or included in the Statement of Accounts. For example, timing differences or use of different accounting methodologies. The differences are not expected to be material in the context of the messages being conveyed by this report.

33. A number of benchmarks to compare actual performance by mandate will be amended through the year by Hymans per the recommendations approved at the January 2024 meeting of the Local Pensions Committee. This is in order to better compare the investment risk versus the expected return. Last quarter the following changes were completed with changes to the private credit and property mandates to be actioned for the next update due to be presented to the Local Pension Committee on 29 November 2024.

Fund	Previous benchmark	New benchmark
LGPS Central Climate Multi factor fund	FTSE AW Climate Bal Com Factor	FTSE All World
All private equity funds (Central, Adams Street, Abrdn)	FTSE AW index	FTSE AW + 3% pa
JP Morgan Infrastructure, IFM infrastructure and Stafford Timberland	SONIA (sterling overnight index average) 3 month +4%	8% pa

34. Summarised returns for the whole Fund versus benchmark are shown below excluding the effect of the hedging facility. This metric is being worked on by Hymans.

	Quarter	1yr	3yr pa	5yr pa
Total Fund	+1.7%	+9.9%	+6.6%	+6.7%
vs benchmark	-0.6%	-2.2%	-0.1%	0.0%

35. It is important to note that investment returns can be negative and for a protracted period, and chances of negative returns over shorter periods of time are considerably higher than over longer periods of time. As such the Fund takes a longer-term view of returns which is supported by the objectives of the annual SAA exercise. The exercise seeks to understand the risks and opportunities to the Fund over a longer period and as such the portfolio has a diverse mix of assets grouped into one of three buckets named, growth, income and protection.

36. The Fund experienced a positive return over the quarter of +1.7%, (+3.9% last quarter). The underperformance in the quarter is largely due to the underperformance of the growth assets (-0.8% to benchmark) and income assets (-0.3% to benchmark). In particular a one-off change made within the LGIM all world mandate resulted in the quarter being 0.4% adverse to the benchmark. The LGIM mandates are all passive and as such usually have little difference (tracking error) to the benchmark.

37. It should be noted that the Fund's assets have grown considerably over the past few years as a combination of being cashflow positive and positive investment returns. The markets over the past three and five-year periods have been supportive. However, poorer periods of performance can occur and can last for many years.

LGIM and Targeted Return performance

38. The LGIM all world mandate shows a -0.4% adverse variance to the benchmark in the quarter. LGIM have prudently removed expectation of receiving withholding tax claims from Swiss and Belgian tax authorities who have taken an alternative view on the application of certain aspects of their tax treaties with the UK. In the case of Belgium, the local rules have changed and LGIM is actively engaging with the tax authority to provide additional information. In the case of Switzerland, LGIM has asked HM Revenue and Customs (HMRC) to approach the Swiss tax authority via the treaty teams to try to help resolve the situation.

39. This issue is not unique to LGIM. LGIM are aware of other investment managers experiencing the same delays in tax repayment and, in some cases, adjusting the accounting treatment similar to LGIM this quarter.

40. Both targeted return funds also struggled to beat their cash plus 4% pa benchmarks for the quarter. The required return for the quarter was 2.2% (or 8.8% annualised) which given the positioning within the portfolio is harder to achieve. Neither take as much risk as investing in a 100% long equity portfolio with levels of equity exposure changing regularly. Both managers have the ability to short a variety of assets. Of the two managers, Fulcrum outperformed Ruffer over the quarter continuing a strong run of performance since appointment, with Fulcrum's equity position accounting for nearly half of their strategy, Ruffer on the other hand, rather bearish, ending the quarter with a circa 23% equity position.

41. Not surprisingly a 23% equity position is in line with Ruffer's defensive views on the market. Their low equity weighting comprises almost entirely heavily discounted 'value' stocks. Ruffer fear inflation reigniting (or even staying at recent levels for an indefinite period) and are nervous of nominal bond market valuations. As a result, Ruffer held over 30% of the fund in cash or short dated nominal bonds.

42. From a risk diversification perspective Ruffer continue to prefer precious metals, but gold's recent rise has encouraged them to look at alternative ways of gaining exposure (gold miners and silver). Ruffer has significant protection in place and while this protection is cheap by historical standards because markets don't see a massive amount of risk to current valuation levels, it does cause a drag to performance if markets do not fall. However, while cash returns around 5% the drag is not as large as it could be if rates were lower.

43. The Fulcrum performance of +1.8% over the quarter was from a broad number of sources. It aims to meet the performance objective of cash + 3-5% pa (which is in the process of regulatory approval and would therefore align with the Fund's reporting of the benchmark of cash +4%pa) using a different process to Ruffer which should mean its strategies are less correlated and one of the reasons it was chosen as the second targeted return manager during 2023.

44. Fulcrum operate from three sub strategies each occupying different levels of risk. Dynamic asset allocation or DAA (40% of risk), discretionary macro (50% of risk) and

a trend following strategy (10% of risk). DAA uses a model that is highly reactive to data releases and seeks to find an answer to which asset classes are mispriced now, based on the available information. The manager believes that its edge is to be able to take relevant data and to process it quickly and efficiently to allow it to exploit market mis-pricings while others are still thinking about what it means.

45. The discretionary macro part of the strategy is aware of the DAA model's outcomes, takes them into account and is a separate module which then split into nine sub-strategies that are run by different managers who operate independently of each other with low levels of correlation.

46. Overall, for Fulcrum the June quarter was one in which the long nature of their strategy equity exposure was helpful, so the positive return of the strategy was not surprising. The positive impact of the market neutral Discretionary Macro element came mainly from geographical positioning and themes within equities, and from a long precious metals position.

Outcomes from the 2024 Strategic Asset Allocation (SAA)

47. The Fund's 2024 SAA was approved by the Committee at the meeting held on 26 January 2024. Hymans presented at the meeting and summarised that since the last SAA (2023) there had been a material shift in the markets. Many asset classes having posted losses, nominal yields have risen across all maturities and there has been a material shift in the inflation curve, with expected inflation falling in shorter durations, but staying higher for longer.

48. As part of the annual SAA review, Hymans reviewed the Fund's current holdings and against the economic backdrop concluded that the current (2023) investment strategy remains appropriate taking into account the Fund's objectives and funding position.

49. The recommendations approved included a number of reviews to be carried out through the year which are planned to be presented to meetings of the ISC. The two reviews are:

    a. A protection assets review, which will consider amongst other things an increase to the protection assets weighting if the change may result in better risk adjusted returns. Hymans will also investigate if alternative asset classes could be included within the protection assets group. This review is now complete, Hymans concluded the current strategy should be retained with no clear need to make changes to the target weights of the existing protection assets and no clear rationale at this stage to add new asset classes to this group.

    b. A review to maintain exposure to two asset classes which will be returning capital over the coming years, bank risk share investments and Timberland. The infrastructure review was presented to the July 2024 meeting of the ISC with the bank risk share review to be taken to the October 2024 meeting of the ISC. The outcome of the infrastructure review was to commit £100million in 2024 to the LGPS Central core/core plus fund and £30m in 2024 to the LGPS Central value add/opportunistic fund. In addition, it was agreed to approve the Fund roll its interests in the Stafford Timberland funds six, seven and eight into a new continuation fund which would then hold many of the assets currently owned and therefore maintain the Fund's exposure to timberland.

50. In addition, the Committee approved that the Director of Corporate Resources be authorised to make benchmark changes, with such changes to be delivered quarterly through the year, commencing at the June 2024 LPC meeting. These changes are designed to better compare the Fund's underlying investments actual performance versus an appropriate target (the benchmark) so that a better appreciation of relative performance can be ascertained. As described earlier the first changes to benchmarks has commenced with further changes to be affected through the year.

Leicestershire Pension Fund Conflict of Interest Policy

51. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

52. The Local Pension Committee is asked to note the report.

Environmental Implications

53. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. This 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. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

54. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Human Rights Implications

55. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Background Papers

Local Pension Committee 26 January 2024, Overview of the Current Asset Strategy and Proposed 2024 Asset Strategy (Agenda item 6)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Investment Sub Committee 11 October 2023, Listed Equity Transition Update (Agenda item 7)
https://politics.leics.gov.uk/documents/s179001/Equity%20transition%20update.pdf

Appendix

Hymans Robertson, Capital Markets update Summer 2024

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HYMANS ROBERTSON

Capital Markets Update

Summer 2024

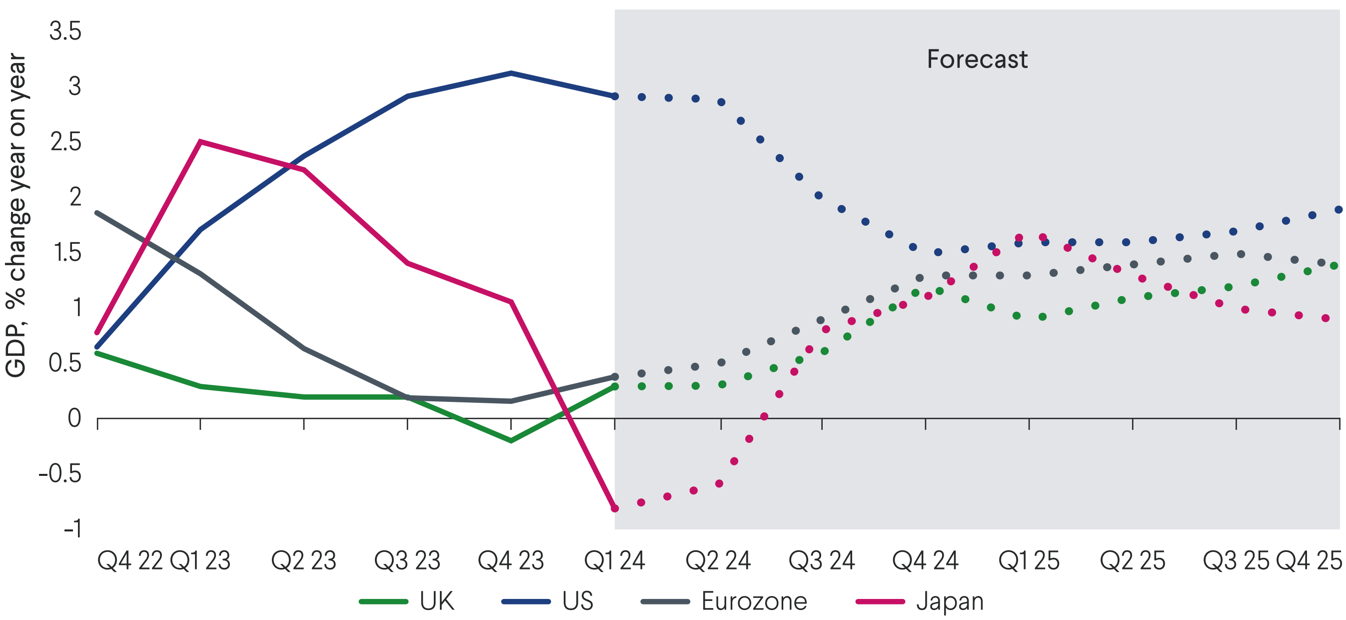
Global growth forecasts rose as the relative resilience of the US economy shone through in survey data. Solid, if unspectacular, growth and signs of stubbornness in underlying inflation suggest that policymakers will ease monetary policy gradually.

Government bond yields rose in Q2 on decent growth and sticky inflation data, while credit spreads stayed near record lows. Resilient growth and AI optimism helped global equities deliver another quarter of positive returns.

Global themes

While the US economy slowed more than expected in Q1 from the blistering pace set at the end of 2023, the slowdown was mainly due to volatile inventories and higher imports – the data still pointed to an economy with decent underlying domestic demand. At the same time, growth rose more than expected in the eurozone and the UK, which grew at the fastest quarterly pace since 2021, with both regions exiting technical recessions in Q1. Furthermore, China's 1.6% quarter-on-quarter expansion was larger than most economists expected as Chinese authorities provided more support to the real estate sector. Indeed, while forecasters expect the US economy's year-on-year pace to ease in the second half of 2024, growth elsewhere is expected to converge towards the US (Chart 1).

Chart 1: Solid but unspectacular growth expected in the major advanced economies



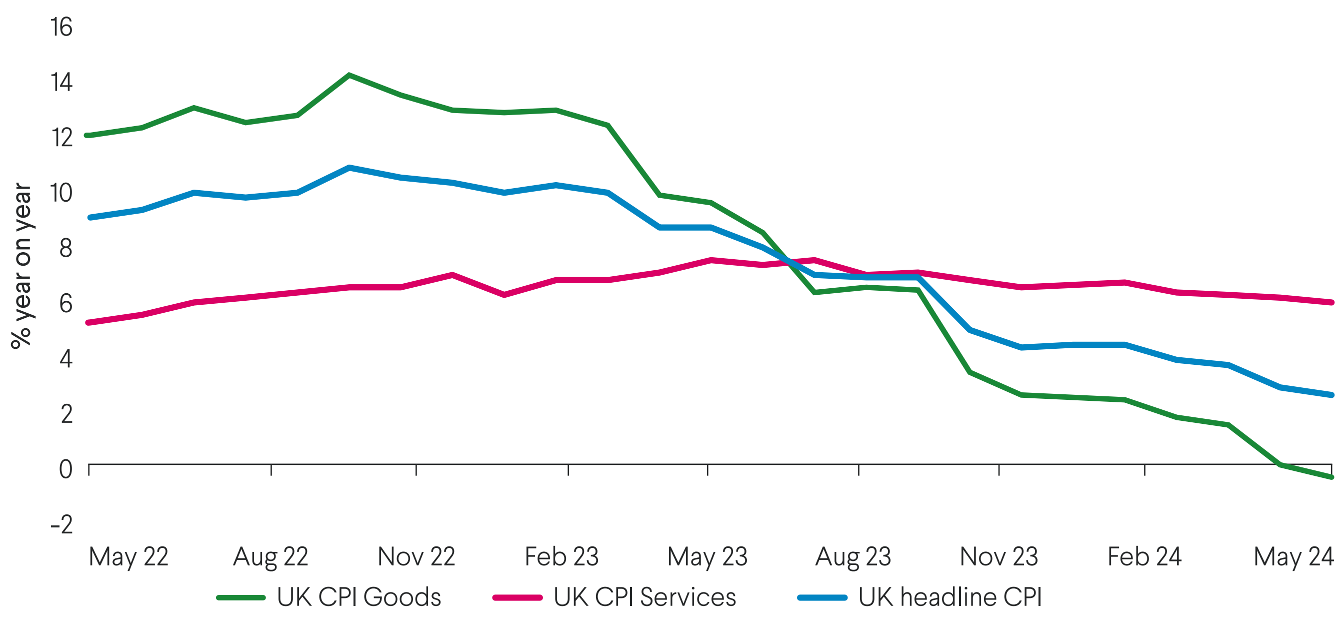
Source: Datastream and Consensus Economics

However, June's Purchasing Managers' Index (PMI) data are indicative of robust US growth at the end of Q2, across both the manufacturing and services sectors, suggesting US 'leadership' may persist for a little while yet. Although the global composite PMI, which aggregates global service and manufacturing activity, suggests the pace of expansion slowed across sectors and regions outside the US (including the UK and eurozone), the index is still consistent with a solid pace of expansion in global GDP. Indeed, a further increase in global employment PMI suggests the underlying fundamentals are resilient. Crucially, the J.P. Morgan Global manufacturing PMI held close to a two-and-a-half-year high in June, signalling better operating conditions in the sector for the past five months.

Inflation falls to the Bank of England's target

UK CPI fell to the Bank of England's (BoE) 2% target for the first time in almost three years in May. However, this was 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, also slowed, but at 3.5% year on year, highlights stubborn underlying inflationary pressures. This is further illustrated by services CPI, which, though slowing, remained at 5.7% year on year (Chart 2). Indeed, UK business surveys highlighted wage increases, higher shipping costs and rising raw material prices contributing to increasing costs. This suggests that services inflation is likely to remain sticky, while goods price disinflation has largely run its course.

Chart 2: Goods disinflation has largely run its course, while services inflation remains elevated



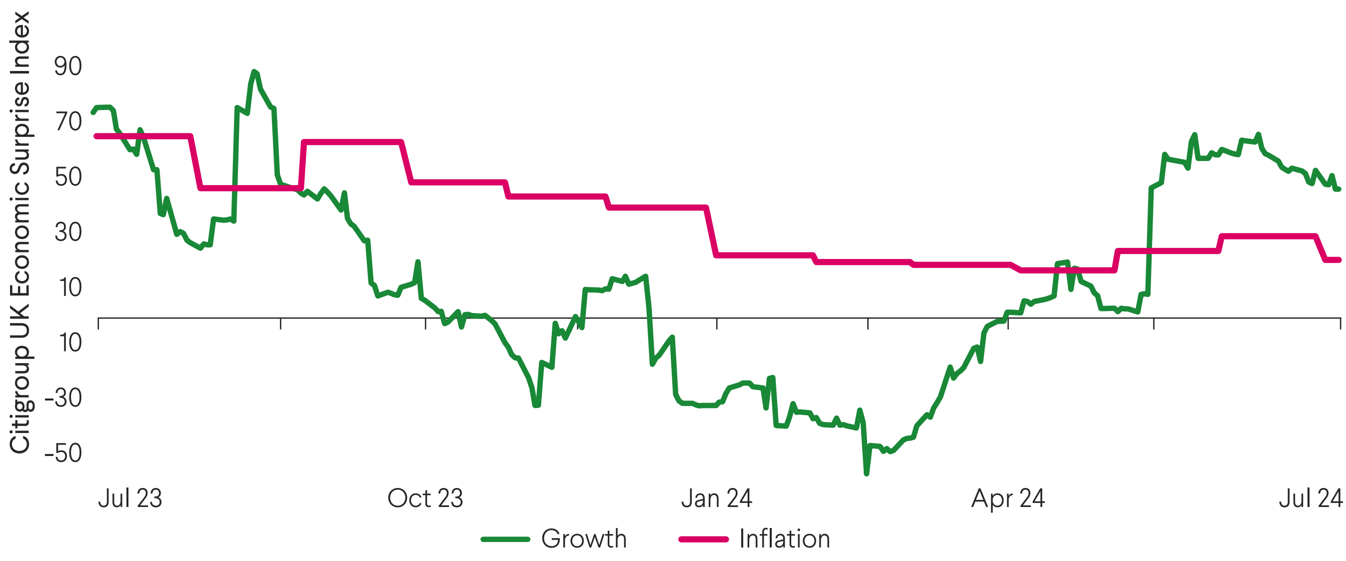
Source: Datastream and Bloomberg

We still expect the other major central banks to follow the European Central Bank (ECB). It reduced rates 0.25% pa, to 3.75% pa, in June. However, stubborn core inflation and solid growth suggest the easing of monetary policy will be gradual.

Government bonds

June's fall in UK business activity data is expected to be temporary, stemming from the uncertainty we saw ahead of the general election. Some commentators suggest the decisive result and large majority will allow for a more stable policy platform, lending modest upside risk to potential growth. This, alongside stronger-than-expected growth and activity data (Chart 3), ongoing upwards revisions to near-term growth forecasts and a slowing disinflation process, modestly reduces the fundamental attraction of gilts.

Chart 3: UK growth and inflation data have been exceeding economists' expectations



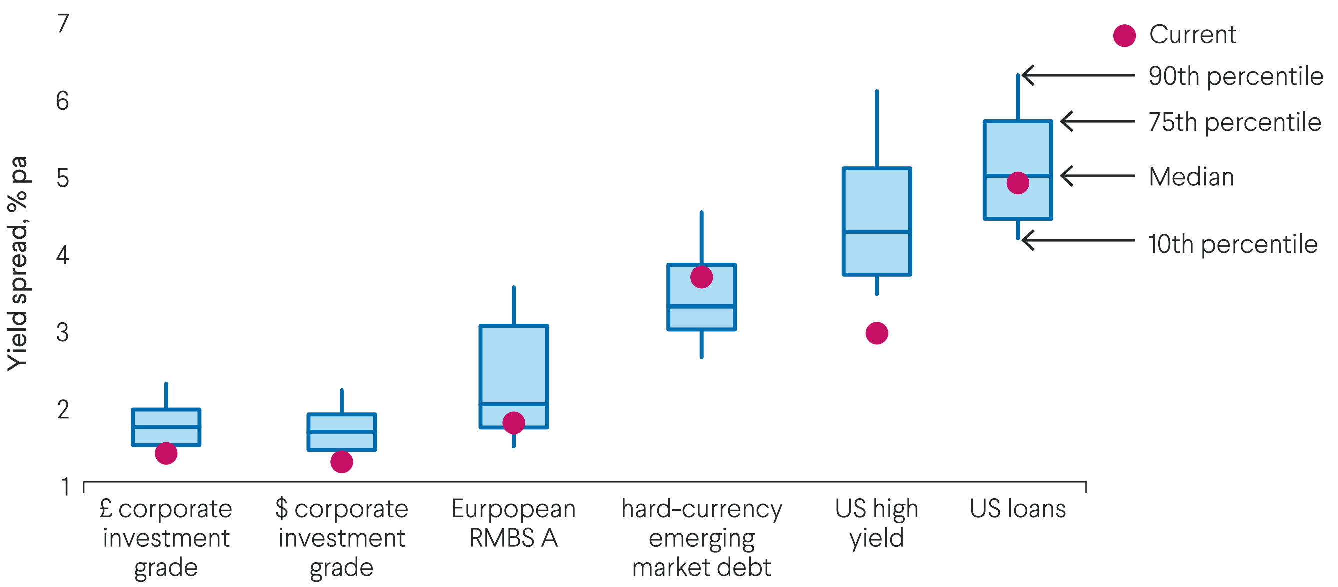
Source: Bloomberg

Having said that, we continue to see longer-term value in UK gilt yields, particularly nominal gilts, where forward yields remain well above our assessment of fair value based on long-term growth and inflation forecasts. Expectations of rate cuts should help anchor yields, but the technical backdrop of high issuance and BoE asset sales is fragile. It looks likely that the incoming government may have to borrow more than is currently budgeted for in the near term, which might delay rate cuts and place upwards pressure on the additional yield investors require to invest in long-term bonds rather than rolling shorter-term debt.

Credit

Credit spreads were little changed over the quarter as resurgent new issuance, on the back of improved business confidence and low lending margins, was met by ongoing strong demand for high headline yields . Overall corporate funding costs continue to rise in fixed interest markets as companies refinance existing debt at higher yields, but debt affordability metrics remain in decent shape. Robust growth, an upswing in corporate earnings and supportive financial conditions are all factors that could keep credit spreads at current levels for a while yet.

Chart 4: Credit spreads are generally very low by historical standards



Source: ICE Index Platfrom, Datastream, Citivelocity, Barings

However, while we acknowledge the decent yields on offer, it's difficult to get too excited by credit spreads, which look very low versus history (Chart 4). Buy-and-hold investors may be able to look through potential spread volatility in investment-grade markets, on the basis that spreads, even at current levels, would still provide some cushion against a reasonable level of loss due to defaults and downgrades.

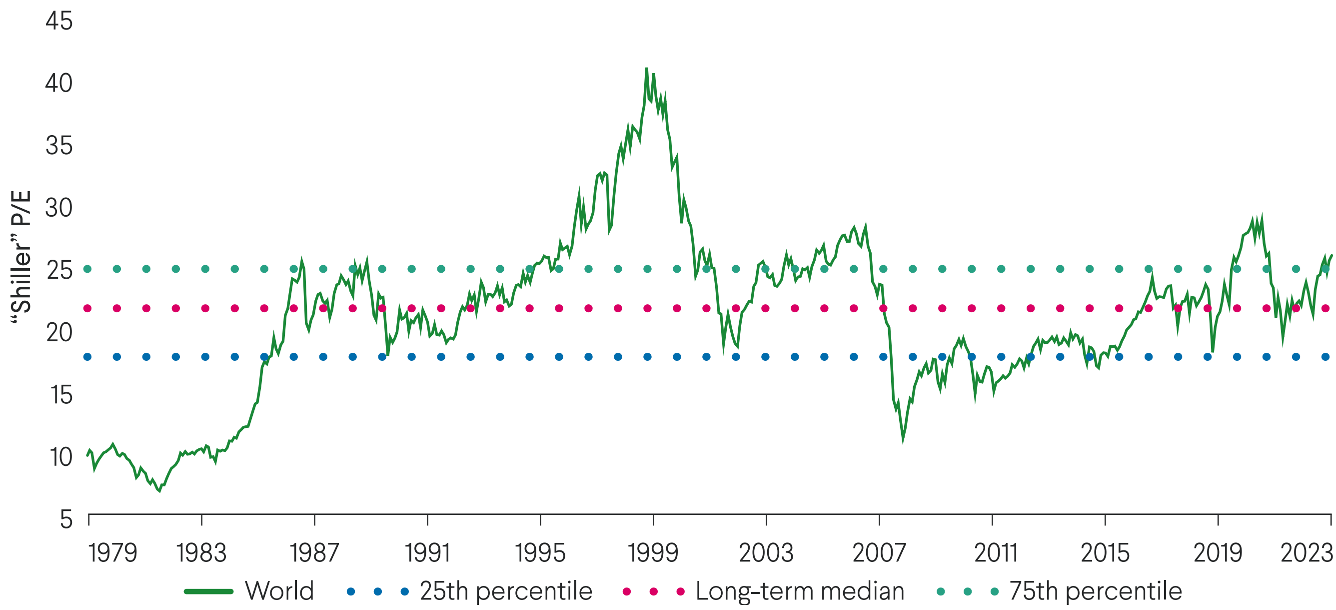
But for investors with shorter investment horizons, or those investing in speculative-grade markets (where average credit losses tend to be materially higher), the message from attractive yields and unattractive spreads may be that the underlying sovereign currently offers better risk-adjusted returns. That said, there are still some areas that don't look particularly expensive, such as traded loans and hard-currency emerging market debt.

Equities

Amid resilient global growth and ongoing optimism around all things AI, global equities delivered another quarter of positive returns. A large rise in stock prices since the beginning of the year has taken the global equity price-to-earnings ratio above long-term averages, while above-trend earnings mean cyclically adjusted valuations are even higher. However, while elevated valuations are likely to weigh on longer-term returns, the fundamental outlook may support them in the near term.

Despite cautious forward guidance, the Q1 earnings season was strong enough to prompt modest upgrades to full-year global equity earnings estimates for 2024 and 2025, which now stand at 10.0 and 13.4%, respectively.

Chart 5: Cyclically adjusted valuations are elevated, but fundamentals are supportive in the near term



Source: Datastream

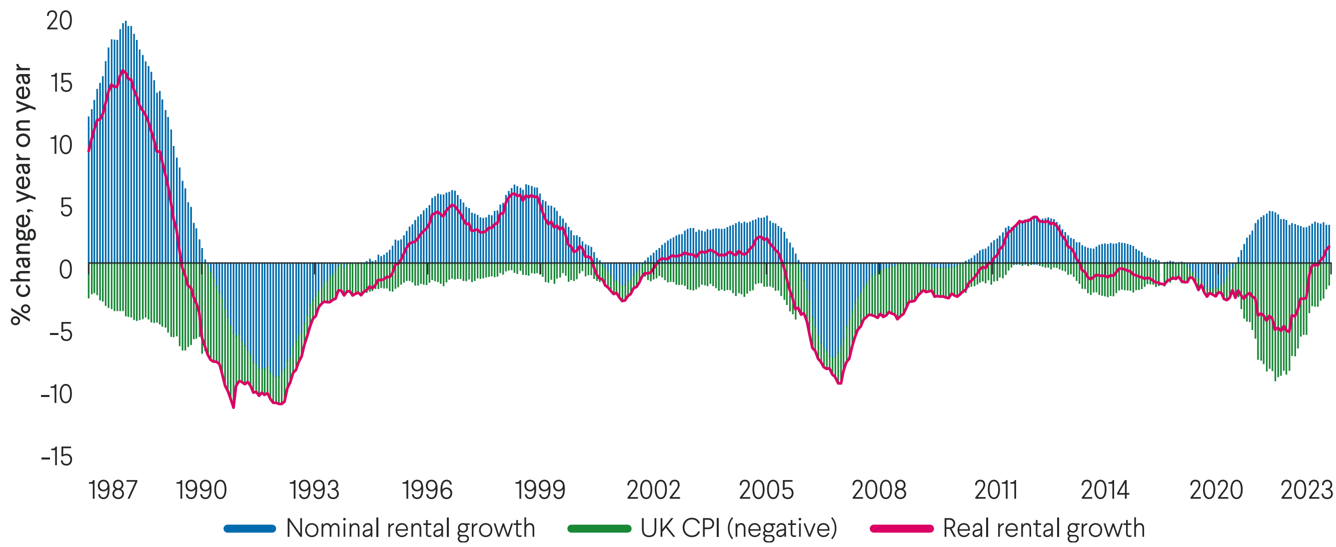
Cyclically adjusted Japanese equity valuations have rapidly approached parity with global benchmarks. Meanwhile, Japanese earnings forecasts for 2025 look relatively weak and earnings momentum is on a rapidly deteriorating trend – this points to reducing our overweight to Japanese equities. While emerging market valuations still look cheap and the region is forecast to enjoy the strongest earnings growth in 2024 and 2025, earnings momentum is negative, tempering our optimism towards the region.

European and UK earnings forecasts remain relatively weak, but earnings momentum has been on an improving trend and both regions look inexpensive, even allowing for their usual level of discount relative to global benchmarks. Furthermore, nascent signs of recovery in the region's domestic economies and in global manufacturing activity might benefit value-oriented markets. The US is largely responsible for elevated global valuations, but the relative strength of the US economy, positive relative earnings growth and positive earnings momentum lend support. As a result, our outlook is neutral across regions, albeit for slightly different reasons in each.

Property

We've seen continued improvement in a number of the fundamental indicators we track for UK commercial property, making us a little less cautious on the asset class. The latest Royal Institute of Chartered Surveyors survey, which provides a quarterly guide to the trends in the commercial property investment and occupier markets, shows tentative signs that the market is shifting towards a recovery phase. The largest share of respondents view the market as either having reached a floor or having entered the early stages of an upturn. In particular, the survey highlighted improvements in occupier demand, rent expectations and capital value expectations. At the same time, real rental growth has continued to rise as inflation has fallen (Chart 6). Indeed, the fundamental picture is generally better for industrials, particularly areas like logistics and life sciences, than it is for other sectors.

Chart 6: Real rental growth continues to rise and is running at a reasonable level relative to history



Source: MSCI IPD

That said, vacancies have continued to rise in the office sector and, at close to 23%, are almost double long-term averages. Furthermore, given shifts in working patterns and office space requirements, the rise in vacancies in the sector looks somewhat structural, with a return to long-term averages perhaps unlikely in the near term. However, yields have risen a lot since the market's peak in June 2022, and capital values, in aggregate, have fallen 25% over the same period. Survey data suggest the recent stabilisation in capital values might signal the market's nadir, but we retain a degree of caution, as selling pressure continues to dominate market dynamics, with transaction yields often above those based on net-asset values found in index data.

Conclusions

Stubborn core inflation and solid growth suggest any easing of monetary policy will be gradual

The economic resilience seen in 2024 remains intact, and global GDP growth, which saw further upwards revisions in Q2, is expected to reach 2.5% in 2024 and 2.6% in 2025. The decent underlying fundamental backdrop is perhaps best illustrated by strong labour markets, with global employment continuing to expand in Q2. Furthermore, ongoing signs of a recovery in manufacturing activity are a positive development. The cost of resilient growth has been a slowing of disinflation in the major advanced economies. Data pointing to slowing, but still elevated, underlying inflationary pressures and solid, but unspectacular, growth is consistent with a gradual shift towards less restrictive monetary policy. We continue to expect the US Federal Reserve and BoE to follow the ECB in lowering rates this year, but we expect them to tread cautiously.

Equity valuations are high, but near-term fundamentals are supportive

The underlying growth backdrop, forecast earnings, and ongoing upwards revisions to both, provide a positive backdrop for risk assets like credit, equity and property. However, elevated valuations give us pause for thought. While we acknowledge that elevated equity valuations tend to augur a period of more subdued long-term returns, the near-term fundamentals remain supportive. At the same time, we still see decent value in government bond yields, while very low credit spreads make for a much more asymmetric return profile in credit markets, given limited upside risk.

We've pared our overweight to government bonds and cash, and we've become warmer towards global stocks and property

As result, we reduced our overweight to government bonds and cash, and reduced underweights to global equity and property, while retaining an underweight to credit assets. Equity and property markets look well supported by the current fundamental outlook, while government bonds would be expected to provide ballast if a more negative growth, and lower inflation environment, took hold. The overweight to cash may be interpreted as a nod to high equity valuations and lingering inflation risks, which have scope to undermine fixed rate government bonds, even in a more negative growth environment.

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 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 Committee 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 Committee's Terms of Reference sets out that its principal aim is to consider pension matters with a view to safeguarding the interests of all Pension Fund members.

3. This includes the specific responsibility to monitor overall performance of the pension funds in the delivery of services and financial performance, and to consider all matters in respect of the pension funds including:

   - to ensure an appropriate risk management strategy and risk management procedures;
   - ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.

Background

4. 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.

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

Risk Register

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

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

7. 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**.

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

9. The latest version of the Fund's risk register was approved by the Local Pension Committee on the 19 June 2024.

10. There has been one change to the risk scores since the 19 June 2024 and some other minor changes which are highlighted below. The Local Pension Board considered this report on 31 July 2024 and had no comments.

11. 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.

12. 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 6: 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.

13. The risk scores have remained the same however an update has been made to reflect the additional control of monitoring employers that change payroll systems.

Risk 11: Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns.

14. Following the Local Pension Committee's approval of the revised Training Policy on 19 June 2024 the list of current controls has been updated to reflect Members must complete Hymans Aspire Online Training within six months of appointment. In reflecting some turnover of membership, the risk scores have remained the same.

15. Prior to this meeting the Chairman has been updated on current completion of Hymans Aspire Online Training and Members will have received a reminder on modules outstanding.

Risk 15: 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.

16. This has been updated to reflect further risk causation through the manual calculation of transfer values as a result of McCloud. As a result, the likelihood of the risk has increased to four, increasing the current risk score to 8 (Amber) and changing the risk response from tolerate to treat.

17. To mitigate for the risk some McCloud calculations can be completed using a Local Government Association template, keeping the residual risk score at six (Green).

Recommendation

The Local Pension Committee is asked to note the report and approve the revised Pension Fund risk register.

Equality Implications

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

Human Rights Implications

19. 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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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	**3**	**3**	**9**	▬	Investments - SFA

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
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. A national Framework is being scoped to enable Funds to review and select AVC providers. Leicestershire LGPS will be a founder member of the framework.	**3**	**1**	**3**	—	Pensions Manager

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
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

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
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

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
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 to reform the LGPS, and/or direct investment decisions towards specific asset classes that may not completely correlate with the Fund's fiduciary duty.	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%

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTMENT REPORT

Purpose of the Report

1. The purpose of this report is to present to the Local Pension Committee (LPC):

    a. The proposed metrics that will be presented as part of the Climate Risk Management Report for 2024; and

    b. An update on the Fund's quarterly voting and stewardship activities undertaken on its behalf via LGPS Central (Local Government Pension Scheme), LGIM (Legal and General Investment Managers) and the Local Authority Pension Fund Forum, as well as any current developments.

Policy Framework and Previous Decisions

2. Responsible investment (RI) factors have long been a consideration for the Leicestershire County Council Pension Fund, having satisfied itself that potential investment managers take account of RI as part of their decision-making processes before they are considered for appointment.

3. This is enshrined in the Fund's Investment Strategy Statement, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy, both approved by the LPC on 3 March 2023.

4. The Fund is supported by LGPS Central's RI and Engagement Framework which sets out its approach to responsible investment on behalf of the eight pooled funds. The Framework supports the Fund broadening its stewardship activities. LGPS Central presented their revised Stewardship Strategy at the March 2024 Committee meeting.

Background

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

6. Engaging companies on ESG issues can create value for those businesses and the Fund as an investor by encouraging better risk management and more sustainable practices, which therefore should generate sustainable investment returns.

7. Since 2020 the Fund along with LGPS Central has produced Climate Risk reports which set out relevant climate metrics on measurable areas of the Fund's portfolio. In March 2023 the Committee agreed a Net Zero Climate Strategy which the Fund agreed to continue to report against.

RI Plan 2024

8. An update of progress against the Fund's RI Plan is set out in Appendix A attached to this report. All actions remain on track. Key updates are set out below.

Climate Risk Management Report 2024 Proposals

9. At the January 2024 Committee meeting it was agreed that the December 2023 Climate Risk Management Report be recirculated to enable Members to feedback on areas where they consider more information and data is needed to address concerns about the lack of clarity and transparency, specifically in relation to companies with fossil fuel reserves. Following feedback received officers will ensure improved narrative reporting, including outcomes in relation to engagements, and how the Fund can demonstrate any real-world emissions reductions.

10. Officers have held initial meetings with LGPS Central on how these considerations can be incorporated and have begun the data collection process. It must be noted that LGPS Central develop the report with a view of all partner funds requirements to streamline the processes.

11. Alongside previous developments, and narrative type input suggested by Members, LGPS Central will look to:

- Return areas related to engagement of Stewardship Plan Companies.
- Make the report more concise for ease of use.
- Expand metrics to further asset classes including sovereign holdings and private market holdings managed internally by LGPS Central.

12. The report will continue to report against the Fund's NZCS targets and additional forward and backward-looking metrics available alongside any narrative findings.

    a. Emissions: scope 1, 2 and 3. For sovereign assets this will include the production and consumption emissions of a country.

b. Carbon emissions metrics: financed emissions and weighted average carbon intensity.
c. Portfolio alignment and engagement metrics: companies climate management scores, implied temperature rise, science-based targets and Paris alignment, which can provide a forward look at the climate performance of the Fund.
d. Exposure metrics: Since 2019 the Fund has measured exposure to fossil fuel reserves, and climate solutions. These metrics have always been considered rudimentary due to the limitations of the metrics as neither consider the amount of revenue generated by fossil fuels or climate solutions.

   Instead, the metrics measure all companies which have any exposure regardless of how small. To overcome this the Fund and Central began measuring fossil fuel and climate solution metrics by revenue alongside the original metric. This newer metric instead identifies each portfolio company's maximum percentage of revenue derived from fossil fuels. However, this uses maximised estimates so may still overestimate the Fund’s exposure. Further commentary on the pros and cons of these metrics and data available to the Fund will be presented in November.

13. Officers and LGPS Central will also undertake a review of Stewardship Plan companies and consider whether all remain appropriate key targets given current exposure within the Fund’s portfolio and potential risks and opportunities.

<u>Voting</u>

14. The Fund has a longstanding policy of delegating voting and stewardship activities to its investment managers, with the view that well run companies protect and increase shareholder value by engaging on a range of financially material ESG investment factors.

15. This is implemented through the Fund’s equity managers LGPS Central (in contract with EOS at Federated Hermes) and Legal and General Investment Manager. As well as the Local Authority Pension Fund Forum (LAPFF) a group comprised of 85 funds and seven pools with combined assets of over £350billion, which is consequently able to exert significant influence over companies in which funds are invested.

16. This quarters report covers March to June which is a key period where many public companies' annual meetings occur.

17. Over the quarter there has been an increase in anti-ESG proposals. These mostly relate to social factors, though anti-environmental proposals have

doubled so far which mainly centre around financial risks associated with decarbonisation. Despite this increase support has declined each year since 2022, with support for the proposals remaining in the low single digits for anti-ESG proposals.

18. On the other hand, ESG proposals overall have seen better support, however this support has also declined. On climate-based proposals those that focused on scope 1 and 2 emissions received higher support than those including scope 3, or those from a company's supply chain.

19. This season sits within the context of a number of anti-ESG laws across the US which impact financial and pensions institutions. There is also an ongoing antitrust probe against groups such as Climate Action 100+ which may be impacting the approach of some investment managers based in the US. LGPS Central, LGIM and many other Fund Managers continue to be members of CA100+.

<u>LAPFF Voting Alerts and Stewardship Plan Companies</u>

20. LAPFF issued voting alerts covered 49 climate-related resolutions. Of the 42 resolutions voted upon at LAPFF's time of writing proposals received an average of 22% support, with over three quarters of proposals receiving more than 10% and well over half receiving 20% or more support. For alerts covering companies the Fund own shares of, Central and LGIM voted in line with LAPFF for more than 95% of these votes.

21. Below sets out key vote alignment from LGIM and LGPS Central in relation to Stewardship Plan Companies. A more detailed analysis of progress with Stewardship Plan Companies will be included in the Climate Risk Report in November.

Company	LAPFF Voting Alerts Issued	Commentary
CRH	No	No specific climate issues were on the AGM agenda. LGIM and Central aligned on all but one vote on the re-election of a Director.
BP	No	No specific climate issues were on the AGM agenda. As set out in the latest LAPFF report, BP has been regarded as at the better end of the sector in recognising climate change as an issue.
Holcim	No	Both LGIM and Central voted to approve Holcim's climate report (95%) with LGIM stating: "A *vote for the approval of Holcim's climate report is warranted. We are supportive of progress made this year and improvements made to the report, namely expanding the scope of the 2050 net zero target to include all categories of scope 3 emissions, and the upgrading of 2030 scope 1 and 2 targets"*
Shell	Yes	LAPFF issued 9 recommendations. Both Central and LGIM voted against Shell's Energy Transition which 22% of shareholders also opposed in line with LAPFF.

		In relation to the shareholder resolution asking that Shell include Scope 3 emissions within its medium-term emissions reduction target which LAPFF recommended a vote for, Central abstained and LGIM voted against. Both LGIM and Central provided reasoning for why they did not support the shareholder resolution. While both share the concerns on Shell's climate strategy the shareholder resolution did not address key concerns while also being legally binding. It was felt this could lead to unintended consequences of divestment of assets to less responsible operators, which would not be supportive of real-world emissions reductions.
Next Era	Yes	In line with a LAPFF recommendation both voted for shareholder resolutions that requested disclosures related to climate lobbying (32.5% support) and the Board's skills and diversity matrix (40.6% support) against managements recommendations.
Glencore	Yes	Alongside other recommendations LAPFF recommended investors vote against the 2024-2026 Climate Plan. LGIM voted against this Plan, and against re-election of some Directors and publicised it would sell Glencore in funds covered by their climate impact pledge as a result of the company not meeting LGIM's minimum standards with regard to climate risk management. LGIM further aligned with LAPFF on three other recommendations. LGPS Central voted against two directors due to concerns relating to climate change risk and abstained from voting on Glencore's Climate Action Plan. While Central were pleased to see the introduction of a new 2030 target covering all scopes absolute in nature, there remain significant concerns over adherence to any particular net zero scenario and the cap on coal production that was discontinued.
Taiwan Semi-Conductor	No	Central voted in-line with Taiwan Semiconductor on all recommendations. LGIM voted against recommendations in relation to renumeration, expecting it to be measured over a 3-year performance period as that is more aligned with long-term value creation.

22. Officers will continue to monitor key votes and alignment. As part of the preparation for the Climate Risk Report with LGPS Central the Fund will review these companies to understand if they should remain on the Climate Stewardship list, either given progress achieved or changes to the portfolio which mean other companies should be prioritised.

Other Events

23. Exxon Mobil brought a legal action against two activist investors that had filed a climate change-related shareholder resolution. A number of institutional investors raised significant concerns over this approach and the consequences this may have on shareholder rights more broadly. The case was ultimately dismissed by a US court.

24. At the AGM itself LAPFF issued one vote alert recommending investors vote for a shareholder resolution in support of clear and credible transition plans, which related to a request to the Board of Directors to report on the "social impact on workers and communities from closure or energy transition of the Company's facilities and alternatives that can be developed to help mitigate the social impact of such closures or energy transitions". This received 7.4% support from investors and was supported by both Central and LGIM, despite the company's unprecedented legal action at the time.

25. Elsewhere on the AGM's agenda Exxon also received an anti-ESG shareholder proposal which Exxon had also challenged as they considered it materially false, and. Exxon recommended that investors vote against this resolution which Central and LGIM aligned with alongside 98% of investors.

26. Elsewhere the most significant shareholder dissenting votes were at Quest Diagnostics (42% support), Markel Corporation (36% support) and Centene Corp (36% support). Woodside Energy saw a 58% opposition to its proposed climate plan, the strongest protest recorded against any listed company to date. These votes will serve as significant shareholder feedback that companies should take their concerns seriously.

27. Appendix B includes the Fund's voting report covering the period March to June 2024. A brief breakdown is included below:

    i. The Fund made voting recommendations at 3623 company meetings (49,872) resolutions.
    ii. At 2616 of these company meetings, the Fund opposed one or more resolutions.
    iii. The Fund voted with management by exception at 68 meetings and supported management on all resolutions at the remaining 1002 meetings.
    iv. The majority of votes where the Fund voted against management, or abstained on resolutions (3126) were related to board structure (50%), audit and accounts (14%) and amend articles (9%) and renumeration (9%).

Engagement

28. Voting is just one of the tools available to the Fund to encourage better corporate behaviour on ESG factors, which often goes hand in hand with stewardship. The Fund's approach to engagement takes a long-term perspective, a highlight of some of the latest actions and outcomes are set out below. The full reports are linked.

	Company	Theme	Action	Outcome/Next Steps
LAPFF	Canadian Banks	Climate	Reports indicated Canadian banks are increasing lending to oil and gas companies while other banks are stepping away. LAPFF met with the three largest Canadian Banks	Continue engagement with banks in the autumn to develop investor expectations from the Forum's point of view.
LGIM	Nippon Steel	Climate	Engagement with the largest steel making in Japan and one of the largest globally. Co-filed a shareholder proposal for better disclosure.	Achieved 27.98% support sending a strong message to the company's board that investors expect better transparency. This was one of the highest levels for support recorded for a climate-related shareholder resolution in Japan. LGIM will continue to engage and expect the company to address investor expectations and enhance accountability and transparency.
Ruffer	Newmont	Sustainability and Health and Safety	Newmont acquired a position in a gold and copper mining company. Given they consider Newmont a good performer on sustainability in terms of reporting and consideration of ESG factors, they asked for guidance on when the acquired assets would be integrated to reporting.	Newmont would work over the next 12 months to expand reporting and include acquired assets. Ruffer belief this to be an ongoing engagement and will continue to meet with their sustainability team.

LGPS Central	Telecommunications Company	United Nations guiding principles (UNGPs) on Business and Human Rights	Central have engaged since 2023 on the adoption of the UNGPs. Unlike its competitors it does not undertake human rights due diligence and its approach to human rights is not integrated into the terms of reference of any of its governance committees. Central met with the company to discuss its concerns.	Central were unable to secure a follow-up meeting. Central escalated concerns by voting against the Chair at the AGM due to inadequate engagement process and wrote to the company informing them of the rationale. Central will work with the external manager holding the stock to escalate concerns further.

Current Developments

Stewardship Code

29. As set out within the Fund's Responsible Investment Plan there has been consideration of applying to the Stewardship Code, given resource and extensive reporting required. The review offers a chance for the Fund to reconsider recognising the importance of promoting transparency and accountability of the Fund's stewardship activities and decisions. New changes will come into force on the 31 October 2024 which looks to streamline reporting and set clear expectations on what is considered an outcome for stewardship purposes.

30. The Financial Reporting Council will further review five themes looking at its purpose, principles, proxy advisors, process and positioning. If the Fund were to decide to apply to the Code this provides a clear template for the Fund to report on its best practice in stewardship activities both with companies and its investment managers.

LAPPF Recommendations for UK Climate Policy

31. LAPFF issued recommendations for UK Climate Policy recognising significant climate milestones have already been achieved, with coal use largely eliminated and renewable energy accounting for a third of electricity productions. However, it recognised the next stage of the energy transition will be more challenging.

32. The report makes the case for focusing on short-term actions and ensuring a just transition that creates new employment opportunities. It outlines specific actions by sector, including expansion of onshore wind and storage,

accelerating action on domestic heating (including through addressing skills shortages), and ensuring expansion of the EV rollout through a focus on affordability.

Recommendations

33. It is recommended that the Committee note the report.

Background Papers

None.

Equality Implications

The NZCS is a high-level strategic document and there are no direct Equality implications. The Fund takes into account issues around Equality 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

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.

Appendices

Appendix A: Responsible Investment Plan Update
Appendix B: Vote Report March to June 2024

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RESPONSIBLE INVESTMENT PLAN 2024

Financial Quarter	Date (where applicable)	Title	Description/Update as at end of July 2024.
Q4	26 January 2024	RI Plan	Communication and publication of the Fund's 2024 RI Plan + LGPS Central RI Stewardship
	26 January 2024	Strategic Asset Allocation	Consideration of the Fund's Net Zero Climate Strategy within the asset allocation.
		Local Pension Board Report	Update to Local Pension Board on progress against the Fund's net zero targets.
		Website Refresh	Updated pension website on the Fund's RI approach.
	8 March 2024	Manager Presentation	Adams Street - As part of Manager report to Committee overview of approach to Environment, Social and Governance factors (ESG). Information circulated to Committee following meeting expanding on risk factors and engagement approach. Stewardship presentation from LGPS Central on updated themes and engagement outcomes.
	March 2024	Policy Review	Incorporation of RI matters into relevant policies up for review.
	5 June 2024	LGPS RI Day	Agenda circulated to Committee members.
		Manager RI Snapshot as 31 March	The Fund will request climate and other RI related information from all investment managers to understand how they are monitoring/managing climate risk, and availability of climate data, and approach to stewardship. This will be used to drive discussions on matters related to the NZCS with Investment Managers throughout the year.
Q1	June 2024	Taskforce on Climate-Related Financial Disclosures (TCFD) Report	Public report of the Fund's approach to climate risk, set out in alignment with the recommendations of the TCFD, NZCS, Climate Risk Management Report and stewardship reporting.

	June 2024	Manager Presentation	LGPS Central Infrastructure. As part of Manager report to Committee overview of approach to ESG.
Q2	September 2024	Manager Presentation	Quinbrook: As part of Manager report to Committee overview of approach to ESG.
		Training	LGPS Central to provide training session on responsible investment/climate matters and engagement in advance of November Climate Risk Report.
Q3	29 November	Climate Risk Report	The Fund will engage with LGPS Central and partner funds on future reporting and increase monitoring to sovereign bonds taking into account guidance from the Assessing Sovereign Climate-Related Opportunities and Risks initiative. The Fund will ensure it is reviewed in light of reporting on NZCS and seek to expand data coverage, and the possibility of expanding targets to corporate bonds and other available asset classes.
	29 November	Manager Presentation.	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
	4/5/6th December	LAPFF Conference	Agenda to be shared once available.
		Strategic Asset Allocation Review	To take into account Climate risk as per NZCS and Climate Risk Management Report.
	TBC	Pension Fund AGM	Presentation as part of Pension Fund Annual General Meeting progress on NZCS and RI matters.
Q4	January 2025	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report and Net Zero Climate Strategy
		RI Plan	2025 Plan.

Ongoing Activities throughout the year

Date (where applicable)	Title	Commentary as at end of July 2024

5 June	• LGPS Central will be hosting their Annual RI Day with topics of interest to members, this date will be circulated to Committee once confirmed. • Quarterly reports to the Local Pension Committee on voting, engagement, and stewardship activities of LGPS Central, LGIM and the Local Authority Pension Fund Forum, and developments on responsible investment matters with themes of interest to the Committee.	LGPS Central Press Release. Members can contact officers for more detail if they were unable to attend. Updates provided to Members on queries/concerns raised during meetings. Including exposure to Aerospace and Defence, ASP ESG risks, figures on GDP at risk, and comparative climate performance.
May & July ISC, SAA, Triennial Valuation	• Implementation and further inclusion of actions positively correlated with broader Net Zero Climate Strategy through LGPS Central and other external managers to ensure the climate transition and physical risks are identified and managed through stewardship and/or asset allocation activities.	Discussion as part of scoping of ISC Investment decisions reporting on infrastructure (July ISC), protection assets (May ISC), and early triennial valuation discussions (March 2025). Following January Committee, some Committee Members have fed back or met with officers on the current Climate Risk Management Report and what would be beneficial in future reporting for November reporting. Officers are happy to continue this process throughout the year.
May 2024	• Work with appointed managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within material sectors. With a focus on high impact sector and previous disclosures. • RI Working Group with LGPS Central and Partner Funds. Including Working with LGPS Central to continue to develop climate reporting more broadly, and look at improvements to fixed income.	All managers have reported on their strategy, targets and climate metrics relevant to the Fund where available. As well as engagement examples and further detail on how they manage risks across high impact sectors, for example. This will be reported in December alongside the Climate Risk Management Report. Meetings are held quarterly (January, April and July so far), meetings have also been set up to discuss the Climate Risk Management Report.

	• Explore use of climate scenario analysis with a look to integrate funding and investment analysis in line with Climate Risk Management recommendation.	Early discussions held exploring the different approaches in recognition of limitations of approaches available for the Fund with consideration of recent reporting on climate scenario analysis. To be considered for 2025 Triennial Valuation and what role LGPS Central can contribute.
	• Continue to engage companies highlighted in Climate Stewardship Report via our engagement partners including LGPS Central on companies and engagements selected. Look to encourage escalation where needed.	Voting alerts circulated to relevant investment managers. Further detail set out in September RI paper.
	• Following expected review of the Stewardship Code 2020, review whether the Fund should apply, subject to value being evidenced.	Participation in a Stewardship Code reporting working group. Work progressing on any potential gaps for the Fund in recognition of best practice even if Stewardship Code reporting not deemed necessary. The progress of the review was published in July 2024.
	• Continue review of best practice with regards to the Fund’s asset classes and climate reporting, and international industry standards.	Consideration of other LGPS funds best practice, reporting and progress. View of The Pensions Regulator TCFD guidance. Consideration of IIGCC revising their NZIF Framework. Initial benchmarking of the Fund across the LGPS presented in June cover paper.

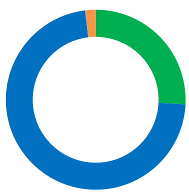
Leicestershire County Council Pension Fund

Voting Report, Q2 2024 (Apr-Jun 2024)

Over the last quarter we voted at **3,623** meetings (**49,872** resolutions). At **2,616** meetings we opposed one or more resolutions. We abstained at **one** meeting. We voted with management by exception at **68** meetings. We supported management on all resolutions at the remaining **1,002** meetings.

Global

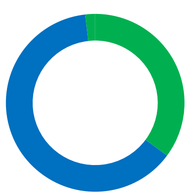
We voted at 3623 meetings (49872 resolutions) over the last quarter.



Meetings in Favour 26%
Meetings Against 72%
Meetings with Management by Exception 2%

Developed Asia

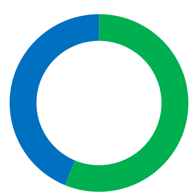
We voted at 780 meetings (8860 resolutions) over the last quarter.



Meetings in Favour 35%
Meetings Against 63%
Meetings with Management by Exception 2%

Australia and New Zealand

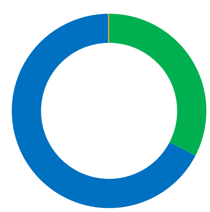
We voted at 16 meetings (119 resolutions) over the last quarter.



Meetings in Favour 56%
Meetings Against 44%

Emerging and Frontier Markets

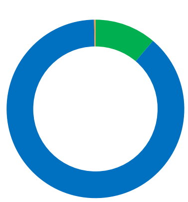
We voted at 1162 meetings (13462 resolutions) over the last quarter.



Meetings in Favour 32%
Meetings Against 67%

Europe Ex-UK

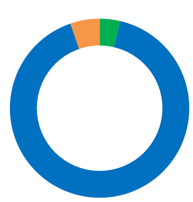
We voted at 520 meetings (10576 resolutions) over the last quarter.



Meetings in Favour 11%
Meetings Against 89%

North America

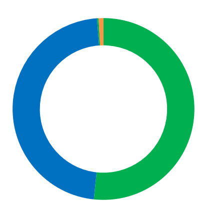
We voted at 793 meetings (10935 resolutions) over the last quarter.



Meetings in Favour 4%
Meetings Against 91%
Meetings with Management by Exception 5%

United Kingdom

We voted at 352 meetings (5920 resolutions) over the last quarter.

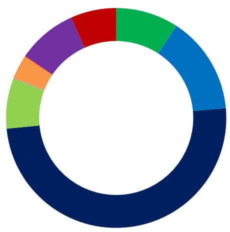


Meetings in Favour 52%
Meetings Against 47%

The Issues on which we voted against management or abstaining on resolutions are shown below.

Global

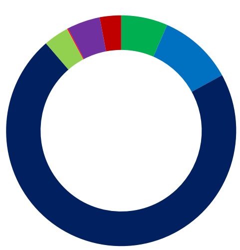
We voted against or abstained on 32344 resolutions over the last quarter.



- Amend Articles 9%
- Audit + Accounts 14%
- Board Structure 50%
- Capital Structure + Dividends 7%
- Other 3%
- Remuneration 9%
- Shareholder Resolution 7%

Developed Asia

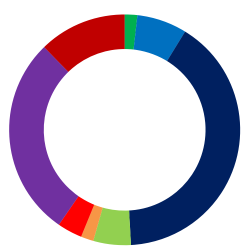
We voted against or abstained on 5103 resolutions over the last quarter.



- Amend Articles 7%
- Audit + Accounts 10%
- Board Structure 72%
- Capital Structure + Dividends 4%
- Remuneration 5%

Australia and New Zealand

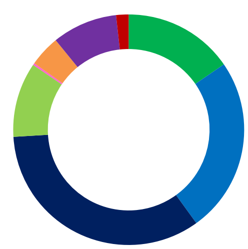
We voted against or abstained on 57 resolutions over the last quarter.



- Board Structure 40%
- Capital Structure + Dividends 5%
- Other 2%
- Poison pill/ Anti-Takeover Device 4%
- Remuneration 28%
- Shareholder Resolution 12%

Emerging and Frontier Markets

We voted against or abstained on 9715 resolutions over the last quarter.



- Amend Articles 15%
- Audit + Accounts 25%
- Board Structure 34%
- Capital Structure + Dividends 10%
- Other 4%
- Remuneration 9%
- Shareholder Resolution 2%

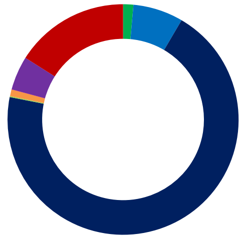
Europe Ex-UK

We voted against or abstained on 7554 resolutions over the last quarter.

- Amend Articles 13%
- Audit + Accounts 11%
- Board Structure 39%
- Capital Structure + Dividends 9%
- Other 7%
- Remuneration 14%
- Shareholder Resolution 7%

North America

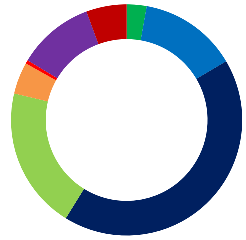
We voted against or abstained on 7330 resolutions over the last quarter.



- Amend Articles 1%
- Audit + Accounts 7%
- Board Structure 70%
- Other 1%
- Remuneration 5%
- Shareholder Resolution 16%

United Kingdom

We voted against or abstained on 2585 resolutions over the last quarter.



- Amend Articles 3%
- Audit + Accounts 14%
- Board Structure 42%
- Capital Structure + Dividends 20%
- Other 4%
- Poison pill/ Anti-Takeover Device 1%
- Remuneration 11%
- Shareholder Resolution 6%

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Leicestershire County Council PENSION FUND

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE LOCAL PENSION BOARD

ANNUAL REPORT 2023/2024

Purpose of the Report

1. The purpose of this report is to present to the Committee the Annual Report of the Local Pension Board for 2023/2024.

Background

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

Annual Report

3. As part of the Fund's Independent Governance Review undertaken in 2020 a recommendation was for the Board to write an Annual Report as best practice. The report provides a summary of the work carried out by the Board, covering the period from April 2023 to March 2024.

4. The Annual Report was approved by the Local Pension Board on 31 July 2024, and will go to the Pension Fund Annual General Meeting on 9 December 2024.

Recommendation

5. The Committee is asked to note the Annual Report for 2023/24.

Equality Implications

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

Human Rights Implications

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

Appendix

Appendix - Pension Board Annual Report

Officers to Contact

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Leicestershire County Council
PENSION
FUND

LOCAL PENSION BOARD ANNUAL REPORT

YEAR ENDED 31 MARCH 2024

Foreword by the Chair of the Local Pension Board

On behalf of the Local Pension Board, I am delighted to be able to present the fifth Annual Report of the Local Pension Board of the Leicestershire Pension Fund. This report covers the period from 1 April 2023 to 31 March 2024, to align with the Fund's Annual Report.

As a defined benefit scheme for our 107,000 members, the Leicestershire Pension Fund pays scheme members a retirement income based on salary and the number of years worked for the employer. The Fund invests contributions made by employers into long term investments, and though the market will always fluctuate, investment performance does not affect members' pensions. As of 31 March 2024, the Fund contained £6.3billion of assets.

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

The Board has over the course of the year received regular updates on the implementation of the McCloud Remedy, which came into force on 1 October 2023 and was, and continues to be, the biggest pension administration challenge for 2023-24.

The Board has no concerns about the Leicestershire Pension Fund or its Administration, though it did raise concerns over the welfare of the pension officers in administering the McCloud remedy and supported an increase in resources for the Pension Section.

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

I would like to place on record the Board's appreciation for the support and transparent advice of the officers.

To keep the Annual Report succinct, it is difficult to reflect the variety of issues we have considered during another busy year. Further information about the Board's work can be found on the website. Despite the continual challenges, I am looking forward to another successful year ahead.

Mrs. R. Page CC

Chairman of the Local Pension Board

Approved: 31 July 2024

What is the Local Pension Board

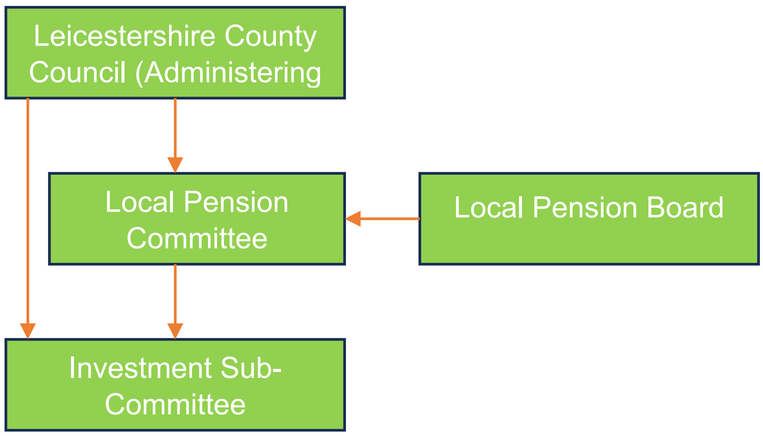
The Local Government Pension Scheme (LGPS) Regulations ("the Regulations") established Leicestershire County Council as the administering authority for the Leicestershire Pension Fund (the 'Fund'), with responsibility for managing and maintaining the Fund.

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

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

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

The structure of the Fund is set out below.



The Local Pension Board is comprised of:

- Three employee representatives and
- Three employer representatives.

The current Members of the Board are as detailed below:

Employer Representatives	Employee Representatives
Mrs. Rosita Page CC - Chairman *Leicestershire County Councillor*	**Mr. Manjit Saroya – Vice Chairman**
Mr. Richard Shepherd CC *Leicestershire County Councillor*	**Mr. Anthony Cross**
Cllr. Elly Cutkelvin *Leicester City Councillor*	**Ms. Ruth Gilbert**

Details of how the Members of the Local Pensions Board are appointed can be found in its **Terms of Reference.**

Member Attendance

The Board has met on four occasions during the year and attendance has been positive with employer and employee representatives freely giving their time and commitment as shown in the table below.

2023/24	REPRESENTING	APRIL	AUGUST	OCTOBER	FEBRUARY	%
Mrs. R. Page	Administering Authority	✓	✓	✓	✓	100%
MR. R. Shepherd	Administering Authority	X	✓	✓	✓	75%
Cllr. V. Riyait (to May 2023)	Leicester City Council	X	\	\	\	100%
Cllr. E. Cutkelvin (from November 2023)	Leicester City Council	\	\	\	✓	100%

Mr. M. Saroya	Employee Representative	✓	X	✓	✓	75%
Mrs C. Fairchild (to December 2023)	Employee Representative	✓	✓	✓	\	100%
Mrs. R. Gilbert	Employee Representative	X	✓	✓	✓	75%
Mr. A. Cross (Reserve Member from December 2022 / Member from December 2023	Employee Representative	✓	\	\	✓	100%
Mr. A. Stewart (Reserve) (from December 2023)	Employee Representative	\	\	\	✓	100%

Highlights

Full details of the Board's work can be found on the Council's website. A summary is provided below.

Pension Fund Administration

The Pensions Manager provided regular reports and gave updates on the main administrative actions, covering governance areas including the administration of the Fund benefits and the performance of the Pensions Section against its performance indicators.

Risk Management and Internal Controls

Throughout the year we continued to review the risk register at each of our meetings.

We continued to monitor employer risks, including outstanding admission agreements and bonds. The highest risk cases tended to be the longest unsigned admission agreements, which mean the staff that have transferred to the new employer are currently not active LGPS members. We noted that 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.

The Board received information on the internal audit arrangements for the Fund and LGPS Central.

Business Plan and Budget

Prior to the Budget and Business Plan's consideration and approval by the Local Pension Committee, the Board scrutinised the report.

We questioned the significant pressure on the Pension Section resultant from upcoming pieces of work over and above business as usual, the most significant including implementing a solution for the national Pensions Dashboards, ongoing implementation of McCloud, implementing the Pensions Regulator's new Code of Practice, and reviewing the Fund's Additional Voluntary Contribution (AVC) provider. The Pension Manager advised that the McCloud Remedy was the biggest cause for concern, resulting in more manual work to resolve cases, and that the management team would continue to monitor the situation.

Pension Fund Annual Report and Accounts 2022/23

The Board's comments were sought on the report in its role in assisting the administering authority in ensuring the effective and efficient governance and administration of the Fund.

Net Zero Climate Strategy

The Board commented on progress against the Fund's Net Zero Climate Strategy targets, with the Fund's high-level primary target of net zero by 2050.

Consultation: Next Steps on Investment

The Board expressed concern about the Government directing LGPS funds on where they should invest, and noted that, if brought in by regulation or Government recommendation, it would require a plan on investing 5% of assets in UK Levelling Up projects. The Board were assured the Fund had already met the requirement.

Looking ahead to 2024/25

The Board will maintain oversight of the Fund and continue to receive regular reports on admin, governance and risk.

It is clear that there are a lot of policies, initiatives and schemes in the pipeline outside of the Fund's control which we will monitor and support implementation of given the impact it may have on already heavy administration pressure. This will involve the Government's Pension Dashboard scheme, the impact of the McCloud Remedy, as well as changes to legislation as and when required.

Issues of Concern

The Board has a responsibility to report any matter that appears to be materially significant.

There were no significant issues of concern raised with, or by the Board, throughout the year. Furthermore, no issues were escalated to the Local Pension Committee.

Training

The Fund adopted a Training Policy in November 2019, and this was subsequently updated and approved in March 2022 by the Committee, and applies to all members of the Local Pension Committee, Local Pension Board and senior officers involved in the management and administration of the Fund. The Training Policy has regard to relevant codes of practice and guidelines issued by the Pensions Regulator, CIPFA, the training needs of the Committee and Board and the Fund's current priorities.

The 2013 Public Service Pension Act requires that members of Local Pension Boards have an appropriate level of knowledge and understanding in order to carry out their role. Any individual appointed to a Local Pension Board must be conversant with:

- The regulations of the Local Government Pension Scheme, including historical regulations and transitional provisions, to the extent that they still affect members;
- Any document recording policy about the administration of the scheme Local Pension Board members must also have knowledge and understanding of the law relating to pensions; and
- Such other matters as may be prescribed in other legislation.

The degree of knowledge and understanding required by Board members is appropriate for the purposes of enabling the individual to properly exercise the functions of the Board. The Leicestershire Pension Fund is committed to supporting Board members to achieve the requisite level of knowledge and understanding through the provision of training in line with its Policy.

Members of the Board complete self-evaluation forms on an annual basis assessing their knowledge in terms of general understanding, funding and pension administration. A personal training plan is then developed for each Member based on the results of these assessments and is supplemented, where appropriate, to cover matters arising over the course of managing the Fund, as part of reports to the Board, and following meetings.

Given there have been several recent changes both within the LGPS, and externally in the broader pension's environment, all Local Pension Board Members are encouraged to complete training provided by the Fund's independent advisor, Hymans Robertson - Aspire Website online module training, as well as other external training as provided by the Scheme Advisory Board, Local Government Association, and LGPS Central.

The attendance log for training undertaken following Board Meetings is as follows:

2023 – 2024		Introduction to LGPS Central Audit and Risk – April 2023	Joint Training LPC/LPB – June 2023	McCloud – August 2023	GMPs, Guarantee Equalisation, Employer Discretion – October 2023
Mrs. R. Page	Administering Authority	✓	✓	✓	✓
Mr. R. Shepherd	Administering Authority	X	✓	✓	✓
Cllr. V. Riyait (to May 2023)	Leicester City Council	X	\	\	\
Cllr. E. Cutkelvin (from November 2023)	Leicester City Council	\	\	\	\
Mr. M. Saroya	Employee Representative	✓	✓	X	✓
Ms. C. Fairchild	Employee Representative	✓	✓	✓	✓
Ms. R. Gilbert	Employee Representative	X	✓	✓	✓
Mr. A. Cross (from December 2023)	Employee Representative Elected 2023 AGM	✓	X	X	X
Mr. A. Stewart (from December 2023 - reserve)	Employee Representative (Reserve) elected 2023 AGM	\	\	\	\

Hymans Aspire Learning Training

The Fund introduced the Hymans Aspire Learning Academy during November 2021, which was updated in June 2023. This was designed to support the training needs of the Pension Committee and Board members, and Fund Officers, and it supplements the Fund's own training plan. It consists of a series of video presentations with supplemental learning material and quizzes. Completion by Committee and Board Members of these training modules from March 2022 to June 2023, and June 2023 to March 2024 is set out below. Previously completed module information was not carried forward and Members were requested to complete the updated modules again given that these now include updated information which they should be aware of.

To June 2023	1 – An introduction to the LGPS	2 – LGPS Governance and Oversight Bodies	3 – Administration & Fund Management	4 – Funding and Actuarial Matters	5 – Investments	6 – Current Issues
Mrs. R. Page CC	P	P	P	P	P	S
Mr. R. Shepherd CC	P	C	C	C	C	S
Cllr. V. Riyait (to May 2023)	S	S	S	S	S	S
Mrs. C. Fairchild	C	C	C	C	C	P
Mrs. R. Gilbert	C	C	S	C	S	S
Mr. Manjit Saroya	C	S	S	P	S	S
Mr. A. Cross (Reserve from January 2023)	C	S	S	S	S	S

2023-2024	1 - Committee Role and Pensions Legislation	2 - Pensions Governance	3 - Pensions Administration	4 - Pensions Accounting and Audit Standards	5 - Procurement and Relationship Management	6 - Investment Performance and Risk Management	7 - Financial Markets and Product Knowledge	8 - Actuarial methods, Standards and Practices	Current Issues
Mrs. R. Page	S	S	S	S	S	S	S	S	S
Mr. R. Shepherd	S	S	S	S	S	S	S	S	S
Cllr. V. Riyait (to May 2023)	\	\	\	\	\	\	\	\	\
Cllr. E. Cutkelvin (from November 2023)	S	S	S	S	S	S	S	S	S
Mr. M. Saroya	C	C	C	C	C	S	S	S	C
Ms. C. Fairchild	S	S	S	S	S	S	S	S	S
Ms. R. Gilbert	S	S	S	S	S	S	S	S	S

Mr. A. Cross (from December 2023)	S	S	S	S	S	S	S	S	S
Mr. A. Stewart (from December 2023 - reserve)	C	C	P	S	S	S	S	S	C

S – Subscribed P – In progress C – Completed

\ = Not a member at the time or not required to undertake the training.

Leicestershire County Council

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

THE PENSION REGULATOR'S CODE OF PRACTICE

Purpose of the Report

1. The purpose of this report is to summarise Fund Officers initial view of compliance against the Pension Regulator's General Code of Practice. There are a number of criteria with which Funds must comply to satisfy the requirements of the Code. This report records the findings from the initial assessment by Fund Officers across all relevant subject areas.

Background

2. In March 2024 The Pensions Regulator (TPR) combined various codes of practice into a single General Code of Practice which is applicable to most public and private occupational pension schemes, including the LGPS. The Code can be found in Appendix A attached to this report.

3. There are elements of the Code which do not apply to the LGPS (the "Value for Scheme Members" section) and not all requirements carry the same weight. Administering Authorities of LGPS funds must however comply with the sections relevant to them.

Initial Assessment

4. For this assessment the Code has been broken down into 15 categories, although there are no requirements for LGPS funds in the "Value for Scheme Members" category.

5. Within each of these categories, there are several different criteria, each with their own requirements. Using a compliance tracker tool, 136 different areas have been identified for assessment. These requirements are classed as either a 'Regulatory Requirement', 'TPR Expectation' or 'Best Practice'.

6. Officers have conducted an initial assessment of the Fund's current compliance against the Code. Initial findings are:

   Fully Compliant Areas: 93
   Partially Compliant Areas: 40
   Non-Compliant Areas: 2
   Areas not applicable: 1

7. Areas identified as partially compliant or non-compliant can be found in Appendix B attached to this report.

8. Some areas of partial compliance are linked and the completion of a single action may result in full compliance in multiple areas, for example, the creation of an Internal Controls Document.

9. Fund Officers are keen to meet the highest level of compliance, and whilst 40 partially compliant areas and two non-compliant areas may appear concerning, some areas identified as partially compliant only require minor adjustments to reach full compliance. For example, updating an element of the Administration and Communication Strategy to include reference to Cash Transfer Sums.

Next Steps

10. Officers will address the requirements where the Fund is not fully compliant. Priority will be given to those classed as Regulatory Requirements.

11. Responsibility has been allocated to Officers in Pensions, Investments and Democratic Services dependant on topic and this is indicated on the tracker (Appendix B).

12. The key areas that need to be addressed are set out below.

Creation of an Internal Controls Document

13. An Internal Controls document stating how controls are implemented will need to be drafted. Whilst these controls are already established, a document that explicitly details these would enable several of the partially compliant areas to become fully compliant.

14. The document would provide clear assurance that the scheme is operating correctly and in accordance with the law. This would include:

- How the scheme is administered
- Details of clear separation of duties in processes
- Details of payment values 'sign-off' levels
- How changes to the scheme are managed
- How frequently the controls are reviewed

15. The document will align with the controls stated in other documents, including the Fund risk register, job profiles, the cyber policy and the Fund Administration and Communication Strategy.

Transfers Guide

16. Pension transfers are included in the 'Information Handling' category of the Code and an update to the existing transfer process notes is required, to link

together separate notes covering different aspects of the process, including requirements linked to McCloud, into one document.

Amendment of the Cyber Policy

17. The Code has highlighted further details that need to be added to the cyber policy to ensure full compliance.

Data Improvement Plan

18. Whilst the Fund has had a Data Improvement Plan since 2017, a refresh is required to attain full compliance. Officers will assess whether a new document would need to be produced or if it could be incorporated into an updated Administration and Communication Strategy.

Breaches of Law Policy

19. Officers will review the current processes relating to how the Fund reports breaches of law and collate these into one document.

Timeline

20. The aim is to complete this exercise and be as fully compliant in as many areas as possible by 31 March 2025. Officers will initially concentrate on the areas classified as a 'Regulatory Requirement' by 31 October 2024 and then focus on the 'TPR Expectation' and 'Best Practice' areas between 1 November 2024 and 31 March 2025, though some areas may overlap.

Audit

21. Officers will share this report with Internal Audit, who will shortly begin an initial audit to confirm the findings detailed in this report. Upon completion of the exercise, a further report may be required to confirm full compliance.

22. A final update will be presented to the Committee after March 2025.

Recommendation

23. It is recommended that the Committee note the report.

Equality Implications

24. There are no Equality implications arising from this report.

Human Rights Implications

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

Appendices

Appendix A: General Code of Practice
Appendix B: Code of Practice Areas Not Fully Compliant

Officers to Contact

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The Pensions Regulator

General code of practice

January 2024

The Pensions Regulator

General code of practice

Presented to Parliament pursuant to Section 91(5) of the Pensions Act 2004. Draft to lie before Parliament for forty days, during which time either House may resolve that the code be not made.

Presented to the Northern Ireland Assembly pursuant to Article 86(5) of the Pensions (Northern Ireland) Order 2005. Draft to lie before the Northern Ireland Assembly for ten days on which the Assembly has sat, or thirty calendar days, whichever period is the longer, during which time the Assembly may resolve that the code be not made.

10 January 2024

Contents

Status of the code of practice

1. This code applies to governing bodies of occupational, personal, and public service pension schemes. Some legal obligations do not apply to all types of governing bodies or schemes.
2. Governing bodies are responsible for complying with their legal duties, even where they have chosen to delegate the task of meeting these to another party, such as an administrator or sub-committee.
3. Governing bodies may wish to take professional advice to establish the extent to which the law applies to them.
4. The code sets out our expectations of the conduct and practice governing bodies should meet to comply with their duties in pensions legislation.
5. We assume users of this code will have a good knowledge of pensions law, and we do not seek to set out in detail all the requirements of the law.
6. Additionally, in many instances, the code is not prescriptive about methods that governing bodies should use to meet our expectations, in recognition that different approaches may be appropriate for different schemes.
7. Governing bodies need to use their judgement as to what is a reasonable and suitable method of ensuring compliance for their scheme.
8. This code of practice is issued by The Pensions Regulator under the powers given to us in section 90 and section 90A of the Pensions Act 2004 and is a combined code in accordance with section 90A(6)(a).

   In this code, references to the law in Great Britain should be read as including references to the law in Northern Ireland where appropriate.
9. The expectations we have set for governing bodies within this code have been developed in light of our statutory objectives, which were introduced by the Pensions Act 2004.
10. Codes of practice are not statements of the law and there is not usually a direct penalty for failing to comply with them. However, they do set out our expectations of how governing bodies should comply with their legal duties.
11. It is not necessary to follow all parts of a code of practice in every circumstance. Any other approach, which is not in the code of practice, will need to meet the underlying legal requirements and a penalty may be imposed if these requirements are not met. See our **Regulatory and enforcement policies** for more details.

12. The absence of reference to any piece of legislation must not be taken to mean that governing bodies do not need to comply with that legislation.

13. When determining whether the legal requirements have been met, a court or tribunal must take any relevant terms of a code of practice into account.

14. If there are grounds to issue an improvement notice, or a compliance notice, we may direct a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by us.

15. Governing bodies should be confident that they have a working knowledge of the pensions law relevant to them. If they do not, we urge them to consider whether they are meeting the requirements for knowledge and understanding, as these apply to them, and to undertake training as appropriate.

16. If governing bodies are, for any reason, unable to act in line with the standards referred to by this code, they should consider if they have a statutory duty under section 70 of the Pensions Act 2004 to assess and report breaches of the law.

The governing body: Board structure and activities

Role of the governing body

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body is responsible for running a scheme. The governing body may be trustees or managers of an occupational pension scheme or, in a public service pension scheme, the scheme manager. Legislation may apply to each governing body differently, depending on the type of scheme they govern.

2. The governance of a public service pension scheme will need to take into account the differing responsibilities of the scheme manager, pension board and, where appropriate, pension committee. Each public service pension scheme should determine who fulfils the role of scheme manager according to their regulations and local arrangements. This code also sets out expectations for pension boards to help them assist the scheme manager. A pension board must have an equal number of employer and member representatives[1].

3. Those responsible for appointing members to the governing body should do so using the principles of proportionality, fairness, and transparency while also considering the mix of skills and experience needed by the governing body. As far as possible, the governing body should be well-balanced and diverse, with its members demonstrating varied skills, knowledge and experience. See also **Recruitment and appointment to the governing body**. The law also requires that members of certain governing bodies are fit and proper to carry out their duties[2].

4. In some cases, legislation may dictate how the governing body is made up, who can be a member and how members are appointed[3,4,5]. The governing body remains accountable for any functions it delegates to third parties. Read more about appointing and managing relationships in **Managing advisers and service providers**.

5. Our expectations for how trustees of trust schemes[6] should act can be found below. They also represent appropriate standards for the governing body of other schemes.

1 Section 5 of the Public Service Pensions Act 2013 [Article 5 of the Public Service Pensions Act (Northern Ireland) 2014]
2 Section 3(1) Pensions Act 1995 [Article 3(1) Pensions (Northern Ireland) Order 1995]
3 Section 29(1) Pensions Act 1995 [Article 29(1) Pensions (Northern Ireland) Order 1995]
4 Section 5(4) of the Public Service Pensions Act 2013 [Article 5(4) of the Public Service Pensions Act (Northern Ireland) 2014]
5 Sections 241 to 243 Pensions Act 2004 [Articles 218 to 220 Pensions (Northern Ireland) Order 2005]
6 Section 3(1) Pensions Act 1995 [Article 3(1) Pensions (Northern Ireland) Order 1995]

6. Expected behaviours and standards:

    a. Act honestly and with integrity, competence, and capability.

    b. Act with financial probity, including in matters outside their role.

    c. Meet their legal obligations and govern their scheme properly and according to scheme rules.

    d. Act in the interest of scheme members and beneficiaries.

    e. Seek to ensure that all scheme members, whether active, deferred, drawing a pension, or in a decumulation phase, benefit from good governance, see **Systems of governance**.

    f. Be open and honest in their dealings with us.

    g. Have or be able to acquire the appropriate levels of knowledge and understanding (see **Knowledge and understanding**) and keep these up to date (see **Governance of knowledge and understanding**).

    h. Identify and, where relevant, challenge others on any potential or actual failure to comply with the scheme rules, regulations, and legislation (see **Managing advisers and service providers**).

    i. Where acting in a professional capacity, members of governing bodies should be financially sound and not be experiencing severe trading difficulties.

    j. Those acting as professional trustees should comply with our professional trustee standards and guidance, and professional codes of conduct and trustee accreditation, such as those published by the APPT and PMI.

Glossary

Active member
An employee qualifies for benefits that continue to accrue as a member of the employer's benefits scheme.

Decumulation
The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

Deferred member
A person with benefits preserved in the scheme.

Pensioner member
A person who is receiving pension payments or other benefits for their pensionable service under the scheme or through transferring into it.

Pension board
The board set up as required by section 5 of the Public Service Pensions Act 2013, to assist the scheme manager with matters set out in that section.

Scheme manager
The person responsible for managing or administering:

- the scheme, and
- any statutory pension scheme that is connected with it

(See section 4 of the Public Service Pensions Act 2013).

Recruitment and appointment to the governing body

1. Trustees and scheme managers should have processes in place to exercise any powers they have in recruiting and appointing members to the governing body. This also applies to public service scheme pension boards. Please also see **Arrangements for member-nominated trustee appointments**.

2. Many schemes will have governing bodies where appointments are made by the sponsoring employer or in accordance with scheme-specific legislation. In these cases, the governing body, or pension board, should seek to inform those making the appointment of the expectations and any legislative requirements placed on members of the governing body.

3. The governing body may wish to consider good practice approaches to make sure its recruitment practices are inclusive. It is important to regularly review the governing body's membership to ensure a diverse spread of members with varied technical skills and experience.

4. Our expectations for appointing service providers and advisers can be found in **Managing advisers and service providers**.

5. Processes for appointing members to the governing body should have the following features:

    a. Be clear who is responsible for the recruitment, selection, and appointment process.

    b. Include any input required from other parties.

    c. Identify gaps in skills and competencies across the governing body and how these can be addressed within a defined timescale.

    d. Have a succession plan in place to maintain the skills and competencies needed by the governing body to operate properly.

    e. Document the principles for determining any remuneration of members of the governing body (see **Remuneration and fee policy**).

    f. Document processes to deal with temporary and extended absenteeism for members of the governing body.

    g. Have a resignation and removal policy which provides clarity on who can remove a member of the governing body, under what circumstances and the steps for doing so.

    h. Follow any scheme rule or regulation requiring representation[1] of certain bodies or groups and have a process to ensure this is maintained.

    i. Include a procedure for appointing a chair (see **Appointment and role of the chair**).

1 Section 5 of the Public Service Pension Act 2013 and [section 241 and 242 of Pensions Act 2004]

6. When recruiting members to the governing body of a relevant multi-employer scheme, further requirements will apply. The governing body of a relevant multi-employer scheme[2] must:

   a. follow specific rules on representation and independence of the trustees , including restrictions on how long a trustee can remain in post as a non-affiliated trustee

   b. have at least three trustees, or where there is a sole corporate trustee that isn't a professional trustee body (a professional trustee body is treated as one trustee), that trustee must have at least three directors

   c. appoint non-affiliated trustees in an open and transparent way

   d. have a process in place to encourage scheme members, or their representatives, to speak up about matters that affect them

2 Section 1(2) The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 1 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

Arrangements for member-nominated trustee appointments

1. Some governing bodies must establish and implement arrangements that enable at least one-third of their trustees to be member-nominated trustees (MNTs). However, there are many exemptions to this. Trustees should consider seeking legal advice where they believe an exemption may apply and record any conclusion reached[1,2,3].

2. The cost and nature of MNT arrangements should be in proportion to the circumstances of the scheme. The arrangements should also include nomination and selection processes that are fair and transparent for all scheme members. Treating members fairly does not, however, mean that all categories of members need to be treated the same.

3. It is good practice to consider how MNT arrangements can be designed to support applications and nominations representing the diversity of the scheme's population – to encourage a wider and more representative pool of prospective candidates.

4. The governing body should have MNT arrangements in place within six months of a scheme's start date. However, this period may vary according to the scheme's size, structure, and circumstances.

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1 Sections 241(8) and 242(10) of the Pensions Act 2004 [Articles 218(8) and 219(10) Pensions (Northern Ireland) Order 2005]

2 Regulations 2 and 3 The Occupational Pensions Schemes (Member-nominated trustees and directors) Regulations 2006 [Regulations 2 and 3 The Occupational Pensions Schemes (Member-nominated trustees and directors) Regulations (Northern Ireland) 2006]

3 Among the exemptions are schemes where all the trustees or directors are independent, as defined in section 23 of the Pensions Act 1995 [Article 23 of the Pensions (Northern Ireland) Order 1995]

Expectations for member-nominated trustee arrangements

5. The governing body should follow the law and its scheme's governing documents when establishing MNT arrangements. The governing body should document how its arrangements comply with these requirements. They may also wish to record the reasons for any decisions made while establishing the processes.

6. Arrangements for the nomination of prospective MNTs:

   a. must include a process for active and pensioner members, or any organisation that adequately represents these groups, to nominate potential candidates for MNT positions.

   b. may include a process for deferred members to nominate potential candidates for MNT positions.

   c. should include the eligibility criteria for prospective nominees, considering any legislation that prohibits certain individuals from being trustees. Read more in **Recruitment and appointment to the governing body**.

   d. must ensure that a nominee who is not a member of the scheme has the employer's approval to qualify for selection, where this is required by the employer[4].

   e. Should, following discussions with the employer as to whether nominees who are not members of the scheme will be eligible to be candidates, set out the eligibility of nominees who are not members of the scheme for nomination and selection.

7. Arrangements for the selection process:

   a. must include arrangements to determine who to appoint as trustee when there are more nominations than vacancies.

   b. may provide that if there are fewer nominations than vacancies, the governing body may still run a selection process if they consider it appropriate.

   c. must include some, or all, of the scheme members, although the chosen methods of selection may vary according to the circumstances of the scheme.

4 Sections 241(5)(c) and 242(5)(c) The Pensions Act 2004 [Articles 218(5)(c) and 219(5)(c) Pensions (Northern Ireland) Order 2005]

8. The nomination and selection process should take place within six months of an MNT vacancy arising. Reasonable periods for completing the nomination and selection process will vary according to the scheme's size, structure, and circumstances.

9. If there are still unfilled MNT vacancies after the selection process, the governing body must repeat the selection process at reasonable intervals – this should be no more than three years from the end of an unsuccessful nomination process.

10. If there has been a material change to the scheme's circumstances and/or membership (for example, a bulk transfer in of new members or a significant number of redundancies), a nomination and selection process should be done sooner.

11. Where there are sustained difficulties in recruiting MNTs which are affecting the quality of governance, the governing body may wish to consider appointing a professional trustee, subject to the scheme's governing documentation.

Role of MNTs and reviewing arrangements

12. MNTs have no additional responsibilities compared to any other trustee. The governing body must not exclude MNTs from the exercise of any trustee functions solely because they are an MNT. More information about our expectations for appointing MNTs can be found in the modules: **Recruitment and appointment to the governing body**, **Knowledge and understanding** and **Governance of knowledge and understanding**.

13. The governing body should document and review the scheme's MNT arrangements at least every five years. For schemes with larger memberships, or those with more categories, a review every three years is more appropriate. Earlier reviews should also be considered if there is a material change to the scheme's circumstances and/or membership.

Communicating with scheme members

14. Our expectations for governing bodies communicating to scheme members at each stage of the MNT process are detailed in paragraphs 15 to 17. The governing body should use their established means of communicating with members (see also **General principles for member communications**) and provide enough time for them to consider their nominations.

15. The nomination stage communication should include:

    a. the number of MNTs the scheme needs to have and the current number of vacancies

    b. an explanation of the role and what we expect of trustees

    c. details of training that will be provided

    d. any eligibility criteria

    e. how to make a nomination and any time limits that apply

    f. details of the selection process and what would happen if not enough nominations are received

    g. a contact for queries

16. The selection stage communication should include:

    a. the outcome of the nomination stage

    b. details for members involved in the selection stage of their next steps

    c. the selection method

17. The outcome communication should include:

    a. an explanation of the process and details of any appointments that were made as a result of this

    b. where not enough nominations were received to fill all vacancies, confirmation of when the process will be repeated

Glossary

Corporate trustee
A company that acts as a trustee for a scheme and, in some cases, may be the sole trustee.

Member-nominated trustee (MNT)
Trustees who are nominated because of a process involving all active and pensioner members of a scheme or an organisation that adequately represents these groups, and that are then selected by a process involving some, or all, of the scheme members. MNTs should be taken to include ‘member-nominated directors’ (MNDs) of corporate trustees.

Appointment and role of the chair

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body of an occupational pension scheme, and any committee, need to appoint a chair as good practice. The governing body of a relevant scheme[1] must appoint someone as chair, and for certain schemes, the role of chair will form part of its effective system of governance. See also **Systems of governance**.
2. The role of chair is an important one, and the appointment should be carried out within a robust and documented process. The members of the governing body remain responsible for running the scheme and are equally responsible for any decisions taken.
3. Where it exists, the legal duty to appoint a chair typically falls on the governing body, although the chair may be appointed by an employer. The governing body should review its scheme's rules and other relevant scheme documents, which in the case of a corporate trustee, will include that company's articles of association or constitution in order to check whether there is a scheme-defined process for appointing a chair.

Specific requirements for relevant schemes

4. The identity of the person appointed as chair must comply with the provisions of regulation 22 of the Scheme Administration Regulations[2]. The chair has the extra responsibility of signing the annual chair's statement[3]. See **Chair's statement**.
5. A chair of trustees must be appointed within three months of a scheme being established or within three months of an existing chair resigning or being removed[4]. Trustee boards should treat the timescale permitted by law as a maximum and appoint a chair as quickly as possible. The governing body must inform us of the name of the chair[5].

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1 Regulation 1 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 1 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
2 Regulation 22(2) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 22(2) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
3 Regulation 23(1)(e) Occupational Pension Schemes (Scheme Administration) Regulations 1996[Regulation 23(1)(e) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
4 Regulation 22 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 22 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
5 Regulation 3(1)(da) Register of Occupational and Personal Pension Schemes Regulations 2005 [Regulation 3(1)(a) Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005]

Expectations of a chair

6. We do not expect a higher standard of knowledge from the chair. As a matter of good practice, the chair needs to be able to demonstrate the skills and behaviours outlined below:

   a. Act as the leader of the governing body and demonstrate the standards of behaviour expected from other members of the board.

   b. Represent the interests of the scheme to all relevant parties, including employers, advisers, service providers, and members.

   c. Have an independent viewpoint when necessary and be able to manage potential conflicts (see **Conflicts of interest**).

   d. Be able to recognise each individual trustee's potential, and ensure their knowledge and skills are used effectively (see **Knowledge and understanding**).

   e. Encourage members of the governing body to think strategically and take the broad, long-term view.

   f. Help achieve compromise and consensus between differing parties to achieve good member outcomes.

   g. Encourage participation from all members of the governing body, including new members.

   h. Be able to demonstrate elements of the following skills:
      - Communication with the governing body and its stakeholders.
      - Organising teaching, and training (sourcing if not delivering). See **Governance of knowledge and understanding**.
      - Debating, challenging, and negotiating.
      - Ability to gather and understand diverse views.
      - Managing conflicts of interest.

Glossary

Articles of association
The written rules about running the company agreed by the shareholders or guarantors, directors, and the company secretary.

Relevant schemes
Schemes defined by Regulation 1(2) of the Occupational Pensions Schemes (Scheme Administration Regulations) 1996.

Meetings and decision-making

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body should spend an appropriate amount of time running its scheme. In most cases, the governing body will need to meet at least quarterly.
2. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004, scheme managers of public service pension schemes are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[3] and with the requirements of the law.
4. Arrangements for meetings and decision-making for councils acting as local government pension scheme authorities are set out in the Local Government Act 1972 and Local Government and Housing Act 1989 and apply to each council as appropriate.
5. The governing body must include the following in their written meeting records[4,5]:
    a. The date, time, and place of the meeting.
    b. The names of all in attendance, including professional advisers or any other person present.
    c. The names of those invited to the meeting but who did not attend.
    d. Any decisions made at the meeting, including the names of those who took part in them.
    e. Any decisions made outside a meeting since the previous meeting, or taken by a committee/sub-committee, including the time, place, and date of the decision, and the names of the members of the governing body who participated in the decision.
    f. Decisions relating to the winding-up of the scheme[6].

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 As defined in Section 318(2) Pensions Act 2004
4 Section 49 Pensions Act 1995 [Article 49 Pensions (Northern Ireland) Order 1995]; Regulations 12 and 13 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulations 12 and 13 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
5 Regulation 6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]
6 Section 49A Pensions Act 1995[Article 49 Pensions (Northern Ireland) Order 1995]; the Occupational Pension Schemes (Winding Up Notices and Reports etc) Regulations 2002 [the Occupational Pension Schemes (Winding Up Notices and Reports etc) Regulations (Northern Ireland 2002]

6. When planning and running meetings, governing bodies should:

Meeting processes and procedures

a. Understand and adhere to any prescribed governance processes in the scheme rules and legislation.

b. Set the frequency of meetings for the governing body.

c. Agree the basis of attendance (for example, in person or online) and the circumstances where this might change.

d. Establish the circumstances, including legislative restrictions[7], where and how extraordinary meetings may be called.

e. Consider the complexity and urgency of any issues affecting the scheme to determine the length of the meeting.

f. Ensure that postponed meetings are rescheduled.

g. Set expectations for governing body members to prepare for meetings, and actions needed in between them.

h. Agree who has responsibility for setting the agenda and who else is consulted in its development.

i. Agree standing agenda items, for example, **Risk register** and **Conflicts of interest** items, and administration tasks.

j. Establish how many members of the governing body need to attend for any meeting to be considered quorate.

k. Consider the extent to which the governing body can influence or direct other parties (such as sponsoring employers) in decisions that may have material consequences for the scheme or the business supporting it.

Decision-making

l. Ensure that decisions are made according to scheme rules and regulations, and any sub-committees' terms of reference.

m. Keep records about any decisions taken by members of the governing body, including related advice or information received, and any conflicts of interest declared.

n. Establish appropriate retention periods for records of decisions made.

o. Consider publishing information about their activity (see **General principles for member communications**), for example, through regular member communications, including information that has been requested, to encourage scheme member engagement and promote a culture of transparency.

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7 Section 32 Pensions Act 1995 [Article 32 Pensions (Northern Ireland) Order 1995]; Regulations 9 and 10 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulations 9 and 10 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme (Section 249A of the Pensions Act 2004).

Quorate
The necessary representation of members of the governing body to make a decision.

Scheme rules
The rules and associated documentation that set out how a given scheme is to operate.

Remuneration and fee policy

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module is for those schemes with more than 100 members that are required to operate an effective system of governance, see **Systems of governance**. There are some exceptions[1]. Other schemes may wish to adopt these principles as good practice.
2. A remuneration policy sets out the basis and means for paying those undertaking activities in relation to the scheme that are paid for by the governing body.
3. Relevant governing bodies should establish a remuneration policy and keep a written record of it. This policy should:
    a. be in proportion to the size, scale, nature, and complexity of scheme activities
    b. support the sound, prudent, and effective management of the scheme
    c. be aligned with the scheme's long-term interests and help assess the value of the remunerated services
    d. set out the principles for determining pay and the decision-making process for payment levels
    e. cover all persons or corporate bodies including service providers, who effectively run the scheme, those who carry out key functions, or whose activities materially impact the scheme's risk profile
    f. include measures to mitigate potential conflicts of interest and focus on 'in-house' roles, such as trustees, trustee secretary, administrators, and subcommittees
    g. be reviewed at least every three years, but in most cases, it will be appropriate to do so annually, or immediately following any significant changes to the scheme's governance arrangements
    h. include an explanation of the decision-making process for the levels of remuneration, and why these are considered appropriate

Glossary

Risk profile
Includes consideration of the scheme's membership demographics, funding, asset allocation, and sponsor covenant (where applicable).

1 Section 249A (3) Pensions Act 2004 [Article 226A (3) Pensions (Northern Ireland) Order 2005]

The governing body: Knowledge and understanding requirements

Knowledge and understanding

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. All governing bodies should maintain a list of items the members of the governing body should be familiar with. The list should be available in an accessible format and reviewed regularly. The governing body should regularly carry out an audit of skills and experience and review its members' experience to identify gaps and imbalances, which will help inform training and recruitment needs. Our expectations for learning and development are set out in **Governance of knowledge and understanding**.
2. Our expectations of knowledge and understanding apply equally to any individual who exercises any trustee function within a company acting as trustee of the scheme[1].
3. Within public service schemes the requirements for knowledge and understanding fall on pension board members[2]. It is good practice for the scheme managers, or their delegates, to achieve at least basic competence.
4. Professional trustees, and those appointed because of their specialist expertise, should be able to demonstrate a greater level of knowledge than members without such expertise. In addition to the matters listed below, and as good practice, professional trustees should be able to demonstrate progress towards, completion of, or compliance with, a relevant standard for professional trustees or a recognised appropriate qualification.
5. Our expectations in relation to learning and maintaining knowledge can be found in **Governance of knowledge and understanding**.

1 Section 247 and 248 Pensions Act 2004
2 Section 248A Pensions Act 2004

Specific expectations for trustees of occupational pension schemes

6. Trustees must[3] be familiar with:

    a. the trust deed and rules of the scheme

    b. any statement of investment principles

    c. in relation to a scheme providing defined benefits (DB), any statement of funding principles

    d. any other policy relating to the administration of the scheme generally

7. Trustees must also have knowledge and understanding, at a level that is sufficient to enable them to properly exercise their role, of:

    a. the law relating to pensions and trusts

    b. the principles of funding pension schemes

    c. investing assets of pension schemes

General expectations for all relevant governing bodies

8. Anyone who has a requirement for knowledge and understanding should have a working knowledge of the items listed in 9 to 15 below. The lists are not exhaustive, and some elements of them will not be relevant to certain schemes; governing bodies and pension boards should tailor this list to the circumstances of their own scheme.

3 Section 247 Pensions Act 2004

9. Pensions law and associated legislation:

    a. The roles, responsibilities, and duties of the governing body.

    b. The governing body's liabilities and potential liability for decisions made.

    c. The law relating to pensions and trusts.

    d. The definition and nature of a pension trust (if applicable).

    e. The separation of the scheme's assets (if applicable) from any sponsoring employer.

    f. Fiduciary duties and safeguarding the financial interests of all beneficiaries.

    g. The responsibility to act prudently and according to the scheme rules.

    h. Other legislation that might affect the scheme and the governing body, for example:

        - anti-discrimination
        - data protection

    i. Our codes of practice as they apply to the scheme.

    j. Proposals for legislative change.

    k. Tax treatment of pension schemes.

    l. Main features of the state pension provision.

    m. Key elements of **automatic enrolment legislation**.

10. The scheme:
    a. Trust deed, rules, and any amendments (if applicable).
    b. Scheme regulations and statutory guidance (public service schemes only).
    c. The governing body's powers and discretions.
    d. The benefit structure, including the pension or decumulation options available to members.
    e. The balance of powers between the governing body and the employer.
    f. Any written policies and procedures relating to:
       - internal dispute resolution
       - the appointment of members of the governing body
    g. Statements of policy about the exercise of discretionary functions.
    h. How policies, practices, and scheme rules are reviewed and amended.
    i. Terms of reference, structure, and operational policies of any sub-committees of the governing body.
    j. Any admission body policies (public service schemes only).
    k. Any categories of membership of the scheme.
    l. The annual chair's statement (certain defined contribution (DC) schemes). See **Chair's statement**.
    m. The scheme's remuneration policy (where applicable).
11. Scheme funding and investments:
    a. **Statement of investment principles** (if applicable).
    b. Statement of funding principles (if applicable).
    c. Any policies the governing body has adopted about stewardship of investments, environmental, social and governance matters and climate change. See **Stewardship** and **Climate change**.
    d. The choice of investments, if any, offered to members, and any **default arrangement**.
    e. The contribution rate(s) or amount(s) payable by employers participating in the scheme.
    f. The contribution rate(s) or amount(s) payable by scheme members participating in the scheme.
    g. The impact of investment charges and fees. See also **Value for members**.
    h. The key features and processes of investment management.

12. Principles of investment (excluding LGPS):

    a. How investments can affect scheme member outcomes.

    b. Awareness of diversity and inclusion on investment decisions, such as if scheme investments are aligned with member's responsible investment preferences or religious beliefs.

    c. Custody arrangements, including monitoring and record keeping.

    d. The operation of financial markets.

    e. The major asset classes and their characteristics.

    f. Characteristics of alternative asset classes, financial instruments, and investment techniques.

    g. The implications of overseas investment, including foreign exchange risk and political risk.

    h. The nature of financial risk, including:
       - risk/reward profile of each major asset class
       - basic principles of matching assets to liabilities (DB)
       - basic principles of matching assets to pension expectations (DC)
       - managing risk by diversifying assets.

    i. The investment strategy adopted by the governing body.

13. Risk management:

    a. The risk register.

    b. The schemes' **own risk assessment**, where applicable.

    c. Risk assessment framework and risk management policies for the scheme.

    d. Any policies and procedures, including documentation relating to:
       - **Conflicts of interest**
       - **Reporting breaches**
       - **Maintaining scheme contributions**
       - Gifts and hospitality

    e. The governing body's cyber security policies (see **Cyber controls**).

14. Scheme administration and service providers:

    a. The need to obtain professional advice in certain circumstances.

    b. The pension administration strategy or equivalent documents, setting, for example, details of performance targets.

    c. The law and our expectations in relation to financial transactions (see **Financial transactions**).

    d. Whether the scheme is being used for automatic enrolment.

    e. The roles and responsibilities of appointed advisers and service providers.

    f. Any policies and procedures, including documentation relating to:

       – **Record-keeping**

       – **Cleaning and maintaining data**

       – collection of data

15. Scheme communications:

    a. Any scheme-approved booklets, announcements, and other key communications to scheme members and employers.

    b. Statements of policy about communications with scheme members and employers. See **General principles for member communications**.

    c. Policies relating to the public provision of information and information given on request.

    d. Where applicable, procedures for dealing with freedom of information requests.

Glossary

Accessibility
Making sure that communications and online services can be used and understood by as many people as possible. This includes those with impaired vision or hearing, motor difficulties, cognitive impairments and learning disabilities. The government has produced helpful guidance on this: **https://www.gov.uk/government/publications/inclusive-communication/accessible-communication-formats**

Beneficiary
A person who benefits from a trust; the member, spouse, or children, for example.

Custody arrangement
An arrangement where a third party holds assets on behalf of someone else (a pension scheme, for example). The custodian may carry out certain reconciliation and transaction activities.

Decumulation
The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

Employer covenant
The extent of the employer's legal obligation and financial ability to support the pension scheme now and in the future.

Money laundering
The concealment of the origins of illegally obtained money.

Passive management
Passive management (also called passive investing) is an investing strategy that tracks a market-weighted index or portfolio rather than making decisions about specific stocks or assets to hold.

Pension Protection Fund
A statutory fund in the United Kingdom, intended to provide limited protection to DB scheme members if their pension scheme winds up without sufficient funds to pay all the benefits.

Professional trustee
A person whose business includes trusteeship. Someone will normally be considered a professional trustee if they have represented themselves to one or more unrelated schemes as having expertise in trustee matters generally (rather than just in certain areas). See **https://www.thepensionsregulator.gov.uk/en/trustees/professional-pension-trustee-standards**

Recovery plan
A plan put in place to enable a DB scheme to return to being fully funded on a statutory basis.

Scheme rules
The rules and associated documentation setting out how a given scheme is to operate.

Working knowledge
Sufficient knowledge of the items, so that they can be used effectively when required to do so.

Governance of knowledge and understanding

> This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module applies to schemes required to maintain an effective system of governance[1], (see **Systems of governance**), and to the pension boards of public service pension schemes.

2. It is important that the governing body, or pension board, can demonstrate that, as a group, they possess the skills, knowledge, and experience[2] to run the scheme effectively.

3. The governing body should:

   a. have a balance of skills and experience throughout the board and be able to demonstrate this

   b. be able to apply its knowledge to governing the scheme

   c. have enough skills to judge and question advice or services provided by a third party

   d. be able to identify and address skills gaps

   e. have enough understanding of industry good practice and standards to assess scheme performance and its service providers. See **Managing advisers and service providers**.

   f. keep records of the learning activities of individual members and the body as a whole

   g. be able to demonstrate steps it has taken to comply with the law

   h. have and maintain training and development plans to ensure that individual and collective knowledge and understanding is kept relevant and up to date. See **Knowledge and understanding**.

4. Members of a governing body should be aware that their responsibilities and duties begin from the date they take up their post.

1 Section 249A Pensions Act 2004 [Articles 226A of The Pensions (Northern Ireland) Order 2005]
2 Sections 247-248 Pensions Act 2004

5. Members of governing bodies required to have knowledge and understanding should invest enough time in their learning and development, alongside their other responsibilities and duties. Governing bodies should provide the necessary training and support. Trustees of occupational pension schemes have the right to time off to perform their duties as a trustee of their employer's scheme and for trustee training[3].

6. Learning programmes should be flexible, allowing those taking them to update areas of learning and to acquire new knowledge. Members of governing bodies who take on new responsibilities will need to ensure they gain relevant knowledge and understanding.

7. As a matter of good practice members of governing bodies can work towards completing our trustee toolkit (or public service toolkit for members of pension boards of public service schemes) or equivalent learning programme.

8. To enable governing bodies to ensure their knowledge and understanding is established and maintained, members of a governing body should:

    a. be able to demonstrate the basic level of **knowledge and understanding** needed to run their scheme within six months[4] of their appointment[5].

    b. start on a programme of learning immediately on appointment, if not before, in conjunction with a scheme-specific induction programme, if one is provided

    c. undertake advanced scheme-specific learning once a good understanding of the scheme has been obtained

    d. consider how they are meeting our expectations of **knowledge and understanding**.

    e. review their own knowledge and understanding and identify any gaps at least annually, particularly in relation to changes in legislation or their scheme

    f. keep records of any review of knowledge and understanding and steps taken to address any gaps

    g. keep records of any alternative or further learning activity (for example, reading, attending conferences, sessions with the scheme advisers)

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3 See section 58 of the Employment Rights Act 1996 [Article 86 The Employment Rights (Northern Ireland) Order 1996]

4 This does not apply to professional trustees, or those appointed to the governing body in a professional capacity, or for their specialist expertise. Those individuals should be able to demonstrate the relevant competency from the day of appointment.

5 Sections 247 and 248 of The Pensions Act 2004 [Articles 224 and 225 of The Pensions (Northern Ireland) Order 2005]

The governing body: Value for scheme members

Value for members

1. Unless exempt[1], governing bodies of trust-based occupational pension schemes providing defined contribution (DC) benefits must, at least annually:

    a. calculate the charges, and as far as they can, the transaction costs borne by members' funds

    b. assess the extent to which the charges and costs borne by members represent good value for members[2] (VFM)

    c. explain their assessment of VFM in the annual chair's statement[3] and publish the explanation on a publicly accessible website. See also **Chair's statement**.

2. Hybrid schemes should consider VFM for their DC benefits alone, separately to any defined benefits they provide.

3. Schemes with assets under £100m that have been operating for at least three years must carry out a more detailed value for members assessment at every scheme year end after 31 December 2021. The governing bodies of these schemes must follow the **statutory guidance on VFM assessments**.

4. Paragraphs 5 and 7 below describe how governing bodies not subject to the more detailed VFM assessment should assess, determine, and manage VFM.

5. In assessing VFM, governing bodies should:

    a. Engage early with relevant parties, such as investment managers, administrators, and scheme advisers, and establish the lead in time required to provide information about charges and costs.

    b. Record any problems faced in obtaining the necessary information and the steps taken to resolve them.

    c. Document the evidence used to arrive at conclusions.

1 Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]. See the definition of 'relevant scheme' for the exemptions.

2 Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Regulation 23(1)(c) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1)(c) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

6. In determining VFM governing bodies should:

    a. Make efforts to understand the characteristics of their members in a way that is proportionate to the scale, size, and resources of their scheme.

    b. Consider characteristics such as scheme member demographics and, where possible, their salary profile.

    c. Consider all available evidence when exercising judgement about what represents VFM. Remembering that VFM does not necessarily equate to 'low cost'.

    d. Where direct member feedback is limited, consider what other methods can be used to assess VFM.

    e. Consider using publicly available industry research reports to compare their scheme to similar ones.

    f. Where the costs of a service are shared between members and employers (for example, through a rebate arrangement, or a proportional contribution from the employer, as opposed to a distinct division of cost) take into account all elements of services provided when carrying out their assessment and set out the basis of cost sharing in their explanation of the VFM assessment in the chair's statement.

7. Where governing bodies have identified areas of poor VFM, they may wish to consider the following actions:

    a. Document the issues identified, as well as the steps needed to improve VFM in those areas.

    b. Where it is not possible to improve VFM, document the reasons for this.

    c. Where they are unable to resolve matters leading to poor VFM, consider whether winding the scheme up is an appropriate action.

    d. Where the power to trigger winding up sits with the sponsoring employer, engaging with the employer regarding whether to wind up the scheme.

    e. Record the outcome of this consideration and review it at agreed intervals whilst poor value persists.

The governing body: Advisers and service providers

Managing advisers and service providers

> This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies of schemes with 100 or more members[1] that are required to maintain an effective **system of governance** should follow the processes set out in paragraphs 6 to 9 below for selecting, appointing, managing, and replacing professional advisers and service providers. Other schemes may wish to consider them as good practice.
2. The governing body often appoints professional advisers and service providers to its scheme. In some cases[2], the governing body is required to make these appointments. Advisers and service providers may be appointed to carry out specific tasks such as administration. They also provide advice and supplement the skills and knowledge of the governing body.
3. Where the governing body appoints advisers and service providers, it retains ultimate accountability. The governing body should be able to demonstrate that it can manage commercial relationships. The principles below apply equally to in-house and third-party appointments.
4. When appointing service providers, governing bodies of certain defined contribution schemes must disregard any requirements of the trust deed or scheme rules which prescribe or restrict the choice of any adviser or service provider to the scheme[3].
5. The policies described below regarding outsourcing should:
   a. only take effect after they have been approved by the governing body, and
   b. be reviewed at least once every three years.

1 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order 2005]
2 Section 47 Pensions Act 1995 [Article 47 Pensions (Northern Ireland) Order 1995]
3 Regulation 6A Occupational Pension Schemes (Scheme Administration) Regulations 1996

6. In selecting advisers and service providers, governing bodies should:

   a. Establish agreed and documented policies for making appointments to the scheme. These should be reviewed at least every three years, and before commencing any procurement or appointment process.

   b. Consider running a tender process when appointing advisers and service providers, and commit enough time and resources.

   c. Carefully consider any proposed degree of delegation, as well as the experience and skill set of the chosen service provider.

   d. Be familiar with and understand the impact of the terms and conditions of contracts with service providers (See our **Scheme management skills guidance**).

   e. Review relevant independent frameworks, such as ISO certification or accreditation frameworks for specialist functions like administration.

   f. Assess service providers and carry out due diligence as part of the appointment process.

   g. Clearly set out the roles and responsibilities of service providers and advisers.

7. When appointing advisers and service providers, governing bodies should:

   a. agree appropriate delegations and procedures for referral

   b. agree performance indicators on appointment and secure accountability within the service provider

   c. include a process for managing advisers, recording decisions taken as well as escalation points

   d. ensure the flow of communication with the service provider or adviser, so all parties have the necessary information to make key decisions and to fulfil their assigned roles

   e. take steps to identify and manage conflicts of interest. See **Conflicts of interest**.

   f. understand the implications of data protection legislation[4] for any information that will be shared with or handled by service providers

4 Data Protection Act 2018 and UK GDPR

8. When managing advisers and service providers, governing bodies should:

   a. seek to ensure that advisers make you aware of any relevant obligations, professional conduct rules and whistleblowing requirements that they may be obliged to follow

   b. ensure service providers are able to demonstrate that they are fulfilling the requirements of any legal obligation that has been delegated to them

   c. ensure service providers are able to demonstrate that they have adequate internal controls relating to the services they provide. See **Internal controls** and **Assurance reports on internal controls**.

   d. regularly assess performance against agreed key performance indicators (KPIs) and service level agreements (SLAs). Record outcomes and ensure all actions are allocated for remedy with progress tracked

   e. review the performance of advisers and service providers against the objectives set for them, including strategic objectives. See our **objective setting guidance**.

   f. Periodically review the market for relevant service providers and consider if the scheme continues to receive quality service and value for money. This may be part of any value for members assessment run by the scheme.

   g. Have enough knowledge and understanding to enable them to fully understand any advice or information they receive.

   h. Understand how any advice or information they receive affects decisions or activities that they are legally responsible for.

   i. Have a process to ensure that improvements are made where poor service is identified.

   j. Work with service providers to understand and secure any necessary resources to deal with forthcoming legislative or scheme changes.

   k. Have clear documented procedures in place, to allow a continuous and consistent service if the service provider changes or fails. See **Scheme continuity planning**.

9. There may be circumstances where it is necessary for the governing body to replace an adviser or service provider. This may include cases where service has been consistently poor or no longer demonstrates good value; or where a contract is not or cannot be renewed. In such circumstances, it would be appropriate for the governing body to act to ensure that there is no member detriment from their actions. In replacing advisers and service providers, governing bodies should:

    a. Consider the interests of the scheme members when replacing the adviser or service provider.

    b. Understand the impact of the terms and conditions of contracts, including any fees or penalties, and procedures for releasing relevant information to the governing body and new advisers.

    c. Understand the risks associated with transitioning to a new provider and put plans in place to mitigate them.

    d. Plan effectively for the transition to a new adviser or service provider, setting out the key steps, actions, decisions, owners, and timescales, including how costs will be met.

Glossary

Advisers
In the context of the code of practice, advisers is a broad-reaching term and may refer to one or more of the following: actuary, benefit consultant, lawyer, independent financial adviser, investment consultant, insurance broker, professional trustee, investment manager, fiduciary manager.

Key performance indicator
A quantifiable measure which can be used to evaluate success.

Service level agreements
An agreement between a service provider and governing body setting contractually binding service levels that are to be met by the service provider in providing the service.

Service providers
Any person or body providing services to a pension scheme, including advisers. Examples include insurer, administrator, accountant, and auditor.

The governing body: Risk management

Identifying, evaluating and recording risks

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5] and with the requirements of the law.
3. Before designing internal controls, the governing body should identify risks, record them, and regularly review and evaluate them. The evaluation of risks will help the governing body determine which risks require internal controls to be put in place to reduce their incidence and impact (see **Internal controls**).

1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Article 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

Identifying risks

4. The range of risks will vary from scheme to scheme and may include matters such as investment, employer covenant, funding, administration, communications, fraud, and pension payment, or decumulation options.

5. The governing body should identify risks including:

   a. scheme investments, including asset-liability management (if applicable). See **Investment governance**.

   b. those affecting operational resilience, including where those risks belong to service providers. See **Scheme continuity planning**.

   c. insurances, compensation funds, and other risk-mitigation techniques

   d. environmental, social, and governance risks (if applicable). See **Stewardship** and **Climate change**.

   e. scheme funding and the strength of the employer covenant (if applicable)

   f. the risk of fraud

   g. failure to comply with the law and/or scheme rules

   h. poor record-keeping, poor administration, and IT and database failures

   i. cyber security risks. See **Cyber controls**.

   j. governance and decision making, or existing controls are not operating to the standard required by pensions legislation

   k. actual or potential conflicts of interest (the module on **conflicts of interest** sets out the actions that governing bodies should take in relation to these matters)

Evaluating risks

6. The governing body should evaluate all the risks faced by their scheme to determine the key risks. They should then set acceptable parameters for each key risk with key indicators.

7. In evaluating risks, the governing body should:

   a. set scheme objectives (for example, to provide pensions benefits)

   b. refer to documents the governing body is required to be familiar with. See **Knowledge and understanding**.

   c. consider relevant sources of information, such as records of internal disputes and breaches of law consider the various functions and activities carried out in the running of the scheme

   d. evaluate the likelihood and impact of the risks occurring

   e. evaluate the likelihood and impact of separate risks coinciding and the interdependencies between such risks

   f. be prepared to monitor, challenge, and review their risk evaluation process and outputs

8. In recording and updating risk records, the governing body should:

   a. record the risks identified and ensure that they are reviewed regularly (including identifying new risks, such as significant changes affecting the scheme, employers, and members)

   b. record the key risks in a risk register and keep that up to date

   c. maintain contingency plans for actions to be taken if risks materialise. See **Scheme continuity planning**.

   d. record and implement plans with target dates for mitigating risks

   e. carry out ‘after action reviews’ and incorporate any lessons learnt

9. In allocating roles and responsibilities, the governing body should:

   a. have processes that establish ownership and a responsible party for monitoring risk and issues between meetings of the governing body (particularly if the action is the responsibility of a third party)

   b. receive information from relevant parties (for example administrator, investment manager) at least quarterly to enable the risk register to be updated

   c. be able to recognise when professional advice is required.

Glossary

Asset liability management

The ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities, to achieve financial objectives for a given set of risk tolerances and constraints.

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

Sponsoring employer

The employer, or employers, responsible for making payments to a pension scheme (see our **Statement on identifying your statutory employer**).

Internal controls

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls. However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

2. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5] and with the requirements of the law.

3. The legal obligations, in certain areas such as scheme funding and scheme investment, are different for public service pension schemes[6]. However, as far as these matters are either set out in the scheme rules[7] or in the requirements of the law, scheme managers of public service pension schemes must establish and operate adequate internal controls in relation to them.

4. Internal controls refer to all the following:

    - the arrangements and procedures to be followed in the administration and management of the scheme
    - the systems and arrangements for monitoring that administration and management, and
    - arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

5. Before designing internal controls, the governing body should identify risks, record them, review them regularly, and evaluate them. See **Identifying, evaluating and recording risks**. The evaluation of risks will help the governing body to determine which risks require internal controls to be put in place to reduce their incidence and impact.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Article 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions [Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions [Northern Ireland) Order 2005]
6 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
7 As defined in section 318(2) Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

6. The governing body should design internal controls which ensure that the scheme is administered and managed in accordance with the requirements of the law and the scheme rules. The scheme's internal controls should also:

    a. include a clear separation of duties for those performing them, and processes for escalation and decision-making

    b. require the exercise of judgement, where appropriate, in assessing the risk profile of the scheme and in designing appropriate controls.

7. The governing body should then make sure that their internal controls are documented.

8. A scheme's internal controls should be reviewed:

    a. in line with the timescales for **own risk assessments** for the governing body, who are required to carry out such assessments, see own risk assessment

    b. at least annually for governing bodies of public service pension schemes

9. However, the review of controls can be staggered if they address different areas of a scheme's operations or governance.

10. In addition, reviews should also be carried out when:

    a. substantial changes to the scheme take place. These include changes to pension scheme personnel, service providers, scheme advisors, or administration and other IT systems

    b. a control is not working to the standard required by the law.

11. A persistent failure to put internal controls in place could be a cause of an administrative breach. If this failure is likely to be of material significance to us in carrying out any of our functions, the governing body should submit a breach of law report. See also **Decision to report**.

12. The governing body should be aware that an internal controls framework is not infallible and will not eliminate error or fraud from pension schemes. At any stage in a process where judgement is involved, the possibility of error remains. Similarly, a failure to understand how or why a particular control is operating or, more seriously, collusion to circumvent a control, is a risk that cannot be entirely removed.

13. It is not necessary, nor possible, to eliminate all risks from a pension scheme. For example, some investment risks may be accepted by the governing body in their desire to seek greater returns.

14. The governing body should decide what internal controls are appropriate to mitigate the key risks they have identified and how best to monitor them. They should exercise judgement, both in assessing the scheme risk profile and in designing appropriate controls to mitigate such key risks.

15. The legal responsibility for internal controls always rests with the governing body, even if functions or activities are delegated to advisers or service providers. See also **Managing advisers and service providers**.

16. The rest of our expectations for internal controls can be found in paragraphs 17 and 18 below.

17. When designing internal controls, governing bodies should consider:

    a. how the control will be implemented and the skills of the person performing the control

    b. the level of reliance that can be placed on information technology processes (whether fully automated or not) and the testing of such processes

    c. whether a control can prevent future recurrence or merely detect an event that has already happened

    d. the frequency and timeliness of a control process

    e. how the control will ensure secure data management

    f. processes for identifying errors or control failures

    g. what would be appropriate approval and authorisation controls

    h. whether professional advice is needed when designing internal controls

18. To maintain internal controls governing bodies should:

    a. regularly consider the performance of internal controls in mitigating risks, and where appropriate, achieving long-term strategic aims

    b. consider obtaining independent or third-party assurance about controls. See **Assurance reports on internal controls**.

    c. obtain assurance that service providers are meeting their own standards for internal controls. See **Managing advisers and service providers**.

Glossary

Public service pension scheme
Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

Sponsoring employer
The employer, or employers, responsible for making payments to a pension scheme (see our **Statement on identifying your statutory employer**).

Assurance reports on internal controls

1. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

2. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5] and with the requirements of the law.

3. Assurance reporting is the process through which the different processes, procedures, and the operations of an entity are analysed. The governing body may consider using assurance reports to assess whether the scheme or a service provider meets the relevant legislative requirements on internal controls.

4. Assurance reporting may be carried out by resources that the governing body has available in-house or by a participating employer(s). Service providers may be able to provide assurance reporting on their own internal controls. It is also possible for the governing body or service providers to commission assurance reporting from independent third parties.

5. There are various assurance frameworks that may be suitable for use for aspects of pension scheme operations. We set out some examples of assurance reporting the governing body may choose to use below.

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A(3) of The Pensions (Northern Ireland) Order 2005]
3 Articles 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

Statutory audit

6. The governing body of most occupational pension schemes will be familiar with the annual statutory audit[6] (see **Audit requirements**). But the governing body should not rely solely on the output of the audit as a means of assurance reporting. It provides assurance about a limited number of financial elements, but it does not for example, communicate that benefits are being paid correctly.

7. Under certain circumstances, the statutory auditor may be prepared and able to carry out an audit with a wider scope. However, this may be limited by their profession's ethical guidelines. For example, a statutory auditor cannot hold the office of 'internal auditor'.

Internal audit

8. Some governing bodies may have access to internal auditors within a participating employer, or within the scheme, who could provide scrutiny to a similar level as an independent external assessment.

9. The scope and nature of internal audit work can be tailored to meet the requirements of the governing body. This type of audit may include financial and non-financial processes and controls. If selecting a suitable internal auditor, the governing body should consider:

    a. the candidate's independence

    b. any actual or potential conflicts of interest (see **Conflicts of interest**)

    c. the candidate's knowledge of the subject

    Note: Not all internal auditors within a sponsoring employer will have sufficient pensions knowledge to perform an adequate assessment of all scheme operations.

Assurance reporting by service providers

10. Some service providers may be able to supply assurance reports about their own operations. The governing body should read and understand assurance reports provided by service providers to establish if the controls used by the organisations that they outsource various functions to are adequate. This will also include assurance reports produced by the scheme's investment manager and custodian.

11. The governing body should satisfy themselves of the scope of such reports and the degree to which these are applicable. For example, whether the reports cover the specific team or office providing services to the scheme.

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6 Section 47(1)(a) of the Pensions Act 1995 with exemptions in Regulation 3 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) [Exemption in Regulation 3 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No. 94 N.I.)]

Assurance reporting commissioned by the governing body

12. The governing body may, from time to time, decide to commission assurance reports for some aspect of scheme operation. Before commissioning or relying on any assurance report, the governing body should understand the limits of each type of assurance, the limits to the scope of any assurance process, and how any assurance might play a part in the scheme's internal controls framework.

13. For each assurance report, the governing body should:

    a. consider the process for appointing service providers. See **Managing advisers and service providers**.

    b. understand the scope, methodology and supporting evidence used as the basis for the assurance report

    c. recognise the control objectives that have been included, excluded, or modified in any assessment, and how the scope is relevant to the scheme

    d. understand the level of interrogation that has been carried out in assessing the scheme, for example if a site visit was carried out

    e. identify and act upon any issues or concerns they consider to be material

Scheme continuity planning

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

2. Scheme managers of public service pension schemes[3] do not have the same obligations in pensions legislation. This is therefore not part of our expectations on them, but it is good practice for them to consider carrying out continuity planning in the same way.

3. Governing bodies should develop and implement continuity plans to ensure that their scheme operations can be maintained, in the event of a disruption to scheme activities. Additional resources on continuity planning are available online (The UK national standards body, BSI, maintains various resources for **business continuity under ISO 22301**).

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)
3 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

4. Governing bodies should:

   a. seek to ensure that the performance of scheme activities are continuous and regular

   b. have a resilient business continuity plan (BCP) that sets out key actions, in case of a range of events occurring that impact the scheme's operations

   c. make sure key areas of scheme activities, including member data and general scheme administration, are included in the BCP

   d. ensure advisers and service providers also have a BCP in place to maintain services to the scheme

   e. choose how to rely on reports and information about their service providers' BCP arrangements

   f. set out roles and responsibilities within the plan, and agree these with service providers

   g. regularly review process documents and maps, particularly after a system or process change and periodically test the BCP arrangements

   h. prioritise scheme activities in the event of the BCP being triggered, for example: receiving and monitoring contributions, pension payments, retirement processing, bereavement services, and minimising the risk of pension scams

   i. ensure continued access to resources, services, and communications with key parties

   j. have an awareness of the timeframes required to bring new resources on board

   k. understand what contingency is in place to mitigate any under resource due to, for example, increase in work volumes or the loss of staff

   l. identify any events which may reasonably occur that may require additional resources

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

Conflicts of interest

> This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Conflicts of interest may arise from time to time while running a pension scheme, either among members of the governing body themselves, or with service providers, sponsoring employers, advisers, and others. Conflicts can also arise for members of the governing body who for example, are members of the scheme or who represent trade unions. Conflicts of interest may be either actual conflicts or potential conflicts. Unless otherwise stated, references to 'conflicts of interest' include both actual and potential conflicts.

2. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

3. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5] and with the requirements of the law. To the extent that conflicts of interest are:

    a. within that section: scheme managers should take that into consideration in identifying and evaluating risks (see **Identifying, evaluating and recording risks**). Our expectations of scheme managers for identifying and recording conflicts of interest are in paragraphs 6 to 8. The specific expectations that apply will vary from scheme to scheme.

    b. not within that section: what is set out below does not form part of our expectations of scheme managers, but it is good practice for them to adopt those measures.

4. There are also additional requirements for the management of conflicts of interest in relation to pension boards of public service pension schemes (see paragraphs 22 to 24).

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Article 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in section 318(2) of the Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

5. When identifying and evaluating risks (see **Identifying, evaluating and recording risks**), governing bodies should consider conflicts of interest. A conflict of interest may arise when a member of the governing body:

   a. is obliged to act in the best interests of the members; and

   b. at the same time has or may have either:
      - a separate personal interest or
      - another fiduciary duty or other duty owed to a different person in relation to that decision, giving rise to a possible conflict with the obligation to act in the best interests of the members[6].

Identifying and recording conflicts

6. It is possible that members of governing bodies will have other interests and responsibilities. They therefore need to understand when actual or potential conflicts arise.

7. Certain legal and professional requirements and legislation that apply to English local authorities, set standards for conduct, conflicts of interest, and disclosure of certain interests. These may apply to members of governing bodies, advisers, and service providers.

8. When identifying and recording conflicts of interest, governing bodies should:

   a. have a clear understanding of the importance of managing conflicts of interest and the circumstances in which they may arise

   b. understand any requirements of the scheme's governing documentation, or regulations under which it may operate, in relation to conflicts of interest

   c. encourage a culture of openness and transparency in relation to conflicts of interest.

   d. maintain a written policy for managing actual and perceived conflicts of interests and consider where to publish it on the scheme's website

   e. maintain a register of interests, which should be considered in every meeting of the governing body

   f. ensure all members of the governing body, advisers, and service providers make declarations of interests and conflicts at their appointment, and as they arise

   g. ensure contracts and terms of appointment require advisers and service providers to operate their own conflicts policy, and disclose all conflicts to the governing body

   h. record conflicts of interest in relation to a decision-making process, as well as the action taken to manage them, in the written records of the meeting (see **Meetings and decision-making**)

   i. if carrying out transactions with related parties, ensure transparency by complying with **financial reporting standard (FRS) 102 – related party disclosures**

6 Such conflicts of interest may affect not only trustees but also directors, agents, professional advisers and others

Dealing with conflicts

9. Governing bodies should have processes in place to ensure that their decision-making is not compromised by actual or potential conflicts. The processes required to manage the conflict will need to take into account the particular circumstances of the conflict, the actual, and potential risks the conflict poses, and the rules (and legislation where applicable) governing the scheme.

10. Members of governing bodies who are also directors of the sponsoring employer(s) will need to consider the requirements of section 175 of the Companies Act 2006 (duty to avoid conflicts of interest). The governing body should adopt control procedures (see **Internal controls**) to manage conflicts and mitigate the risks of tainted decision making. The governing body should therefore assess the nature of the conflict being managed and the risk or threat to decision-making[7].

11. Different options for dealing with conflicts of interest are set out below. The effectiveness, validity, and attendant risks will vary depending on the option. Some conflicts of interest may be so acute or pervasive that it would be better to avoid them entirely – for example, an acutely conflicted member of the governing body could resign.

12. In cases where resignation is deemed appropriate, careful consideration needs to be given to the identity of any replacement member of the governing body and the conflicts that they may face. Governing bodies should consider seeking independent legal advice, to help decide whether an actual or potential conflict of interest can be eliminated (and if so, the best way of achieving it).

13. Where conflicts of interest are not eliminated, depending on the situation, the options below either singly, combined, or with other appropriate options should be put in place to manage the conflict. Governing bodies should consider seeking independent legal advice to help decide the best approach to manage an actual or potential conflict of interest.

Withdrawal from discussions and the decision-making process

14. A member of a governing body who is conflicted should consider withdrawing from decision(s) and decision-making process(es). The governing body should consider whether the presence of a conflicted individual could undermine discussions, invalidate, influence, or be perceived to influence a decision. A conflicted individual who simply abstains may still unduly influence an outcome.

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7 Governing bodies should also seriously consider seeking legal advice if they are in any doubt whether a conflict is non-trivial or whether it could have the potential to be detrimental to the conduct or decisions taken by them

Establishing a sub-committee

15. Delegation to a sub-committee can help ensure that decisions are made by an independent group whose views will not be compromised by another conflicted member of the governing body.

16. Governing bodies should consider seeking legal advice, if considering delegating certain tasks to a sub-committee(s). This is because there are many scheme-specific and legal factors which need to be considered. This will include whether delegation is possible or desirable, and the extent to which the full governing body is bound by the decisions of the sub-committee.

Appointing an independent to the governing body

17. An independent member of the governing body, such as a professional independent trustee or otherwise, can help ensure that decisions are not prejudiced by a conflict of interest.

Confidentiality agreement and disclosure of information

18. Confidentiality agreements are documents under which members of governing bodies agree not to share with third parties the information they receive in order to carry out their role. Such agreements therefore:

    a. facilitate the sharing of confidential and sensitive information with governing bodies and help to ensure that the information will not become public

    b. provide extra comfort to sponsoring employer(s) in relation to disclosing information to governing bodies

19. Confidentiality agreements do not necessarily eliminate the conflict and there may still be a need to manage it. Governing bodies considering the use of a confidentiality agreement will need to seek independent legal advice.

20. Legislation[8] requires sponsoring employer(s) and former sponsoring employer(s) of certain schemes to disclose to the trustees or managers:

    a. on request, information reasonably required by the trustees or managers or the professional adviser(s)[9] to perform their duties (the duty to disclose also extends to those who act as auditor(s) and actuary(s) to such sponsoring employer(s)).

    b. Within one month, any event relating to the employer(s) that could be reasonably be considered to be of material significance in the exercise of any of the functions of the trustees, or managers, or their professional advisers.

8 Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland) 1997]

9 As defined in Section 47(4) of the Pensions Act 1995 [Article 47(4) of The Pensions (Northern Ireland) Order 1995]

Application to the courts

21. If one or more members of the governing body of a trust scheme have serious conflicts, which cannot be satisfactorily managed or avoided (or if there is no agreement on how to manage or avoid the conflict), the governing body can apply to the courts for approval of a decision, or to surrender their discretion to the courts.

Public service pension schemes – pension boards

22. Under section 5 of the Public Service Pensions Act 2013, scheme managers of public service pension schemes[10] have to meet certain requirements relating to conflicts of interest regarding the pension board. In this situation, a conflict of interest is a financial or other interest, which is likely to prejudice the way in which someone carries out their role as a member of the pension board. It does not include a financial or other interest arising merely from them being a member of the scheme or any connected scheme.

23. The scheme manager must:

    a. be satisfied that a prospective member of the pension board does not have a conflict of interest

    b. remain satisfied that none of the members of the pension board has a conflict of interest

24. The scheme manager should:

    a. circulate the register of interests and the other relevant documents to the pension board for ongoing review

    b. publish these documents (for example, on a scheme's website)

10 As defined in section 1 of the Public Service Pensions Act 2013

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Pensions board

Board set up as required by section 5 of the Public Service Pensions Act 2013 to assist the scheme manager with the matters set out in that section.

Scheme manager

The person responsible for managing or administering:

- the scheme, and
- any statutory pension scheme that is connected with it (See section 4 of the Public Service Pensions Act 2013).

Sponsoring employer

The employer, or employers, responsible for making payments to a pension scheme (see our **Statement on identifying your statutory employer**).

Own risk assessment

1. If a scheme required to operate an effective system of governance (ESOG) (see **Systems of governance**) has 100 members or more, the governing body must carry out and document an own risk assessment (ORA) as part of the ESOG. The ORA is an assessment of how well the ESOG is working, and the way potential risks (see **Internal controls**) are managed. Governing bodies of other schemes may carry out an ORA as an example of good practice.

2. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

3. We may consider failure to complete an ORA as an indicator of poor governance.

4. The governing body should prepare and document its first ORA before the end of the period described in Regulation 3(8)(i) of The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. Unless specified otherwise in law or code, each element covered by the ORA should be assessed according to a timetable established by the governing body. It is not necessary for all elements forming an ORA to be assessed at the same time, but the ORA should be completed at least every three years.

5. New assessments should also be carried out where elements of the ESOG, or risk management processes, are new or updated and whenever there is a material change in the ESOG or risks facing the scheme.

6. The governing body may need to expand its existing risk assessments (see **Identifying, evaluating and recording risks**) to fulfil our expectations for the ORA. Many governing bodies will already undertake aspects of the ORA and will not need to duplicate this work. The ORA may therefore be a collation or index of other relevant documents recording these assessments. Where services or functions are outsourced, governing bodies may choose to incorporate assurance reporting supplied by service providers into their ORA.

7. The ORA does not need to document the steps taken to mitigate identified risks. However, the governing body should still ensure that it maintains appropriate records of mitigations as part of its ordinary risk management processes (see **Internal controls**).

8. As the ORA will identify the key governance risks facing the scheme, the governing body should incorporate the findings into its management and decision-making processes. The findings may be used to adjust or create new processes or procedures. They may also highlight areas of work that the governing body needs to carry out, and to prioritise these activities.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

Expectations for the own risk assessment

9. The governing body should carry out an ORA that is in proportion to the size, nature, and complexity of the scheme. The ORA may be carried out by a sub-committee of the governing body, the risk management function, or a third party. Those carrying out the ORA should effectively manage any actual or potential **conflicts of interest** between themselves, the governing body, employers, and service providers.

10. The governing body should:

    a. ensure the ORA is in writing

    b. provide the ORA documentation to all members of the governing body

    c. consider what information to provide to members about the findings of the ORA

    d. make sure the chair (see **Appointment and role of the chair**) of the governing body signs off the ORA

11. The governing body should record:

    a. the date on which the ORA was prepared or revised

    b. the date on which the ORA will next be prepared or revised

    c. details of any interim reviews or updates that the governing body has carried out, or plans to carry out

12. The ORA documentation should cover:

    a. how the governing body has assessed the effectiveness of each of the policies and procedures covered by the ORA

    b. whether the governing body considers the operation of the policies and procedures to be effective and why

13. The ORA should include consideration of the effectiveness of, and risks arising from each element listed in paragraphs 14 to 19 below.

14. Policies for the governing body:

    a. How the governing body is integrating risk assessment and mitigation into its management and decision-making processes.

    b. The operation of policies relating to the **role of the governing body**, **knowledge and understanding** and **governance of knowledge and understanding**.

15. Risk management policies:
    a. The operation of policies to identify and assess risks facing the scheme (see **Identifying, evaluating and recording risks**).
    b. The internal control policies and procedures for the scheme (see **Internal controls** and **Assurance reports on internal controls**).
    c. Management of potential internal conflicts of interest, and those with participating employers and service providers (see **Conflicts of interest**).
    d. The prevention of conflicts of interest where the employer and governing body use the same service provider.
    e. Continuity planning for the scheme (see **Scheme continuity planning**) and, where applicable, how it has performed.
16. Investment:
    a. The scheme's investment governance processes (see **Investment governance**).
    b. How investment performance is reviewed and monitored (see **Investment monitoring**).
    c. How the governing body assesses investment risks relating to climate change, the use of resources and the environment (see **Climate change**).
    d. How the governing body assesses social risks to the scheme's investments (see **Stewardship**).
    e. How the governing body considers the potential for depreciation of assets arising from regulatory or societal change (see **Stewardship**).
    f. How the governing body assesses the protection mechanisms available to the scheme, including how these might apply and the risks of them not functioning as intended.
    g. How the governing body ensures the security of assets and their liquidity when they are required (see **Investment decision-making**).
    h. How the governing body assesses the protection of member benefits in the event of the insolvency of a sponsoring or participating employer, or a decision to discontinue the scheme.
17. Additional investment matters for defined benefit schemes:
    a. How the governing body assesses the scheme's funding needs with reference to its recovery plan.
    b. How the governing body assesses the specific risks relating to the indexation of benefits provided by the scheme.

18. Administration:

    a. How the governing body assesses the risks associated with the scheme's administration (see **Planning and maintaining administration**), with particular reference to financial transactions (see **Financial transactions**), scheme records (see **Record-keeping**) and receiving contributions (see **Receiving contributions**).

    b. Action the governing body takes to manage overdue contributions (see **Monitoring contributions**), considering the degree to which they represent material amounts or delays.

    c. Risks posed by legal and regulatory change and court decisions.

19. Payment of benefits, where applicable:

    a. How the governing body assesses operational risks, focusing on the risk to members and beneficiaries relating to record-keeping and benefit payments.

    b. The governing body's management of risks relating to circumstances where accrued pension benefits may be reduced, under which conditions and by whom.

    c. The governing body's management of the risk of member benefits being reduced or altered, including the insolvency of a sponsoring or participating employer, or closure of the scheme.

    d. Scams and the risk of members making poor choices (see **Scams**).

Glossary

Protection mechanisms

The mechanisms protecting retirement benefits, including as applicable, guarantees, covenants or any other type of financial support by the employer, insurance or reinsurance, or coverage by a pension protection scheme.

Risk management function

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2] . The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme[3].
2. Trustees of schemes with 100 members or more[4] that are required to operate an effective system of governance should have in place a risk management function.
3. The risk management function should be proportionate to the size, nature, scale, and complexity of the activities of the scheme. In practice, the degree of separation between the risk management function and the governing body will be influenced by the size and internal organisation of the scheme and participating employer(s).

1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

4 Section 249A Pensions Act 2004 and Regulations 3(1)(3)(a)(5),(6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (SI 2018/1103)[Article 226A of The Pensions (Northern Ireland) Order 2005 and Regulations 3(1)(3)(a),(5),(6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations (Northern Ireland) 2018 (SR 2018 No. 214 N.I.)]

4. The risk management function should:
   a. be structured in such a way as to facilitate the functioning of a risk management system for which the governing body should adopt the strategies, processes, and reporting procedures necessary to:
      – **identify, evaluate, and record risks** and
      – **monitor and manage risks**
   b. regularly review the key risks, at an individual and aggregated level, to which the scheme is or could be exposed, and the interdependencies of such risks
   c. where members and beneficiaries bear risks, also consider those risks from the perspectives of members and beneficiaries
   d. report to the governing body in a timely manner on the risks identified in relation to the expectations set out above in this paragraph
5. The written policies regarding the operation of the risk management function should:
   a. only take effect after they have been approved by the governing body, and
   b. be reviewed at least once every three years
6. The person(s) performing the risk management function may also carry out any other key function[5] of the scheme or be involved with the scheme in any other role.
7. The risk management function is in addition to the requirements on governing bodies to prepare an own risk assessment.

Glossary

Beneficiary
A person who is in receipt of benefits from the scheme and is also a survivor or dependant of a deceased scheme member.

5 Regulation 3(3) of the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 [Regulation 3(3) of The Occupational Pension Schemes (Governance) (Amendment) Regulations (Northern Ireland) 2018]

The governing body: Scheme governance

Systems of governance

1. All pension schemes need to have systems of governance and internal controls that:

    a. provide the governing body with oversight of the day-to-day operations of the scheme

    b. include any delegated activities for which the governing body remains accountable

    c. provide the governing body with assurances that their scheme is operating correctly and in accordance with the law

2. The standards of governance required by law depend on the type of scheme the governing body operates.

3. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

4. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for securing that the scheme is administered and managed in accordance with the scheme rules[5] and with the requirements of the law.

5. A system of governance will include anything that can reasonably be considered part of the operation of a pension scheme. **Internal controls** are a key feature of any system of governance and are:

    a. the arrangements and procedures to be followed in the administration and management of the scheme

    b. the systems and arrangements for monitoring the administration and management, and

    c. the arrangements and procedures to be followed for the safe custody and security of the scheme assets[6]

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Article 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]
6 Section 249A(5) of the Pensions Act 2004 [Article 226A(5) of The Pensions (Northern Ireland) Order 2005]

6. We have broadly the same expectations for each type of scheme (subject to the different legal requirements of s.249A and B). However, the standard required to meet those expectations frequently differs according to scheme type and size.

7. Where an expectation is different or applies differently in law for a specific type of scheme, this is made clear in this code. Where an expectation does not apply to a scheme because the law doesn't apply, the governing body may wish to consider whether the principles should be adopted as good practice.

8. The systems and controls put in place by a scheme should be in proportion to its size, nature, scale, and complexity. This proportionality is a feature of legislation for some schemes[7].

Effective system of governance

9. An effective system of governance should include processes and procedures to ensure compliance with the modules listed below.

10. Some of the modules only contain expectations for an effective system of governance (ESOG), and some contain expectations for ESOG and separate legal obligations. Expectations in respect of those legal obligations should be followed as part of ESOG as well as for wider legal compliance.

11. Where a module identifies a matter as good practice, this does not need to form part of the ESOG.

12. The expectations set out are subject to some exceptions for certain schemes, which are detailed in each module.

13. Management of activities:

    a. **Role of the governing body**

    b. **Meetings and decision-making**

    c. **Remuneration and fee policy**

    d. **Knowledge and understanding**

    e. **Governance of knowledge and understanding**

    f. **Dispute resolution procedures**

    g. **Scheme continuity planning**

7 Section 249A(1A) of the Pensions Act 2004 [Article 226A(1A) of The Pensions (Northern Ireland) Order 2005]

14. Organisational structure:
    a. **Appointment and role of the chair**
    b. **Conflicts of interest**
    c. **Managing advisers and service providers**
    d. **Risk management function**
15. Investment matters:
    a. **Investment governance**
    b. **Investment decision-making**
    c. **Investment monitoring**
    d. **Stewardship**
    e. **Climate change**
    f. **Statement of investment principles**
16. Communications and disclosure:
    a. **General principles for member communications**

Internal review

17. Governing bodies should ensure that the elements of their ESOG are subject to a regular internal review. This should assess whether each element is functioning as intended, and whether changes are required.
18. Unless specified otherwise in law or code, each element of an ESOG should be reviewed according to a timetable established by the governing body. This review may be carried out as part of an own risk assessment if the governing body is required to do one of these. Otherwise, each element of the ESOG should be reviewed at least every three years. It is not necessary for all elements of an ESOG to be reviewed at the same time.
19. The governing body should establish and maintain policies for the review of each element of the ESOG. These policies should be established before any review is carried out and reviewed at least every three years.
20. An ESOG should have a process that ensures that any necessary changes are made to the ESOG or review policies.
21. Some options for formal internal audit and external assurance reporting are discussed in **Assurance reports on internal controls**, where this is considered necessary.

Own risk assessment

22. Governing bodies of schemes required to have an ESOG that have 100[8] or more members should carry out and document an **own risk assessment** of their ESOG. This should assess how well the ESOG is working, and the way potential risks (see **Internal controls**) are managed.

Internal controls

23. The modules set out below contain systems, arrangements, or procedures that governing bodies should have in place to comply with the requirements for internal controls. They also apply to schemes required to maintain an ESOG. The expectations set out are subject to some exceptions or limitations in scope for certain schemes, which are detailed in each module.

24. Internal controls:

    a. **Identifying, evaluating and recording risks**

    b. **Internal controls**

25. Administration and management:

    a. **Financial transactions**

    b. **Record-keeping**

    c. **Data monitoring and improvement**

    d. **Receiving contributions**

    e. **Monitoring contributions**

    f. **Maintenance of IT systems**

8 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order 2005]

Funding and investment: Investment

Investment governance

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. The term ‘investment governance’ refers to the policies and procedures that ensure a governing body complies with any obligations it has in relation to investment.
2. A governing body’s powers and responsibilities regarding investment will be scheme specific, and so its governance arrangements must also be relevant and tailored to the scheme. See **Investment decision-making**.
3. The scheme managers of Local Government Pension Schemes do not have the same obligations in pensions legislation, but it is good practice for them to approach investment governance in the same way.
4. Governing bodies of most defined contribution (DC) and defined benefit (DB) schemes must:
   a. have a good working knowledge of investment matters relating to their scheme[1]
   b. understand the investment powers and duties they have under the scheme trust deed, rules and legislation[2] (see **Knowledge and understanding**)
   c. appoint an investment manager to manage scheme investments[3] (see **Managing advisers and service providers**)
   d. obtain and consider advice from a suitably qualified person before making investment decisions[4] (see **Managing advisers and service providers**)
   e. produce a statement of investment principles (SIP), which covers their policies relating to the scheme’s investments, unless exempt[5] (see **Statement of investment principles**)
5. Governing bodies of schemes that are required to produce a SIP, must produce an annual implementation statement as part of their annual report and accounts. See **Stewardship**.
6. The governing bodies of most DC schemes must produce a SIP for their default arrangement(s) if they have them, which is subject to different requirements. See **Statement of investment principles**.

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1 Sections 247 and 248 of the Pensions Act 2004 [Articles 224 and 225 of the Pensions (Northern Ireland) Order 2005]
2 Sections 247 and 248 of the Pensions Act 2004 [Articles 224 and 225 of the Pensions (Northern Ireland) Order 2005]
3 Section 47 of the Pensions Act 1995 [Article 47 of the Pensions (Northern Ireland) Order 1995]
4 Section 36 of the Pensions Act 1995 [Article 36 of the Pensions (Northern Ireland) Order 1995]
5 Regulation 6 Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 6 Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

7. Under section 249A of the Pensions Act 2004[6], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[7]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

8. We expect that governing bodies required to operate an effective system of governance and that have investment responsibilities will have the measures set out in paragraphs 9 to 11 in place.

9. The governing body should:

    a. clearly document the objectives, roles, responsibilities, and reporting relationships of all parties involved in making investment decisions

    b. ensure that investment decisions are taken by those with the necessary skills, knowledge, information, and resources

    c. obtain advice and other inputs required to properly govern the scheme's investments (including considering what advice may be needed)

    d. ensure the governance structure relating to the assessment of investment risks and how investment decisions are made is reviewed regularly and is appropriate for the scheme's circumstances and level of complexity

    e. delegate investment decisions where appropriate for the scheme's circumstances and level of complexity. This may include delegating to an investment sub-committee or a qualified investment manager.

    f. have appropriate oversight of any bodies with delegated responsibilities, with clearly written terms of reference and/or contractual arrangements

    g. have written policies covering the use of advisers, including when to use advisers. These policies should consider the specific circumstances of the scheme, such as the investment knowledge and experience available to the governing body and the relevant legal requirements

    h. have sufficient expertise to evaluate and challenge the advice they receive from advisers and service providers (see **Managing advisers and service providers** and **Knowledge and understanding**)

    i. ensure investment policies take account of potential long-term effects on scheme investments (see also **Stewardship**)

    j. have procedures in place to regularly monitor the performance of scheme investments (see **Investment monitoring**)

    k. regularly monitor the performance of investment managers and advisers and consider their performance formally at least every three years, acting upon any issues identified (see **Managing advisers and service providers**)

6 Article 226A of The Pensions (Northern Ireland) Order 2005
7 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

10. The governing body of a scheme with a DC element should:

    a. offer an appropriate choice of investment arrangements for members who do not wish to invest in any default arrangement

    b. provide access to information to enable members to make an informed choice about where their contributions are invested, where more than one investment arrangement is available

    c. inform members in advance of potential changes to an investment arrangement

    d. allow members the opportunity to actively choose to switch to a new DC investment arrangement where their existing arrangement is changed or replaced

    e. if replacing or modifying an existing investment arrangement, manage the transition costs with consideration given to value for members (see **Value for members**)

11. The governing body of a scheme with a DB element should:

    a. have governance policies that ensure the form and structure of liabilities, the strength of the employer covenant, the risk of sponsor default, life expectancy of members, and the need to access cash at particular times are taken into account in investment decision-making

    b. clearly communicate the policies above to advisers, investment managers, and other relevant stakeholders

Glossary

Employer covenant
The extent of the employer's legal obligation and financial ability to support the scheme now and in the future.

Sponsor default
When a sponsoring employer does not meet or is unable to meet its financial commitments to the pension scheme.

Investment decision-making

> This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Under section 249A of the Pensions Act 2004[1] , governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

2. An effective system of governance includes having processes in place to ensure prudent investment management.

3. Governing bodies of trust-based pension schemes with 100 or more members must:

   a. invest in a way that ensures
      - security
      - quality
      - reasonable liquidity
      - profitability

      for the scheme's portfolio as a whole[3]

   b. make sure the principles above are followed where investment is carried out by a financial manager

   c. invest mainly in regulated markets[4,5]

   d. make sure scheme assets are properly diversified

4. Governing bodies of trust-based schemes with fewer than 100 members do not have the same obligations by law, but it is good practice for them to follow the principles set out above, and they must ensure their investments are appropriately diversified[6].

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Regulation 4(3) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(3) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
4 Regulation 4(5) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(5) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
5 As defined in Regulation 4(11) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(11) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
6 Regulation 7(2) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 7(2) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

5. Governing bodies should:

    a. have processes in place to make sure investment decisions can be made in an effective and timely manner

    b. ensure all the involved parties are clear on where responsibility and accountability sit for providing oversight, advice, and decision-making

    c. be able to critically evaluate the main points of the investment information received and understand the basis on which that information has been provided

    d. ensure costs and charges for any advice sought and/or investment transactions that may result represent reasonable value

    e. consider any likely personal biases and any conflicts of interest the person giving the input may have in the decisions to be made (see **Conflicts of interest**)

    f. regularly assess the effectiveness of their investment decision making and governance processes (see **Own risk assessment**)

    g. have clear terms of reference for any sub-committees

    h. set objectives for investment holdings, considering the different requirements of the accumulation and decumulation phases

    i. document objectives and strategies appropriately

    j. ensure the investment structure and decisions made in relation to investments aim to deliver the objectives and outcomes in accordance with the principles set out in the SIP (see **Statement of investment principles**)

    k. appropriately document any changes to investment strategy and/or material changes to investments, including the reasons they were needed, and the improvements expected

    l. if using a bespoke arrangement to meet specific requirements, document a clear explanation of their strategy and objectives and how the specific requirements will be met

    m. clearly identify any investments not traded on a regulated market, document why such investments are being used, and how they fit in with the agreed investment objectives

    n. understand the types of protection available, such as indemnity insurance or the Financial Services Compensation Scheme, for their different investments in the event of fraud, wrongdoing, or other adverse events

    o. review the investment managers' fund documentation, obtain investment advice and, where appropriate, legal advice, and put the right level of protection in place for members, having considered that advice

    p. consider informing members and employers on the overall conclusions of the security of assets

Glossary

Bespoke arrangement
A defined contribution investment arrangement that has been tailored by an investment manager to meet specific requirements for a scheme's membership.

Decumulation
The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

Investment monitoring

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Trustees' fiduciary duties include managing investments with due skill, care, and diligence. The law requires governing bodies who have responsibility for investment decision-making to exercise those powers in accordance with regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005[1] unless exempt[2].
2. Under section 249A of the Pensions Act 2004[3], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[4]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. An effective system of governance includes having systems in place to monitor and review the performance of their investments.
4. Governing bodies may do this by using manager or adviser reports; or having meetings with the managers or advisers. If they are relying solely on reports produced by their investment managers, they may wish to seek independent advice to help interpret the reports[5].
5. The scheme managers of Local Government Pension Schemes do not have the same obligations in pensions legislation. However, it is good practice for them to approach investment governance in the same way.
6. Governing bodies must be confident that investment governance (see **Investment governance**) is carried out in accordance with legal obligations, with the best interests of scheme members and their beneficiaries in mind, and by people with the right expertise (particularly where any of these functions are outsourced).

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1 Regulation 4 Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005
2 Regulation 7 of the Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 7 of the Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
3 Article 226A of The Pensions (Northern Ireland) Order 2005
4 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
5 Regulation 2 Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2 Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

7. Governing bodies should:

   a. have procedures to review and negotiate the terms of contractual arrangements and fund documents in place with investment managers and advisers as appropriate (see **Managing advisers and service providers**)

   b. regularly monitor the performance of their scheme's investment managers and advisers (see **Managing advisers and service providers**)

   c. have procedures in place to regularly monitor their scheme's investments and performance that should:

      - consider investment returns both before and after fees, and against any relevant benchmarks

      - compare investment performance against their stated short and long-term investment objectives

      - consider fees and costs and whether they are justified

      - where applicable, consider their value for members assessment (see **Value for members**)

   d. consider whether and how to report to interested parties, for example members, participating employers, and sponsoring employers

   e. ensure monitoring information is prepared at least quarterly, and at shorter intervals if appropriate for the size and complexity of the scheme

   f. where applicable, ensure analysis of monitoring information includes a stress test, scenario test, or other risk assessment information, to assess the impact of changing circumstances on scheme assets and if relevant, funding level

   g. monitor the level of investment risk run to deliver the performance and how this compares with the investment manager's risk targets

   h. consider environmental, social, and governance (ESG) factors, including shareholder engagement, and have sufficient processes in place to ensure compliance (see **Stewardship** and **Climate change**)

   i. seek to ensure that controls (including those related to the security, liquidity, and safe custody of the scheme assets) are in place to alert them to potential financial risks relating to their investment manager

   j. regularly assess the effectiveness of their processes, ensuring proper review and monitoring of investments and making improvements as appropriate

8. To govern effectively and meet the expectations listed above, governing bodies should set clear expectations for their investment managers where relevant.

Stewardship

> This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Stewardship provides an effective tool for encouraging, developing, and supporting behaviours and practices throughout the investment chain to ensure long-term value for savers, which can also lead to sustainable benefits for the economy, the environment, and society.

2. Effective stewardship includes – but is not limited to – the consideration of environmental, social, and governance factors (ESG) in investment decision-making and how those factors might impact the balance of risks/returns over the longer term. See **Climate change**.

ESG and other investment policies

3. Unless exempt[1], governing bodies are required to include their policies in relation to financially material ESG considerations, and how they are taken into account in the selection, retention and realisation of investments[2], in their statement of investment principles (SIP) and default arrangement SIP. They must also include their policies on the extent, if at all, to which they take into account non-financial matters (the views of members and beneficiaries, including their views on ESG matters)[3]. See **Statement of investment principles**.

4. Governing bodies are required to include in their SIP, and default arrangement SIP, their policy on the exercise of voting rights attaching to investments, unless exempt[4,5]. They must also include their policy on how they monitor and engage with relevant persons, such as the issuer of the investments, about relevant matters, such as the issuer's social and environmental impact and corporate governance[6].

5. These governing bodies must also set out their policy on arrangements with asset managers, covering matters such as how they incentivise the asset manager to align its strategy with the scheme's own investment policies, and to make decisions based on assessments over the medium to long term[7].

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1 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
2 Regulation 2(3)(b)(vi) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(b)(vi) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
3 Regulation 2(3)(b)(vii) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(b)(vii) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
4 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
5 Regulation 2A(1)(b) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A(1)(b) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
6 Regulation 2(3)(c) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(c) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
7 1Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3 (d) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

Implementation statement (IS)

6. Governing bodies of schemes that are required to produce a SIP[8], must produce an IS setting out how they acted on the stewardship policies set out in the SIP[9]. The IS must be included in the scheme's annual report[10] and made publicly available, free of charge, on a website[11].

7. In their IS, governing bodies must[12]:

   a. set out how, and the extent to which, in the opinion of the trustees, the scheme's stewardship policies have been followed during the scheme year

   b. describe the voting behaviour by, or on behalf of, the trustees (including the most significant votes cast by the trustees or on their behalf) during the scheme year, stating any use of the services of a proxy voter

8. In addition, governing bodies of relevant schemes[13] must[14]:

   a. set out how, and the extent to which, in the opinion of the trustees, the remainder of the SIP has been followed during the scheme year

   b. describe any legally required review of the SIP carried out during the year, and any review of how the SIP has been met, and explain any changes made to the SIP during the year including the reason for those changes

   c. where no legally required review was carried out during the scheme year, provide the date of the last such review

Governing bodies must have regard to statutory guidance produced by the Department for Work and Pensions on reporting through the IS.

8 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

9 Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

10 Regulation 12 and Part 2 and Part 5 of schedule 3 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 12 and Part 2 and Part 5 of schedule 3 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

11 Regulation 29A(1), (1A), (2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f) of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 29A(1), (1A), (2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f) of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

12 Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

13 Regulation 1(2) of the Occupational Pension Schemes (scheme Administration) Regulations 1996 [Regulation 1(2) of the Occupational Pension Schemes (scheme Administration) Regulations (Northern Ireland) 1997]

14 Paragraph 30 (1)(f) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(f) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Effective system of governance (ESOG)

9. Under section 249A of the Pensions Act 2004[15], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[16]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

10. An effective system of governance should include consideration of ESG matters relating to scheme investments. These governing bodies should follow the expectations set out below.

11. Governing bodies of schemes with 100 or more members should incorporate these matters into the scheme's own risk assessment and document them appropriately. See **Own risk assessment**.

12. We recommend that governing bodies with investment responsibilities follow the expectations set out below, even if they are not legally required to have an ESOG.

13. Governing bodies should:

    a. identify their rights (including voting rights) attached to investments and consider their approach to voting and engagement on relevant matters, including on ESG

    b. ensure they are familiar with their investment managers' own stewardship policies

    c. consider investment managers' stewardship policies as selection criteria and seek to influence them as appropriate

    d. ensure they monitor and regularly review investment managers' stewardship practices

    e. make sure they take into account the potential long-term positive and negative impacts of investment decisions on member outcomes

    f. consider following, where appropriate, the principles set out in the Financial Reporting Council's UK Stewardship Code

    g. seek to establish engagement approaches with investee companies and collaborative industry initiatives, whether directly or via investment managers, with a view to mitigating risks to long-term investment goals

    h. consider co-operation with other institutional investors in engaging with investee companies, for example on ESG issues

Glossary

Stewardship

The responsible allocation, management, and oversight of scheme assets – which includes shareholder voting and engagement with issuers and asset managers.

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15 Article 226A of The Pensions (Northern Ireland) Order 2005
16 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

Climate change

> This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. All pension schemes face some degree of material risk from climate change. These risks may include the physical effects of climate change such as:

    a. rising temperatures

    b. higher sea levels

    c. droughts

    d. floods

    e. storms

2. They may also include the impact of changes associated with the transition to a low-carbon economy, such as:

    a. impacts on the strength of any sponsoring employer

    b. new climate policy

    c. disruptive technology

    d. shifting investor sentiment

    e. deteriorating reputation

Climate change and investments

3. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

4. An effective system of governance should ensure that consideration of environmental factors is part of the governing body's investment decision-making (see **Stewardship**).

5. Governing bodies should:

    a. talk to their advisers and asset managers about how short and long-term climate change risks and opportunities are built into their recommendations

    b. understand what measures are being taken to reflect climate change risk within investment portfolios

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

> Governing bodies of certain schemes[3] are required to include policies in their **statement of investment principles** relating to environmental, social and governance considerations (see **Stewardship**) that they consider financially material. This includes climate change.

6. Governing bodies are not currently required to align their investment and funding plans with the objectives of the Paris Agreement and other climate change goals, such as the UK's own target of net zero emissions by 2050. However, they may wish to examine how their governance practices and investment decision-making (where applicable) take into account global progress towards those goals.

Managing scheme risks from climate change

7. Governing bodies that are required to establish and operate adequate internal controls[4] for their scheme should, as part of their risk assessment, assess the risks and opportunities associated with climate change. See **Identifying, evaluating, and recording risks**.

8. Our expectations for governing bodies required to operate an effective system of governance are set out in paragraph 9 below. Other governing bodies may wish to consider these as good practice.

9. Governing bodies should:

   a. consider the possible short, medium, and long-term effects of climate change on the scheme's objectives and its operations

   b. maintain and document processes for identifying and assessing climate-related risks and opportunities

   c. integrate these processes into their risk management and governance arrangements

   d. ensure they oversee, assess, and manage climate-related risks and opportunities relating to the scheme

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3 Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
4 Sections 249A and 249B of the Pensions Act 2004 [Articles 226A and 226B of the Pensions (Northern Ireland) Order 2005]

Climate-related governance and disclosures

10. Governing bodies of certain schemes must meet the governance and reporting requirements set out in regulations under the Pension Schemes Act 2021[5], relating to climate-related risks and opportunities. For schemes in scope, governing bodies must take steps to identify, assess and manage climate-related risks and opportunities and report[6] on what they have done. These reporting requirements align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Governing bodies subject to these requirements must have regard to statutory guidance issued by the Department for Work and Pensions (DWP).

We have also developed guidance, which sits alongside the statutory guidance produced by the DWP.

Glossary

Paris Agreement

A legally binding international treaty on climate change, adopted in Paris on 12 December 2015.

Taskforce on Climate-related Financial Disclosures (TCFD)

The TCFD is an international taskforce that seeks to develop recommendations for consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information.

5 Regulations 3 to 6 and the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 [Regulations 3 to 6 and Part 1 of the schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021]

6 Regulation 6 and the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 [Regulation 6 and Part 2 of the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021, and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations (Northern Ireland) 2021]

Statement of investment principles

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. The purpose of a statement of investment principles (SIP) is to set out the governing body's investment strategy, including the investment objectives and investment policies they adopt.

2. Governing bodies of trust-based occupational pension schemes with 100 or more members, must prepare a SIP and review it at least every three years[1]. They must also review it as soon as possible after any significant change in investment policy. When preparing the SIP, governing bodies must obtain and consider professional advice[2], and consult any sponsoring employer.

3. Governing bodies may have separate SIP documents for each individual arrangement within a scheme, but this is not a requirement. The law requires the governing bodies of relevant[3] schemes to make the most recent SIP for any default arrangement(s), which is subject to different content and review requirements[4], available to members as part of the annual chair's statement and the scheme's annual report and accounts.

4. Governing bodies of all schemes that are required to prepare a SIP in accordance with section 35 of the Pensions Act 1995 must publish that SIP online, make it publicly available, and free of charge. When publishing a SIP online, governing bodies should follow our **General principles for member communications**.

5. In cases where preparing a SIP is not a legal requirement, in our view, it would be good practice for governing bodies to prepare a document that is similar in nature, and to publish it online as if the SIP was required.

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1 Regulation 2(1) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(1) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
2 Regulation 2(2) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(2) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
3 Within the meaning of Regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [within the meaning of Regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1996]
4 Regulation 2A Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

6. The SIP must contain:

   a. the governing body's policy for securing compliance with the legislation on choosing investments[5]

   b. the governing body's policies relating to:
      - the investments to be held by the scheme
      - the balance between different investments
      - risks – including how they are to be measured and managed
      - the expected return on investments
      - the realisation of investments
      - financially material considerations[6] over the appropriate time horizon of investments, and how they are taken into account in investment decisions
      - the extent to which non-financial matters are taken into account in investment decisions[7]
      - how the governing body exercises rights, including voting rights, attached to investments
      - undertaking engagement activities in respect of investments, including, but not limited to the methods set out in legislation[8]
      - any arrangement with the asset manager, setting out the matters described in legislation[9]

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5 Section 36 of the Pensions Act 1995 [Article 36 of the Pensions (Northern Ireland Order 1995]
6 Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
7 Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
8 Regulation 2(3)(c) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3(c) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
9 Regulation 2(3)(b) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3)(b) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

7. A SIP[10] relating to a default arrangement must contain:

    a. the aims and objectives of the trustees or managers in respect of the investments in the default arrangement

    b. the matters set out in the Investment Regulations[11]

    c. an explanation of the intention to ensure that assets of the default strategy are invested in the best interests of the members using it, and their beneficiaries

8. Under section 249A of the Pensions Act 2004[12], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance** including internal controls (see **Internal controls**). However, there are certain exemptions[13]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

9. There are various steps that a governing body needs to go through when preparing and maintaining their SIP. We expect that governing bodies required to operate an effective system of governance that also have investment responsibilities will have the measures set out in paragraphs 10 and 11 in place. Other schemes may wish to adopt these principles as good practice.

10 Regulation 2A (1) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A (1) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
11 Regulations 2(3)(b), 2(3)(c) and 2(3)(d) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3)(b), 2(3)(c) and 2(3)(d) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]
12 Article 226A of The Pensions (Northern Ireland) Order 2005
13 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

10. When preparing and maintaining their SIP, the governing body should:

    a. ensure that relevant membership data is accurate

    b. consider the interests of active and deferred members and any members who are in a decumulation phase within the scheme

    c. consider any information they have obtained about when and how members may wish to take their benefits

    d. regularly assess the performance of investments and any investment options, including any default arrangement, within the context of the relevant objectives

    e. consider evaluating performance by referring to recognised and credible industry benchmarks for investment funds with similar risk/reward profiles

    f. document the evaluation process for each fund and consider the total amount of costs and charges levied on each fund, including transaction costs wherever possible

    g. consider the scheme's whole investment strategy (not just individual funds) taking into account the characteristics of different member segments

    h. review the governance structure relating to how investment risks are assessed and investment decisions are made

    i. consider the benefits of delegating some of the duties and the potential for establishing an investment sub-committee

    j. assess the financial materiality of environmental, social and governance (ESG) factors and allow for them when developing and implementing the investment strategy. See also **Stewardship** and **Climate change**.

    k. ask their investment manager(s) and investment adviser for help with assessing the financial materiality of ESG factors, if they do not have the necessary expertise in-house

    l. carefully consider the demographics and diversity of scheme members and take into account the types of investments scheme members may want or need

    m. carefully consider whether potential ESG issues may affect the risk-adjusted return members may receive

    n. take account of risks affecting the long-term financial sustainability of the scheme investments

    o. understand the ESG approach of the available funds and consider this in the selection criteria for new funds, including where a pooled fund is chosen

    p. monitor how investment managers take into account ESG factors in practice, including where a pooled fund is chosen

    q. consider the risks and opportunities of climate change. See **Climate change**.

11. In addition, when preparing their SIP, trustees of DB schemes should set out overall DB investment objective(s) for the fund, which allow for:

    a. the scheme's liabilities

    b. the strength of the employer covenant

    c. the risk capacity and appetite of the sponsor and trustees

Glossary

Decumulation
The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

Pooled funds
Funds in which many different investors may invest, as distinct from segregated funds, in which the pension scheme would be the only investor.

Relevant scheme
Schemes defined by Regulations 1(2) of the Occupational Pensions Schemes (Scheme Administration Regulations) 1996.

Default arrangements and charge restrictions

The requirements of the law to which this module relates are very complex. We recommend governing bodies consider appropriate professional advice and all relevant guidance, including government guidance, to ensure their scheme complies.

Default arrangements

1. The law sets out how governing bodies can identify a 'default arrangement' within their defined contribution (DC) pension scheme[1]. Governing bodies will need to assess whether any of their investment arrangements satisfy one or more of the default arrangement descriptions set out in the legislation. This assessment will need to allow for a default arrangement being formed from a single investment fund or collection of funds.

2. Governing bodies must ensure that they comply with the relevant default arrangement governance standards (see **Investment governance**), including those relating to a default arrangement statement of investment principles, and the periodic review of such arrangements[2] (see **Statement of investment principles**). They will also need to consider member-borne costs and charges for any default arrangements in their assessment of value for members (see **Value for members**).

Charges and cost restrictions

3. There is a legal limit on the amount members can be charged[3] in default arrangements within DC schemes used for automatic enrolment[4], known as the charge cap[5]. Some types of charge or cost are excluded and do not count against the charge cap, for example transaction costs.

4. There are only two types of charging structure allowed under the cap – a single percentage charge calculated by reference to the value of the member's rights under the scheme within the default arrangement, or a specified combination charging structure[6].

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1 Regulation 1(2) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 1(2) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
2 Regulation 2A Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
3 Part 2 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Part 2 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
4 Regulation 2(1) and 3 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 2(1) and 3 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
5 Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
6 Regulation 5(1) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 5(1) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

5. It is against the law to charge more to non-contributing members than they would have had to pay had they been contributing members (also known as active member discounts)[6]. This ban applies to all investment arrangements within a relevant scheme, not just the default arrangement. Additionally, the law bans member-borne commission[7], and governing bodies must report to us any service providers who have such a commission arrangement in place. The ban applies to all arrangements within a scheme used by employers to meet their duties under automatic enrolment legislation[8].

6. Governing bodies should:

    a. document how they identify whether default arrangements observe the charge controls, including the calculation process

    b. have processes in place to identify and report any activities involving charging members commission[9]

    c. where restrictions on costs and charges have been breached, consider whether this must be reported to us (see **Decision to report**)

Glossary

Relevant scheme
Schemes defined by Regulation 1(2) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

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6 Regulation 11 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
7 Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
8 Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
9 Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

Administration: Scheme administration

Planning and maintaining administration

1. The fundamental duty of a governing body is to administer its scheme in line with rules and the law. Good administration is central to the responsibilities of the governing body and is essential to complying with the law and this code. Any scheme depends on the timely and accurate processing of multiple strands of administration. These range from investing contributions in the scheme, to paying benefits when a member begins to access their retirement funds. A breakdown in any transaction can lead to member losses, and costs to the scheme and employer to put any errors right.

2. Regulations[1] set out the records that governing bodies of trust-based pension schemes must maintain. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014[2] sets out the records that governing bodies of public service pension schemes must maintain.

3. Every scheme must operate internal controls which should include administration.

4. Whether administered in-house or by a third party, every governing body should have the measures listed below in place. It should take steps to ensure that its scheme is being properly administered. The complexity and level of detail of these measures will vary depending on the nature of the scheme and the legal duties it is subject to.

5. With regard to planning and preparation, governing bodies should:

    a. maintain sufficient knowledge and understanding of administration (see **Knowledge and understanding**)

    b. understand the scope of administrator responsibilities and tasks, as well as the suitability of those performing them

    c. where necessary, have access to appropriate advice and assistance to negotiate contractual terms

    d. consider quality as well as value for members when selecting an administrator, see also **Managing advisers and service providers**

    e. include administration as an agenda item at governing body meetings

    f. ensure that administration and record keeping are important points on the risk register (see **Identifying, evaluating, and recording risks**)

    g. develop a strategy for the long-term administrative objectives of the scheme and agree a process for delivering these with the administrator)

    h. monitor administration processes to drive necessary improvements.

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1 See Chapter 3 of Part 3 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [See Chapter 3 of Part 3 of Occupational Pensions Schemes (Scheme Administration) Regulations (Northern Ireland) 1997

2 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

6. To maintain proper administration, governing bodies should:

   a. receive appropriate information and reports from administrators, and be able to challenge them when needed

   b. ensure that all tasks delegated to an administrator are being carried out properly, according to the law and scheme governing documents

   c. regularly monitor the performance of administrators (see **Managing advisers and service providers**)

   d. constructively manage issues with administrator performance and consider using any contractual terms to drive improvements

   e. have procedures in place to enable a continuous and consistent service in the event of a change of administrator personnel, or administration provider

   f. record the procedures to follow when administering the scheme, and how to maintain those procedures

   g. ensure that administrators have an adequate business continuity plan that is reviewed at least annually and tested as appropriate (see **Scheme continuity planning**)

Administration: Information handling

Financial transactions

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Financial transactions are activities that involve the processing of money. Every pension scheme will perform financial transactions. These will include receipt and investment of contributions, transfers and benefit payments. Governing bodies of all schemes should make sure financial transactions are managed as part of their internal controls[1]. Governing bodies of certain defined contribution (DC) schemes must ensure that core financial transactions as defined in legislation[2] are processed quickly and accurately.

2. Under section 249A of the Pensions Act 2004[3], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**) however, there are certain exemptions[4]. The system of governance must be proportionate to the size, nature, scale, and complexity of the scheme activities.

3. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014[5] sets out the records that governing bodies of public service pension schemes must maintain. Under section 249B of the Pensions Act 2004[6], scheme managers of public service pension schemes[7] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[8], and with the requirements of the law.

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1 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order2005] Section 249B Pensions Act 2004 [Article 226B Pensions (Northern Ireland) Order2005]
2 Regulation 24 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
3 Articles 226A of The Pensions (Northern Ireland) Order 2005
4 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)
5 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014
6 Articles 226B of The Pensions (Northern Ireland) Order 2005
7 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)
8 As defined in section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

4. The management of financial transactions should be proportionate to the nature, complexity, and activity of the scheme and governing bodies should:

Governance processes and IT systems

a. understand the procedures and controls the administrator operates to ensure that financial transactions are processed promptly and accurately (see **Receiving contributions**)

b. annually review processes and systems for financial transactions, and identify opportunities to improve them (where the governing body can influence this)

c. make sure that any authorisation processes for financial transactions do not cause undue delay

d. seek to ensure that separate duties exist for administration processes to prevent financial transactions without the right authorisation

e. use electronic means to process financial transactions wherever feasible, for example only accept payments by cheque in exceptional circumstances

f. have service standards or service level agreements (SLAs) in place which are specific to the scheme and administrative tasks (see also **Managing advisers and service providers**)

g. review performance against SLAs to maintain the processing of financial transactions, and be prepared to make a judgement as to whether this is satisfactory

h. where appropriate, maintain a dialogue with participating employers to facilitate the flow of legally required and necessary information

i. seek to improve processes for receiving and transmitting transaction information where needed

j. make sure scheme data is complete and accurate, so that core financial transactions can be processed accurately (see **Record-keeping**).

Investing contributions (if applicable)

k. If the scheme operates a daily dealing cycle, contributions to the scheme, including sums transferred into the scheme, are invested within three working days following receipt and after completion of a reconciliation exercise.

l. If the scheme operates a less than daily dealing cycle, contributions to the scheme should be invested at the next available dealing date, and within five working days and after completion of a reconciliation exercise.

m. During reconciliations that identify discrepancies, only hold unreconciled contributions pending resolution and invest the remaining amount as usual.

Glossary

Dealing cycle

The frequency that the fund allows money to be added to or taken out of it.

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Reconciliation

The process of checking that the money received in respect of contributions matches what was expected.

Service level agreement

An agreement between a service provider and governing body setting contractually binding service levels that are to be met by the service provider in providing the service.

Transfers out

1. Members have a statutory right to transfer if certain conditions are met[1]. When deciding to grant statutory transfers, governing bodies must carry out appropriate checks to decide if one of the conditions for transfer are met[2]. Governing bodies should also be aware of the risks of pension scams, see **Scams**. Governing bodies should ensure that they have the necessary administrative procedures to deal with transfer requests, without undue delay and in line with scheme rules and the law.

2. Governing bodies should also maintain accurate and complete records of all requests received and the transfers that have been made. See **Planning and maintaining administration**, **Financial transactions** and **Record-keeping** for more information about our expectations in these areas.

3. The transfer process under legislation will typically begin when the governing body receives a request from an eligible scheme member. For a defined benefit (DB) member the governing body will prepare a statement of entitlement which will include the cash equivalent transfer value (CETV). The governing body must provide the statement within approximately three months of receiving the request, unless this information has been provided in response to a request in the previous 12 months[3].

4. For a member with DB benefits, the CETV represents the actuarial calculation of the member's benefits within the scheme. As part of the calculation[4], the scheme actuary and governing body will be required to make assumptions about the course of future events affecting the scheme and the member's benefits.

5. For a member with defined contribution (DC) benefits, the transfer value will be the total of the accumulated contributions made by and on behalf of that member. This sum will include any investment gains or losses.

Transferring member benefits

6. Before a governing body processes a request to transfer member benefits, there are certain checks it should perform. There are also specific requirements that must be met for members wishing to transfer from a DB scheme to a DC arrangement. The requirements and our expectations for transferring member benefits can be found below.

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1 Part 4ZA Pensions Schemes Act 1993 [Part 4ZA Pensions Schemes (Northern Ireland) Act 1993]
2 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021.
3 Regulation 6 of The Occupational Pension Schemes (Transfer Values) Regulations 1996 [Regulation 6 of The Occupational Pension Schemes (Transfer Values) Regulations 1996 (Northern Ireland) 1996]
4 Part III of The Occupational Pension Schemes (Transfer Values) Regulations 1996 [Part III of The Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996]

7. Before transferring member benefits the governing body:

   a. must check the receiving scheme to ensure it is[5]:

      - able to accept the transfer
      - willing to accept the transfer
      - a scheme to which a transfer can be made under the relevant legislation

   b. Must check one of the conditions for transfer are met to grant a statutory right to transfer[6], or consider whether to grant a transfer on a non-statutory basis, if the scheme rules allow.

   c. Where neither condition is met, and they suspect the receiving scheme to be an illegitimate arrangement, they may refuse the transfer. See **Scams**.

   d. If they suspect the receiving scheme is an illegitimate arrangement, they should report it to **Action Fraud**.

   e. If they believe they will not meet the legislative deadlines, they should make an application to us before the deadline (see the extension section below).

8. Additional requirements for governing bodies of DC schemes:

   a. When the member contacts the governing body to request a transfer to access their flexible pension benefits, the governing body should explain the nature and purpose of Pension Wise guidance and must offer to book them an appointment. If the member prefers to book one themselves, the governing body must give the member Pension Wise's contact details.

   b. The member can opt out from receiving guidance from Pension Wise, however the governing body must not proceed with their transfer application until they have confirmation that the member has received guidance or opted out.

9. The governing body of a funded DB scheme (but not LGPS):

   a. must notify us of transfers of more than £1.5m, or if lower, 5% of scheme assets[7]

   b. should monitor transfer requests and the impact those transfers could have on scheme funding or liquidity

   c. should consider the effect of a transfer on those members with a large transfer value relative to the scheme

   d. should be aware of any direction which may provide an exemption from any requirement to report

5 Section 95(2) Pension Schemes Act 1993 [Article 91(2) Pensions Schemes (Northern Ireland) Act 1993]
6 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021
7 Section 69 of the Pensions Act 2004 and Pensions Regulator (Notifiable Events) Regulations 2005 [Article 110(1)(a) and (b) Pensions (Northern Ireland) Order 2005 and Pensions Regulator (Notifiable Events) Regulations (Northern Ireland) 2005]

Specific requirements for DB to DC transfers

10. Scheme members must take appropriate independent advice when transferring benefits valued at £30,000 or more from a DB to a DC arrangement. The governing bodies of DB schemes that receive a request to transfer or convert safeguarded benefits of £30,000 or more, must check the scheme member (or survivor) has received appropriate independent advice[8].

11. Members will receive written confirmation from their adviser, which they will be able to give to the governing body[9]. Governing bodies must check the adviser has the correct permission to give the advice[10], by verifying their details on the FCA's Financial Services Register. Governing bodies must not fulfil any request where the advice provided is not from an adviser whose firm is listed on the FCA's register.

12. When checking the written confirmation that the member received the required advice, governing bodies should:

    a. Retain a copy of the written confirmation.

    b. Ensure records are held of:
        - who conducted the check
        - when this was conducted
        - the evidence that the firm or company providing the advice has permission to advise on pension transfers and pension opt outs before the transfer was made

    c. Retain these records for as long as may be relevant, in line with scheme policy, and subject to data protection principles.

    d. Be alert to the risk of fraudulent communications submitted to the scheme.

    e. Where suspicions arise, contact the advisory firm directly using the contact details as listed on the FCA register. Check that the firm has a record of providing the advice.

    f. Contact the transferring member immediately, if there is a problem with verifying the adviser's permission. Inform them that the transfer will not proceed until the appropriate advice has been received.

    g. Keep payment records of the transfer, including details of the receiving bank account, and any confirmation of receipt by the receiving scheme.

8 Section 48 and 51 of the Pension Schemes Act 2015
9 Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015 [Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations (Northern Ireland) 2015]
10 Regulation 11 the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015 [Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations (Northern Ireland) 2015]

Timeframes to complete transfers and extension requests

13. Governing bodies are required to complete transfers within six months.

14. For DB benefits, this is measured from the guarantee date provided in the statement of entitlement[11].

15. For DC benefits, this is measured from the date of the request for the transfer to be made[12].

16. Where a governing body is unable to complete the transfer in the required time, there are limited circumstances where we may grant an extension to this period[13]. Any application must be received by us before the six-month period expires. See our **DB to DC transfers guidance** for further details.

Glossary

Cash equivalent transfer value
The cash value of pension benefits, calculated in accordance with legislation. The value may change and is typically provided as at a certain date and (for DB benefits) can be guaranteed for a certain period.

11 Section 99 2(a) Pension Schemes Act 1993 [Article 95 2(a) Pensions Schemes (Northern Ireland) Act 1993]
12 Section 99 2(b) Pension Schemes Act 1993 [Article 95 2(b) Pensions Schemes (Northern Ireland) Act 1993]
13 Regulation 13(a) Occupational Pension Schemes (Transfer Values) Regulations 1996 [Regulation 13(a) of The Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996]

Record-keeping

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies are required to maintain complete and accurate records[1,2]. This is to ensure that governing bodies can pay the right member (or beneficiary) the right benefit at the right time.

2. Under section 249A of the Pensions Act 2004[3], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[4]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

3. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014[5] set out the records that must be maintained by governing bodies of public service pension schemes. Under section 249B of the Pensions Act 2004[6], scheme managers of public service pension schemes[7] are required to establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[8], and with the requirements of the law.

1 Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]
2 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
3 Article 226A of The Pensions (Northern Ireland) Order 2005
4 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
5 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014
6 Articles 226B of The Pensions (Northern Ireland) Order 2005
7 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)
8 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

4. Governing bodies must in any event keep records of information relating to transactions[9,10] and meetings of the governing body and decisions[11,12].

5. Governing bodies should have a series of measures in place to maintain scheme records. See also **Data monitoring and improvement**.

Record-keeping

6. Governing bodies should:

   a. be able to demonstrate to us, where required, that they operate processes to maintain accurate and up-to-date records, enough to run their pension scheme

   b. keep records of meetings, member data, and transactions made to and from the scheme

   c. retain records for as long as the information is relevant, and in line with data protection legislation

   d. ensure that the data they or their administrator holds, enables financial transactions to be processed accurately. See **Financial transactions**.

   e. rectify any errors identified in scheme records as soon as possible

   f. review and amend processes as necessary to prevent further errors

   g. comply with the data protection requirements, including the need to store data securely and for a legitimate purpose under administrative systems

7. Governing bodies may consider as good practice:

   a. Holding member and benefit records electronically on a dedicated administration system.

   b. Keeping records of scheme governing documentation, including details of any amendments and how they apply to members.

   c. Making sure the administrator has basic member information known as common data.

   d. Working with the administrator to identify, record, validate, and where necessary, correct the items of scheme specific data.

   e. Taking into account developments in technology that may be available to the scheme to improve administration and record-keeping.

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9 Regulation 5 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 5 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

10 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

11 Regulation 6 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 6 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

12 Regulation 13 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

Administrative systems

8. Governing bodies should:

   a. ensure that processes exist to record member benefits, identifiers, contributions, investments, member decisions, payments, and transfers

   b. record accurate investments and disinvestments

   c. accurately perform benefit calculations

   d. provide members with accurate information regarding their pension benefits (both accrued and projected entitlements) as required and on a timely basis[13]

   e. carry out reconciliations of data, transactions, and investments held

   f. identify members approaching retirement and other scheme specific events

9. Governing bodies may consider as good practice:

   a. Processing financial transactions, including core transactions automatically (where feasible) and securely. See **Financial transactions**.

   b. Generating appropriate reporting on historic contributions, membership movements, and core and scheme specific data. See our **record-keeping guidance**.

Data from other parties

10. Governing bodies should:

    a. have processes in place enabling participating employers to provide timely and accurate data

    b. ensure that appropriate procedures are in place to reconcile employer data and scheme data

    c. have processes in place for situations where an employer fails to meet their legal duties to the scheme (see **Decision to report** for more information)

11. Governing bodies may consider as good practice:

    a. Educating employers to understand the main events where member information must and should be shared by the employer to the scheme and/or another employer.

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13 Section 14 of the Public Service Pensions Act 2013 [Section 14 of the Public Service Pensions Act (Northern Ireland) 2014], and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Glossary

Common data

This data is needed so that a member can be uniquely identified. See our **guidance on what records to keep**.

Identifiers

Personal information that could be used to identify a member, such as their national insurance number.

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Scheme-specific data

Other data specific to a scheme relating to its members and their participation in the scheme. See our **guidance on what records to keep**.

Data monitoring and improvement

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies should retain records for as long as they are needed. It is likely that fiduciary obligations will require data to be held for long periods of time. Governing bodies will need to retain some records for members even after they have retired. This is to ensure that pension benefits can be properly administered over the lifetimes of members and their beneficiaries.

2. There are requirements for governing bodies to maintain complete and accurate records[1,2] these relate to both common and scheme specific data.

3. The Occupational Pension Schemes (Scheme Administration) Regulations 1996[3] and section 49 of the Pensions Act 1995 set out the records that governing bodies of trust-based pension schemes must maintain. Under section 249A of the Pensions Act 2004[4], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[5]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

4. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014[6] set out the records that must be maintained by governing bodies of public service pension schemes. Under section 249B of the Pensions Act 2004[7], scheme managers of public service pension schemes[8] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[9], and with the requirements of the law.

1 Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]
2 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
3 Occupational Pensions Schemes (Scheme Administration) Regulations (Northern Ireland) 1997
4 Article 226A of The Pensions (Northern Ireland) Order 2005
5 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014
7 Articles 226B of The Pensions (Northern Ireland) Order 2005
8 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)
9 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

5. Governing bodies should have the following processes for monitoring scheme data:

    a. Monitor data on an ongoing basis to ensure it is as accurate and complete as possible for all pension scheme members.

    b. Ensure the governing body receives information about material errors and gaps in their scheme data, once identified.

    c. Ensure any service providers operate their own procedures for identifying, rectifying, and reporting errors to the governing body.

    d. Ensure data improvement is prioritised for members close to the point where they start drawing on their benefits.

    e. Ensure any plan for improving data can be monitored and has an achievable deadline.

    f. Where applicable, ensure member records are reconciled with information held by the employer(s).

    g. Ensure regular reconciliation of scheme membership, especially those reaching retirement.

    h. Carry out scheduled tracing and existence exercises to validate member data.

6. Governing bodies should have the following processes for reviewing scheme data:

    a. Assess the need for a data review exercise at least annually.

    b. Decide the frequency and nature of any additional data review, where errors and gaps are identified, or in response to significant scheme events, for example winding up the scheme or changing the administrator.

    c. Ensure data reviews include an assessment of the accuracy and completeness of common and scheme specific data.

    d. Keep a record of data reviews carried out and the findings.

    e. Where errors and gaps are identified, put a data improvement plan in place to address the issues.

    f. Ensure the plan includes the actions necessary by the governing body or administrator to correct member data.

    g. Maintain agreed, consistent, and fair policies for situations where data cannot be corrected, for example due to age or loss.

7. Governing bodies should have the following processes for protecting scheme data:

   a. Ensure processes are in place to manage scheme member data to comply with the data protection legislation[10] and the data protection principles.

   b. Ensure processes are in place to address any breaches of the data protection legislation or principles.

   c. Understand their obligations under data protection law.

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

10 The law includes the Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

Administration: IT

Maintenance of IT systems

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies need to have processes to ensure information transmission. Having put the appropriate IT systems in place, (see **Financial transactions** and **Record-keeping**) it is important that they are reviewed and maintained regularly.
2. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5], and with the requirements of the law.
4. Internal control processes should ensure that IT systems are able to meet the scheme's current needs and legal requirements. Governing bodies should take steps to make sure their service providers can prove they meet our expectations for maintaining IT systems as listed below. Governing bodies should challenge providers and push for improvements where expectations are not being satisfactorily met. If considering expert advice or assurance reporting, governing bodies can read **Assurance reports on internal controls** for further information.

1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Articles 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

5. Standards for maintaining IT systems:

    a. Cyber security measures and procedures should be in place and functioning. See **Cyber controls**.

    b. Record evidence of how changes are planned and executed within the system.

    c. Scheme and member data should be backed up regularly.

    d. Disaster recovery processes are in place and tested over appropriate periods.

    e. Written policies should be in place for maintaining, upgrading, and replacing hardware and software.

    f. Request evidence to show there is a schedule for the system to be replaced or updated, to cope with events such as changes to tax thresholds.

    g. Be satisfied that adequate and sufficient hardware and personnel resources, with appropriate functionality and/or skills, exist to carry out the work.

    h. Secure evidence that the IT system can meet current and anticipated system requirements.

    i. Manage planned and potential future upgrades within the administration system.

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

IT

Information technology. The systems (especially computers and telecommunications) used for storing, retrieving and sending information.

Cyber controls

1. 'Cyber risk' refers to the risk of loss, disruption, or damage to a scheme or its members, because of the failure of its information technology systems and processes (see **Identifying, evaluating and recording risks**). Governing bodies should take steps to reduce the risk of incidents occurring, and appropriately manage any incidents that arise. Properly functioning cyber controls will assist governing bodies in complying with data protection legislation[1], and may reduce liabilities in the event of a data breach.

2. Under section 249A of the Pensions Act 2004[2], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[3]. These controls need to include measures to manage cyber risk. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

3. Under section 249B of the Pensions Act 2004[4], scheme managers of public service pension schemes[5] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[6], and with the requirements of the law.

4. The legal obligation to establish measures to manage cyber risk is different for public service pension schemes[7]. As far as cyber controls is a matter set out in the scheme rules[8] or in the requirements of the law[9], scheme managers of public service pension scheme must establish and operate adequate internal controls in relation to them. In such cases, internal controls need to include measures to manage cyber risk.

5. To the extent that there is no legal obligation on scheme managers of public service pension schemes to adopt these cyber risks measures, we consider it good practice to do so.

6. Governing bodies should also consider how topics in this module interact with those in **Maintenance of IT systems**, **Scheme continuity planning**, and **Systems of governance**.

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1 For example, Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)
2 Articles 226A of The Pensions (Northern Ireland) Order 2005
3 Section 249A(3) Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
4 Articles 226B of The Pensions (Northern Ireland) Order 2005
5 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
6 As defined in Section 318(2) Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]
7 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
8 As defined in Section 318(2) Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]
9 The law includes the Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

7. Our expectations on processes and procedures for governing bodies are set out in paragraphs 8 and 9 below. Where using service providers, governing bodies should consider how well those providers are meeting these expectations. See **Managing advisers and service providers**. Governing bodies should also be aware of their responsibilities under Data Protection Act 2018.

8. When assessing cyber risk governing bodies should:

   a. Ensure the governing body has knowledge and understanding of cyber risk.

   b. Understand the need for confidentiality, integrity, and availability of the systems and services for processing personal data, and the personal data processed within them.

   c. Have clearly defined roles and responsibilities to identify cyber risks and breaches, and to respond to cyber incidents.

   d. Ensure cyber risk is on the risk register and regularly reviewed. See **Internal controls**.

   e. Assess at appropriate intervals, the vulnerability of the scheme's key functions, systems, assets (including data assets) to a cyber incident, and the vulnerability of service providers involved in the running of the scheme.

   f. Consider accessing specialist skills and expertise to understand and manage the risk.

   g. Ensure appropriate system controls are in place and are up to date (eg firewalls, anti-virus, and anti-malware products).

9. When managing cyber risk governing bodies should:

   a. Ensure critical systems and data are regularly backed up.

   b. Have policies for the use of devices, and for home and mobile working.

   c. Have policies and controls on data in line with data protection legislation (including access, protection, use, and transmission).

   d. Take action so that policies and controls remain effective.

   e. Have policies to assess whether breaches need to be reported to the Information Commissioner (**https://www.ico.org.uk**).

   f. Maintain a cyber incident response plan in order to safely and swiftly resume operations. See **Scheme continuity planning**.

   g. Satisfy themselves with service providers' controls. See **Managing advisers and service providers**.

   h. Receive regular reports from staff and service providers on cyber risks and incidents.

Glossary

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

Administration: Contributions

Receiving contributions

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Employee contributions are deducted from scheme members' pay. Unless the scheme rules or regulations set out a shorter period, those contributions must be paid to the scheme by day 19 of the following month, or day 22 if paid electronically[1]. There are special rules for the first deduction of contributions[2]. Employer contribution payments must be paid by the date specified in the scheme rules, regulations, or documentation.

2. Governing bodies are responsible for preparing and understanding the payment schedule, schedule of contributions, or direct payment arrangement[3], which details the contributions due to be paid. They must also put in place processes to monitor contributions and the transmission of payment information between the employer, member, and scheme administrator.

3. Unless exempt[4], a governing body should ensure it has in place the measures set out in paragraphs 5 and 6.

4. Governing bodies of public service pension schemes that are exempt should develop a record to monitor contribution payments to the scheme (a contributions monitoring record). This should comply with scheme regulations where relevant. Governing bodies should prepare the record for monitoring contributions in consultation with scheme employers.

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1 Section 49(8) of the Pensions Act 1995 and regulations 16(2) and 21 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. [Article 49(8) Pensions (Northern Ireland) Order 1995 and regulations 16(2) and 21 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]'

2 Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997

3 Section 87 of the Pensions Act 1995 [Article 87 of the Pensions (Northern Ireland) Order 1995]

4 The exemption from the requirement to secure a schedule of contributions in respect of DB schemes under section 227 of the Pensions Act 2004 is in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005. [The exemption from the requirement to secure a schedule of contributions in respect of DB schemes under Article 206 of the Pensions (Northern Ireland) 2005 is in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005]

The exemption from the requirement to secure a payment schedule in respect of DC schemes under section 87 of the Pensions Act 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. [The exemption from the requirement to secure a payment schedule in respect of DC schemes under Article 87 of the Pensions (Northern Ireland) Order 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997].

5. In relation to maintaining and recording contributions, governing bodies should:

    a. Manage the scheme documentation relating to contributions, including the payment schedule for defined contribution (DC) schemes, the schedule of contributions for defined benefit (DB) schemes, and any direct payment arrangements for personal pensions.

    b. Ensure contributions comply with the scheme rules and any overriding legislation.

    c. Prepare any schedule in consultation with the employer(s).

    d. Be aware of the information employers must provide[5].

    e. Maintain records of missed contributions and related recovery activities.

6. In relation to operational and risk management relating to contributions governing bodies should:

    a. Have processes and systems in place to ensure the scheme can accept contributions from existing and, if necessary, new or former employers.

    b. Be confident that other parties, including employers, third party payroll, administration systems, investment managers, and investment platform providers, have the capacity to transfer data and monies efficiently.

    c. Be able to monitor, quickly identify, and pursue missing contributions (see monitoring contributions).

    d. Apply a risk-based and proportionate approach to identify employers and situations that present a higher risk of materially significant payment failures.

    e. Safeguard all contributions once they are in the scheme.

    f. Have processes to enable members, whose benefits are held in the scheme, to show they've complied with HMRC tax requirements, for example annual allowance and money purchase annual allowance.

5 Regulation 6 The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 6 The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

Glossary

Contributions
Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions or from employers as regular or deficit-related contributions.

Direct payment arrangements

- Are arrangements between the member and the employer under which contributions fall to be paid by or on behalf of the employer towards the scheme:
  - on the employer's own account (but in respect of the member), or
  - on behalf of the member (if the member is making any contributions) out of deductions from the member's pay.
- Direct payment arrangements exist where: the employer arranges to make employer contributions to a personal pension scheme (under the arrangements), and/or the employer arranges to deduct the member's contributions from pay and to pay them across to the pension scheme for the member.

Payment schedule
A schedule showing: (a) the contribution rates payable towards the scheme, by or on behalf of the employer and the active members of the scheme (b) such other amounts payable towards the scheme as may be prescribed, and (c) the dates on or before the payments of such contributions or other amounts are to be made.

Personal pension
A UK tax-efficient individual investment arrangement, with the primary purpose of building a capital sum to provide retirement benefits.

Schedule of contributions
A statement showing: (a) the contribution rates payable towards the scheme by or on behalf of the employer and the active members of the scheme, and (b) the dates on or before the contributions are to be paid.

Monitoring contributions

> This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies should have processes in place to check contributions due to the scheme and to reconcile them with what is actually paid to identify payment failures. Where a scheme has multiple employers, this can be a risk-based process.

2. Procedures also need to include measures to identify any payment failures which are likely to be of material significance to us when exercising our functions (See **Reporting payment failures**).

3. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.

4. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5], and with the requirements of the law.

5. Payment schedules or direct payment arrangements must be administered, monitored, and managed according to any scheme rules, regulations, and legal requirements[6].

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1 Article 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
3 Articles 226B of The Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)
5 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)
6 Section 111A of Pension Schemes Act 1993 [Article 107A of Pension Schemes (Northern Ireland) Act 1993]

Creating a contributions monitoring record

6. Governing bodies should develop and maintain records for monitoring contribution payments to their schemes. A contributions monitoring record enables governing bodies to check whether these have been made on time and in full. It also provides a trigger to investigate any payment failures that arise. See **Resolving overdue contributions**. It will also enable governing bodies to consider whether they must report a payment failure to us and, where relevant, members[7,8].

7. A contributions monitoring record should include the following information:

   a. Contribution rates.

   b. The date(s) on or before the employer contributions are due to be paid to the scheme.

   c. The date when employee contributions are to be paid to the scheme.

   d. Any rate or amount of interest payable where the contributions payment is late.

8. This monitoring record also helps employers to develop and implement new contribution payment processes. The contributions monitoring record should provide schemes with information to maintain records of money received and assist in keeping their member records up to date.

9. Where necessary, governing bodies must also keep records of any employer contributions due to the scheme that have been written off[9].

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7 'Section 88(1) of Pensions Act 1995 and section 228(2) of the Pensions Act 2004 [Article 86(1) of Pensions (Northern Ireland) Order 1995 and Article 207(2) of the Pensions (Northern Ireland) Order 2005]

8 Section 111A of Pension Schemes Act 1993 [Article 107A of Pension Schemes (Northern Ireland) Act 1993]

9 Regulation 5 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 and section 49 Pensions Act 1995 [Regulation 5 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014 and Article 49 Pensions (Northern Ireland) Order 1995]

Recording employee and employer transactions

10. Governing bodies must record and retain information on transactions (see also **Record-keeping**). This will support them in their administration and monitoring responsibilities, including:

    a. amounts received in respect of an active member of the scheme

    b. payments of pensions and benefits[10]

11. As part of their general administration, employers should give the required information to governing bodies so that contributions can be monitored at the same time as they're sent to the scheme. Payment information may include:

    a. the contributions due to be paid by the employer and on behalf of the employee, as specified in the scheme regulations and/or other scheme documentation

    b. the pensionable pay that contributions are based upon (where required)

    c. payment due date(s) for contributions and other amounts, although contributions can be paid earlier

12. If the necessary payment information is not supplied, and the governing body needs it to carry out effective risk-based monitoring, they should request the information they need from the employer[11].

13. If the employer fails to comply with the request within seven days, the governing body will be unable to meet its monitoring obligation and must report it to us. This should be done within 28 days of the date of the initial request.

10 Regulation 12 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 12 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland 1997]
11 Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland 1997

Glossary

Contributions
Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

Days
References to 'days' mean all days. References to 'working days' do not include Saturdays, Sundays or bank holidays.

Direct payment arrangements

- Are arrangements between the member and the employer under which contributions fall to be paid by or on behalf of the employer towards the scheme:
  - on the employer's own account (but for the member), or
  - on behalf of the member (if the member is making any contributions) out of deductions from the member's pay.
- Direct payment arrangements exist where: the employer arranges to make employer contributions to a personal pension scheme (under the arrangements), and/or the employer arranges to deduct the member's contributions from pay and to pay them across to the pension scheme for the member.

Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

Payment failure
Is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period.

Payment schedule
A schedule showing: (a) the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme (b) such other amounts payable towards the scheme as may be prescribed, and (c) the dates on or before the payments of such contributions or other amounts are to be made.

Glossary continued...

Pensionable pay
Refers to any element of an employee's pay from which pension contributions may be deducted, for example basic pay, bonuses or commission.

Personal pension
A UK tax-efficient individual investment arrangement, with the primary purpose of building a capital sum to provide retirement benefits.

Schedule of contributions
A statement showing: (a) the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme, and (b) the dates on or before the contributions are to be paid.

Resolving overdue contributions

1. When a payment failure is identified (see **Monitoring contributions**), the governing body should contact the employer quickly to resolve the overdue payment.

2. Under section 249A of the Pensions Act 2004[1], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[2]. The system of governance must be proportionate to the size, nature, scale, and complexity of the scheme activities.

3. Under section 249B of the Pensions Act 2004[3], scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5], and with the requirements of the law.

4. Governing bodies should obtain overdue payments and rectify administrative errors in the most efficient way for their scheme. A typical process should cover the following steps:

   a. Investigate any employer failure to pay contributions.

   b. Contact the employer promptly to resolve the overdue payment.

   c. Attempt to find out and record the cause and circumstances of the payment failure.

   d. Investigate any action the employer has taken as a result of the payment failure.

   e. Consider the wider implications or impact of the payment failure.

   f. Consider whether the failure is part of a pattern of a systemic failure.

   g. Seek to ensure that the employer resolves the payment failure.

   h. Where appropriate provide members with sufficient information to enable them to raise any issues with the employer.

   i. Take steps to make sure that a recurrence in the future is avoided.

5. Governing bodies should maintain a record of their investigation and the communications between themselves and the employer. This will help them decide whether a payment failure must be reported to us and members[6] (See **Reporting payment failures**).

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005
2 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)
3 Articles 226B of the Pensions (Northern Ireland) Order 2005
4 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)
5 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)
6 Section 88(1) of Pensions Act 1995 [Article 86(1) of Pensions (Northern Ireland) Order 1995] Section 111A the Pension Schemes Act 1993 [Article 107A of the Pensions (Northern Ireland) Schemes Act 1993] and Section 49(9) of the Pensions Act 1995 [Article 49(9) of Pensions (Northern Ireland) Order 1995] section 228 of the Pensions Act 2004 [and Article 207 of the Pensions (Northern Ireland) Order 2005]

6. A monitoring process based on the information provided by employers may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by an employer. Governing bodies should review current processes to detect situations where fraud may be more likely to occur and where additional checks may be needed.

Glossary

Contributions
Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

Days
References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or bank holidays.

Material significance
Determines whether a breach of law should be reported to us, as determined by a number of factors, see **Reporting payment failures**.

Payment failure
A contribution which has not been paid in accordance with the payment schedule in full on or before its due date.

Communications and disclosure: Information to members

General principles for member communications

> This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module covers the main principles governing bodies should apply when meeting their legal obligations to communicate with members.

2. The law details when governing bodies must communicate with their members, the information they must provide and the timescales for providing the information. These requirements range from information provided when a member joins the scheme, ongoing communications, taking benefits, and beyond[1]. The law also sets out information that governing bodies must provide on request.

3. When preparing communications to members, governing bodies should:

    a. ensure that all communications sent to members are accurate, clear, concise, relevant and in plain English (see our **Communicating and reporting guide**)

    b. regularly review member communications, taking account of member feedback, any changes to scheme design and developments in law and this code of practice

    c. when deciding on the format of communications and information to be published, consider any technology that may be available to them and appropriate for their members

    d. consider using various communication methods, including accessible online content, audio, Braille, large font, and languages other than English

    e. consider what additional information or explanation members may need to help them make informed decisions about their benefits. For DC and hybrid schemes, regularly inform members of the impact their contributions will have on their overall benefits.

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1 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013] set out many, but not all, of the required communications for governing bodies

Annual pension benefit statements (DC)

1. Governing bodies of certain schemes providing defined contribution (DC) benefits must provide their DC members with annual pension benefit statements[12].

2. When drafting annual pension benefit statements, the governing body should follow the principles set out in general principles for member communications.

3. The governing body must:

   a. issue the annual pension benefit statement to members within 12 months from:

      - for occupational pension schemes, the end of the scheme year

      - for personal pension schemes, the anniversary of the date the person first joined the scheme (or contributions were credited to them, if later)

   b. detail the contributions credited (before deductions) to the member in the year to which the benefit statement relates

   c. include the value of the member's benefits under the scheme (as at a date specified by the governing body)

   d. provide the cash equivalent transfer value[3], if different from the value above

   e. where required by legislation[4], include a statutory money purchase illustration, which is an illustration of how much the member's pension may be worth at requirement

   f. where required by legislation[5], provide details of how the member may obtain information about pooled funds

   g. include the website address where the governing body has published the required information[6]

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1 Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

2 Regulation 4 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 4 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

3 Calculated in accordance with Chapter 1 of Part 4ZA of the Pension Schemes Act 1993. [Calculated in accordance with Part 4ZA of the Pension Schemes (Northern Ireland) Act 1993].

4 There are certain exceptions to the requirements to provide this information, see Regulation 17(6) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [There are certain exceptions to the requirements to provide this information see Paragraph 6 of Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

5 Paragraph 5A of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 5A of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

6 Paragraph 5B of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 5B of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

4. Governing bodies of automatic enrolment schemes that only provide DC benefits must ensure the statement is no longer than one double-sided sheet of A4 paper, or the digital equivalent, if the statement is provided electronically (exceptions may apply for statements requested in alternative formats)[6]. **Consider the relevant statutory guidance in the design of their statements**.

5. The governing body should present contributions information to members in an accessible, transparent form, so members are able to check that they are receiving the contributions due. This may include information on:

    a. the contributions received by the scheme after tax relief

    b. the percentage of pensionable pay due for employer and member contributions

    c. pensionable pay information, where held

    d. the dates contributions were due and paid

    e. charges or commission taken before or after payment to the scheme

Glossary

Automatic enrolment scheme
As defined for the purposes of the Pensions Act 2008.

Contributions
Money paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers.

6 Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Summary funding and pension benefit statements (DB)

1. Governing bodies of defined benefit (DB) pension schemes must, unless they are exempt from doing so[1], provide their members and beneficiaries with summary funding statements within a reasonable period from the date by when the governing body must receive each actuarial valuation or actuarial report[2]. In most cases, a period of three months will be reasonable.

2. Governing bodies of DB pension schemes must also issue benefit statements to members on request[3].

3. When drafting these statements, governing bodies should follow the principles set out in **General principles for member communications**.

4. The requirements set out in this module relate to information about DB benefits in the scheme. The governing body of any scheme providing defined contribution (DC) benefits, for example through additional voluntary contributions, must also meet the requirements in the **Annual pension benefit statements (DC)**.

1 Regulation 15 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 15 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

2 See Regulation 15 of, and Schedule 4 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [See Regulation 15 of, and Schedule 4 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

3 Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Summary funding statements

5. The governing body must include within any summary funding statement[4]:

    a. a summary as to whether the scheme assets are enough to cover the technical provisions based on the latest available actuarial valuation and any actuarial report since that valuation

    b. an explanation of any changes in the funding position from the previous statement

    c. the actuary's solvency estimate as set out in the latest actuarial valuation

    d. a summary of any recovery plan in force

    e. a statement explaining the following, including a summary of any applicable circumstances. Whether the scheme:

        - has been modified under section 231(2)(a) of the Pensions Act 2004 (the 2004 Act)
        - is subject to directions under section 231(2)(b) of the 2004 Act
        - is bound by a schedule of contributions by us under section 231(2)(c) of the 2004 Act

    f. a statement explaining whether any surplus payment has been made to the employer, and the payment amount

    g. the website address for any published report on climate change[5] and information as to how a hardcopy of the report can be requested'

4 Schedule 4 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Schedule 4 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

5 Regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 [Regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021]

Benefit statements

6. The governing body must:

   a. issue a benefit statement to members as soon as possible following a request for one, and within two months

   b. include the information required by legislation[5], which is summarised in c to f below.

   c. for active members the required information includes:
      - the amount of benefit payable, if the member of the scheme was to die in service on a specified date, including how the benefit is calculated
      - the amount of member's and survivors' benefits, not accounting for potential increase to the member's salary, that would be payable from the payment date, if pensionable service were to end on one of (option chosen by the governing body):
        - the date the member will attain normal pension age
        - a date that has been specified by the governing body, or
        - a date agreed with the member
      - the member's earnings that are used to determine the benefits in the scheme, as at a date specified by the governing body.

   d. For active and deferred members the required information includes:
      - The date pensionable service began
      - An overview of how the member's and any survivors' benefits are calculated
      - Whether any deductions apply and how these are calculated
      - Where the governing body is required to publish a report in relation to climate change[6] on a website, information about how to access that document online, including the address for the website and also how to request a hard copy of the report if available.

5 Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

6 Regulation 6(1)(b) of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (climate change reporting and publication requirements)

6. Benefit statements continued...

e. For deferred members the required information includes:
   - The date the member's pensionable service ended.
   - The amount of the member's and survivors' benefits and the date these are payable.
   - The member's earning figure, used to determine benefits in the scheme, on the date service ended.

f. For pension credit members the required information includes:
   - The value of the member's and survivors' benefits from the date benefits are payable.
   - An overview of how the member's and any survivors' benefits are calculated.
   - Whether any deductions apply and how these are calculated.

Glossary

Actuarial report
A written report, prepared and signed by the actuary, on developments affecting the scheme's technical provisions since the last actuarial valuation was prepared, as required by section 224 of the Pensions Act 2004.

Actuarial valuation
A written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its technical provisions, as required by section 224 of the 2004 Act.

Additional voluntary contributions
Known as AVCs, an additional employee contribution paid into the scheme in return for additional benefits.

Recovery plan
A payment plan for the scheme employer or employers, put in place to enable a defined benefit scheme to meet the statutory funding objective.

Benefit information statements (PSPS)

1. Scheme managers of public service pension schemes must provide all active members with an annual benefit information statement[1]. They may also be required to provide a benefit information statement to certain types of members on request[2].

2. They must also provide annual benefit information statements to deferred members and pension credit members of the scheme, where this is required by scheme regulations.

3. When drafting benefit information statements, scheme managers should follow the principles set out in **General principles for member communications**.

4. For active members of defined benefit (DB) schemes, scheme managers must:

    a. include a description of the benefits earned by members during their pensionable service[3]

    b. issue the annual statement by no later than 31 August of the year following the period to which the statement relates

    c. comply with any HM Treasury directions, in terms of any other information that must be included and the way it must be provided to members

5. For active, deferred, or pension credit members of any DB scheme, scheme managers must:

    a. provide a benefit information statement following a request for one, if the information has not been provided to that member in the previous 12 months

    b. issue a benefit information statement as soon as possible following a valid request for one, and within two months

    c. include the information required by law[4] in any benefit information statement

1 Section 14(1) of the Public Service Pensions Act 2013. [Article 14(1) of the Public Service Pensions Act 2014]
2 Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
3 Section 14(2)(a) of the Public Service Pensions Act 2013. [Section 14(2)(a) of the Public Service Pensions Act 2014]
4 Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

6. For members with defined contribution (DC) benefits, scheme managers must:

    a. provide a benefit information statement regarding their DC benefits to every member within 12 months of the end of the scheme year (irrespective of whether they also have DB benefits)

    b. include the information required by law[5] in any benefit information statement. See **Annual pension benefit statements (DC)**.

7. Where the applicable public service scheme regulations require additional benefit information to be provided to members, or for statements to be given at shorter intervals than set out above, those scheme regulations will also apply.

5 Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Retirement risk warnings and guidance

1. Members with a defined contribution (DC) or cash balance pension pot have a variety of options for taking retirement benefits. There are no restrictions on the amount they can withdraw as cash, though there may be significant tax implications.

2. Depending on the scheme's rules, a member may not be able to access their chosen flexible benefits directly from the scheme. They may need to transfer to another arrangement to gain access to the full range of options.

Retirement guidance

3. When giving members information about retirement options for their flexible benefits, by law the governing body must provide information on the **government guidance service**.

4. The governing body must:

   a. in certain circumstances[1,2,3], provide a statement informing members about the government guidance service (the guidance statement)

   b. Ensure the guidance statement recommends the member accesses the government's guidance service and that they consider taking independent advice

   c. where contact is made by a relevant beneficiary[4] wishing to access or to transfer for the purposes of accessing their flexible pension benefits, offer to book them an appointment with the government guidance service and take reasonable steps to book the appointment at a time and date suitable for them unless exempt[5]

   d. not proceed with an application to access or transfer flexible benefits, until the member has received guidance, or they opt out[6]. See **Transfers out**.

   e. provide the guidance statement (and any additional statement where required) where contact is made by the governing body, or by the member where the requirement to book an appointment as set out above does not apply, about what the member may do with their DC or cash balance benefits

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1 Regulations 18A to 21 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulations 18A to 21 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

2 Part 1, Schedule 10 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Part 1, Schedule 10 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

3 Regulation 18B Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18B Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

4 Regulation 18C (2) and (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

5 Regulation 18C(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18C(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

6 Regulation 18C (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18C (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

4. Retirement guidance continued...

f. the guidance statement(s) may be given verbally unless requested in writing[7]

g. identify any circumstances where there is a requirement to provide the information to individuals other than the member (for example, beneficiaries)

5. The governing body should:

a. make members aware of their right to transfer their benefit to another scheme at any age, to access their benefits in a variety of different ways

b. ensure all communications issued to members about their retirement options clearly set out what they need to consider, to make an informed decision about their benefits (see **General principles for member communications**)

Retirement risk warnings

6. Where scheme members with DC or cash balance benefits are approaching retirement, the governing body must by law provide certain information and risk warnings:

a. issue retirement information to members setting out the options available on accessing their retirement savings within the scheme. The information must include either[8]:

- a guide available from MoneyHelper **'Your pension: your choices'** (or any replacement that is prepared or approved by us)
- a statement that gives materially the same information

b. provide certain 'risk warnings' to members when providing the member with an application form or another way to access their benefits (some exceptions apply[9]) . The risk warning statement must:

- contain information about the options available to members about their benefits and the risks associated with each[10], or
- provide personalised risk warnings tailored to the member's circumstances

c. highlight in the risk warning statement, the importance of reading the warnings and accessing pensions guidance or independent advice[11]

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7 Regulation 18B(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18b(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

8 Paragraph 14, Part 3, Schedule 7 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 14, Part 3, Schedule 7 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

9 Regulation 19A Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 19A Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

10 Regulation 19A(6) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 19A(6) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

11 Regulation 19A(4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 19A(4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

Glossary

Annuity
A specific type of insurance policy, which can be purchased to secure an income for life at retirement.

Flexible benefits
Pensions benefits that may be drawn from a scheme and used for purposes other than purchasing an annuity (see section 74 of the Pension Schemes Act 2015).

Relevant beneficiary
A member of the scheme or a survivor of a member who has a right or entitlement to flexible benefits under the scheme.

Notification of right to cash transfer sum or contribution refund

1. The scheme rules and legislation will determine how and if a cash transfer sum or contribution refund is payable to a member who has left active service.
2. Where a member has a right to a cash transfer sum or a contribution refund in accordance with section 101AB of The Pension Schemes Act 1993[1], the governing body must provide them with a written notice under 101AC of that Act[2].
3. The governing body should provide this information within three months of the date the member left service. Governing bodies should advise members where it is likely to take more than three months to provide the information.
4. The governing body should give members three months to reply and can extend this deadline at their discretion or if a member asks. If the member does not respond, the governing body may arrange to pay a contribution refund after a further month.
5. A member must inform the governing body of their choice in writing[3].
6. The governing body should carry out the member's wishes within three months of receiving them[4]. The governing body can extend this period in exceptional circumstances.
7. The governing body must pay any refund requested at the direction of the member.

Leaving schemes that are being wound up

8. Where a member is deemed to have requested a contribution refund following the commencement of wind-up under regulation 5 of the Occupational Pension Schemes (Winding up, etc.) Regulations 2005[5], the governing body should take steps to pay the refund within one month.

1 Section 97AB Pensions Schemes (Northern Ireland) Act 1993
2 [Section 97AC Pensions Schemes (Northern Ireland) Act 1993]
3 Section 101AD(2) Pension Schemes Act 1993 [Section 97AD(2) Pensions Schemes (Northern Ireland) Act 1993]
4 Section 101AG Pension Schemes Act 1993 [Section 97AG Pensions Schemes (Northern Ireland) Act 1993]
5 Regulation 5 Occupational Pensions Schemes (Winding up, etc.) Regulations (Northern Ireland) 2005

Chair's statement

Basic principles of the chair's statement

1. The law requires governing bodies of certain occupational pension schemes that provide DC benefits to prepare a chair's statement within seven months of the end of each scheme year.

2. Compliance with this requirement must be declared on the scheme return submitted to us each year.

3. In the chair's statement, governing bodies must set out a variety of information, including describing and explaining how they have met certain legislative governance and charge standards[1]. See our **Communicating and reporting guide**.

4. Governing bodies should ensure the statement is written using the principles set out in **General principles for member communications**.

5. The law requires the chair to sign the statement on behalf of the governing body.

6. Failure to produce a statement signed by the chair that meets the requirements set out in the legislation will result in an automatic penalty of between £500 and £2,000[2], which the governing body will be personally liable to pay.

7. As a matter of good practice, governing bodies may wish to document actions as they occur and to hold evidence of any actions described within the statement.

1 Regulation 23 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 23 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]
2 Regulation 28 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 28 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

Making the chair's statement available

8. Governing bodies must make the statement available upon request and as part of the scheme report and accounts.

9. Certain parts of the statement must be publicly available, free of charge, on a website.

10. We have set out in paragraph 11 the areas that must be published online. However, in many cases it will be appropriate for governing bodies to publish the statement online in its entirety. Governing bodies may wish to take steps to conceal sensitive information that is immaterial to the statement, such as the chair's signature.

11. Parts of the statement that must be published online[3]:

    a. The statement of investment principles for the default arrangement, and the information set out in the chair's statement around the review of those arrangements.

    b. The level(s) of charges and transaction costs paid by members for each default arrangement and fund that members are able to select.

    c. The 'illustrative examples' included in the statement that show the effects of charges and transaction costs on members' accrued rights.

    d. Details of any unavailable transaction costs and steps being taken to obtain that information in future.

    e. The explanation of the assessment of whether the scheme represents good value for members.

> Further detail of the information that must be published online and how to present this can be found in the DWP's **statutory guidance**.

3 Regulation 29A(2) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 29A(2) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

Scams

1. Pension scams can occur when members seek to transfer their benefits to a different arrangement, take early retirement or take their benefits.
2. When processing a transfer, governing bodies must check that at least one of the conditions for the transfer to proceed is met (see **Transfers out**)[1].
3. Under section 249A of the Pensions Act 2004[2], governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions[3]. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. Under section 249B of the Pensions Act 2004, scheme managers of public service pension schemes[4] are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules[5], and with the requirements of the law.
5. As part of their internal controls, governing bodies should ensure that they take appropriate steps to mitigate the risk of scams.
6. Governing bodies should be aware of the warning signs of a scam and consider whether any are present when dealing with member requests to transfer or take their benefits.
7. When members ask to transfer out of a scheme, the governing body should carry out due diligence on the scheme to which the member wishes to transfer, to check whether the transfer can legally be paid.
8. Governing bodies should take steps to ensure their members are aware of the risks of pension scams.
9. They may do this by providing clear information on how to spot a scam in all relevant communications to members, including within standard communication materials such as the retirement wake-up pack and in annual benefit statements. Scams warning messages may also be placed on the scheme's website.

> Governing bodies can also pledge to do more to combat scams and follow the principles of The Pension Scams Industry Group (PSIG) **'Combating Pensions Scams – A Code of Good Practice'**. Further information can be found on our **website**.

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1 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021
2 Article 226A of The Pensions (Northern Ireland) Order 2005
3 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]
4 As defined in in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]
5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

Audit requirements

1. The law requires certain[1] governing bodies of occupational pension schemes to obtain the following within seven months of the end of each scheme year, from an independent auditor of the scheme:

    a. audited accounts, prepared in line with regulation 3 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996[2]

    b. the auditor's statement, prepared in line with regulation 4[3] of those regulations, about payment of contributions under the scheme

2. Accounts do not need to be sent to us as a matter of course.

3. The auditor's statement must:

    a. include their opinion on whether contributions have in all material respects been paid at least in line with any of:

        - the schedule of contributions
        - payment schedule
        - scheme rules or contracts under which they were payable

    b. where contributions have not been paid in line with the above, include a statement explaining why

    c. even where no contributions were payable in the audited period, still prepare an auditor's statement

1 Regulation 2 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [Regulation 2 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

2 [The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

3 The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

4. The governing body:

    a. must provide a copy of the scheme's audited accounts, as part of the annual report[4], to relevant persons[5] on request, and within two months of the governing body receiving the request

    b. may wish to consider publishing the accounts on a website that is free to access for scheme members

    c. should retain documentation on preparing the scheme's annual audited accounts, recording that process and its outcome, for at least seven years

    d. must make sure the normal auditing period[6] of 12 months is applied. However, the audit period may be between six and 18 months when the start date changes, or the scheme is in the final stages of being wound up

Glossary

Contributions
Money paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

4 Regulation 12 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 12 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

5 As defined in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [As defined in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

6 Definition of "Scheme year" in Regulation 1 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [Definition of "Scheme year" in Regulation 1 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

Communications and disclosure: Public information

Publishing scheme information (PSPS)

1. Scheme managers of public service pension schemes must publish certain information about the pension board and keep that information up to date.

2. This will ensure that scheme members can easily access information about who the pension board members are, the representation of scheme members on the pension board, and the responsibilities of the board.

3. Scheme managers may also consider publishing information about pension board business, for example, board papers, agendas, and minutes of meetings. These may be redacted to the extent that they contain confidential information and/or data protected by law. Scheme managers should consider requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.

4. Scheme managers may consider how best to publish information, making use of the principles outlined in **General principles for member communications**.

5. The scheme manager must publish and maintain:

    a. the names of pension board members

    b. details about the representation of scheme members on the pension board

    c. details of the matters for which the pension board is responsible[1]

6. Scheme managers may also publish:

    a. the employment and job title (where relevant) and any other relevant position each board members holds

    b. details of the pension board recruitment process

    c. who each pension board member represents

    d. the full terms of reference for the pension board, including details of how it will operate

    e. any specific roles and responsibilities of individual pension board members

7. Scheme managers should:

    a. have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete

    b. ensure any out-of-date or incorrect information identified is updated as soon as possible and in any event, within one month

1 Section 6(1) of the Public Service Pensions Act 2013. [Section 14(1) of the Public Service Pensions Act 2014.]

Glossary

Pension board
A board created to advise the relevant scheme manager in accordance with section 5 of the Public Service Pensions Act 2013.

Dispute resolution procedures

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies must put formal procedures and processes in place[1] to investigate and decide upon pension scheme disputes quickly and effectively. This applies to governing bodies of all occupational pension schemes, subject to certain exemptions[2].
2. Dispute procedures play a key role in effective scheme governance and administration and need to follow the legislative requirements[3]. The documents setting out the operation of the scheme may refer to internal dispute resolution arrangements.
3. Governing bodies must follow the dispute procedure to resolve various matters[4].
4. Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision that affects them), they have the right to ask for a review of the matter.
5. Where a person no longer has an interest in the scheme[5] or claims to be such a person, governing bodies must ensure their scheme's procedures allow a reasonable period for that person or their representatives[6] to make their applications. The reasonable period in these circumstances is six months beginning on the date their interest in the scheme stopped.
6. Governing bodies can accept an application outside of this timeframe if they believe it is appropriate.

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1 Section 50(1) of the Pensions Act 1995 and regulation 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Article 50(1) of the Pensions (Northern Ireland) Order 1995 and regulation 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

2 Section 50 (8) of the Pensions Act 1995 [Article 50(8) of the Pensions (Northern Ireland) Order 1995

3 Section 50 of the Pensions Act 1995 [Article 50 of the Pensions (Northern Ireland) Order 1995]

4 Section 50 of the Pensions Act 1995 and regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Article 50 of the Pensions (Northern Ireland) Order 1995 and regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]'

5 Section 50A(1) of the Pensions Act 1995 [Article 50A(1) of the Pensions (Northern Ireland) Order 1995

6 Section 50B(2) and (3) of the Pensions Act 1995 [Article 50B(2) and (3) of the Pensions (Northern Ireland) Order 1995]

Dispute resolution processes

7. In relation to dispute resolution processes, governing bodies must:
   a. provide their internal dispute resolution procedure to[7]:
      - prospective members if it is practicable to do so
      - any scheme members who have not been given the information
      - certain people who request the information and who have not been given that information in the previous 12 months
      - members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment
   b. provide information about the Money and Pensions Service and the Pensions Ombudsman to the complainant at certain stages of the dispute[8]
8. Governing bodies should:
   a. agree on any details of their dispute resolution process that are not set out in law
   b. provide contact details for matters relating to disputes
   c. regularly assess the effectiveness of the dispute procedure
   d. be satisfied that those following the process are complying with the requirements set, which includes effective decision making
   e. consider the circumstances under which advice may be required to reach a decision on a dispute
   f. ensure they make the following information available to applicants:
      - the process to apply for a dispute to be resolved
      - the information that an applicant must include
      - the process by which any decisions are reached

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7 Regulation 6(2) of, and paragraph 18 of Schedule 2 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013
8 Regulation 2(1) and (4) of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Regulation 2(1) and (4) of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

Reasonable periods

9. In relation to reasonable time periods[9] governing bodies should:

    a. decide the matter in dispute within four months of receiving the application

    b. in the case of a two-stage dispute resolution procedure, reach a first stage decision within four months of receiving the application

    c. in the case of a two-stage dispute resolution procedure, reach a second stage decision within four months of the point when the governing body receives the referral

    d. notify applicants of the decision no later than 21 days from when it is made

    e. not delay a decision where it is possible to process an application sooner than four months

    f. allow more than four months to reach a decision if it is appropriate to do so

10. For public sector schemes, where the governing regulations provide for shorter periods to consider grievances than set out above, those regulations will apply.

Decision-making

11. When reviewing an application, decision-makers should:

    a. ensure they have all the appropriate information to make an informed decision

    b. request further information if required

    c. be satisfied that the time and action taken to reach a decision and notify the applicant are appropriate to the situation, and be able to demonstrate this

Informing members

12. It is good practice for governing bodies to keep members informed about dispute resolution, this may include:

    a. publishing and making readily available details of the time limits within which someone with an interest in the scheme must make an application

    b. making their procedure accessible to members and potential applicants by publishing it on a scheme website

    c. keeping applicants advised of the progress of their dispute and let them know when they are likely to receive an outcome

9 Section 50(5) of the Pensions Act 1995 [Article 50(5) of the Pensions (Northern Ireland) Order 1995]

Glossary

Disputes

As defined in section 50(3) of the Pensions Act 1995[10] a pension dispute is a dispute which: is about matters relating to the scheme; is not an exempted dispute and is between the trustees or managers of a scheme and one or more persons with an interest in the scheme.

Exempted disputes

As defined in section 50(9) of The Pensions Act 1995[11] a dispute is an exempted dispute if: proceedings in respect of it have been commenced in any court or tribunal; the Pensions Ombudsman has commenced an investigation in respect of it as a result of a complaint made or a dispute referred to him, or it is of a prescribed description[12].

10 Article 50(3) of the Pensions (Northern Ireland) Order 1995
11 Article 50(9) of the Pensions (Northern Ireland) Order 1995
12 Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

Reporting to TPR: Regular reports

Registrable information and scheme returns

Registrable information

1. Governing bodies of registrable schemes[1] must provide us with all registrable information[2] when registering their schemes.

> The registrable information will vary, depending on the type of scheme. To learn more about registrable information, see our guidance **Update information on the scheme register**.

2. The governing body must tell us about changes to the registrable information as soon as reasonably practicable[3], at the very latest within five working days of the governing body becoming aware of the change.

Scheme returns

3. The law also requires governing bodies to complete a scheme return[4].
4. The scheme return includes registrable information, plus any other information that we may require to exercise our functions for a registered scheme. It is important that the information provided on the scheme return is accurate.
5. Governing bodies are accountable for the information they provide on the scheme return, regardless of whether it has been prepared by them, a scheme administrator, or an adviser.
6. Governing bodies should have measures in place to review and ensure the accuracy of the information in their scheme return before they send it to us. Governing bodies must also submit the scheme return by the date specified in the scheme return notice. If they do not provide it by the specified date, they may have to pay a fine[5].
7. It is a criminal offence for any person to knowingly, or recklessly, provide us with false or misleading information in the scheme return[6].

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1 As defined in section 59 of the Pensions Act 2004 and Regulation 2 of The Register of Occupational and Personal Pension Schemes Regulations 2005 [as defined in Article 54 of the Pensions (Northern Ireland) Order 2005 and Regulation 2 of The Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005]

2 Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005] 2 As defined in section 60 of the Pensions Act 2004, Regulation 3 of The Register of Occupational and Personal Pension Schemes Regulations 2005 and Regulation 14 of The Occupational Pension Schemes (Regulatory Own Funds) Regulations 2005 [As defined in Article 55 of the Pensions (Northern Ireland) Order 2005, Regulation 3 of The Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005 and Regulation 14 of The Occupational Pension Schemes (Regulatory Own Funds) Regulations (Northern Ireland) 2005]

3 Section 62 Pensions Act 2004 [Article 57 Pensions (Northern Ireland) Order 2005]

4 Section 64 Pensions Act 2004 [Article 59 Pensions (Northern Ireland) Order 2005]

5 Section 64(2) Pensions Act 2004 [Article 59(2) Pensions (Northern Ireland) Order 2005

6 Section 80 of the Pensions Act 2004 [Article 75 Pensions (Northern Ireland) Order 2005]

Reporting to TPR: Whistleblowing – reporting breaches of the law

Who must report

1. Certain people (reporters) are required to report breaches of the law to us when they have a reasonable cause to believe that[1]:

    - a legal duty which is relevant to the administration of a scheme, has not been, or is not being, complied with, and
    - the failure to comply is likely to be of material significance to us in exercising any of our functions

2. We interpret 'administration' widely over duties to report breaches of law, as part of our role regulating these schemes. Our interpretation is broader than day-to-day administrative tasks, such as record-keeping, dealing with membership movements, calculating benefits, and preparing accounts. It also includes considering investment policy, investment management, the custody of invested assets in all schemes, and scheme funding in defined benefit schemes. Broadly, our interpretation covers anything that could affect members' benefits, or members and others ability to access the information they are entitled to.

1 Section 70 Pensions Act 2004 [Article 65 Pensions Order (Northern Ireland) 2005]

Who has the duty to report?

3. Those with a duty to report are listed below. This list is not exhaustive, and if it is unclear whether the duty to report applies, the potential reporter may wish to seek legal advice:

   a. **Trustees**
   Each trustee. If the trustee is a corporate body, the requirement to report falls on the trustee company.

   b. **Public service scheme pension boards**
   Each member of the pension board of a public service pension scheme.

   c. **Scheme managers**
   This includes managers of public service pension schemes and personal pension schemes where a direct payment arrangement exists.

   d. **Service providers**
   Those who provide administrative services to occupational and personal pension schemes, including:

   - insurance companies and third-party administrators, who carry out administrative tasks relating to a scheme
   - participating employers, who provide staff to carry out administration tasks in-house (this includes performing payroll and similar functions, as well as carrying out or helping with direct administration of the pension scheme)
   - financial advisers and consultants, who provide services to trustees such as record-keeping or acting as intermediaries receiving and forwarding scheme documents.

   e. **Employers**
   All employers. In a multi-employer scheme, this includes any employer who becomes aware of a breach, regardless of whether the breach relates to or affects, members who are its employees or those of other employers.

   f. **Professional advisers**
   This includes advisors appointed by the governing body, such as scheme actuaries, scheme auditors, reporting accountants, legal advisers[2], investment managers, and custodians of scheme assets. Where an individual is appointed to provide the relevant service, the duty to report applies to that individual. Where a firm is appointed to provide services, the duty to report applies to the firm.

   g. **A scheme strategist or scheme funder of master trust scheme**
   This is defined in Part 1 of the Pension Schemes Act 2017 (see section 39 of that Act).

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2 Subject to the exceptions set out in Section 311 Pensions Act 2004 [Article 283 Pensions Order (Northern Ireland) 2005]

4. Governing bodies should be satisfied that those responsible for reporting breaches are aware of the legal requirements and this code. Training should be provided for the governing body and any in-house administrators.

5. A person's responsibility to report breaches is not limited to those that relate to their specific role in a scheme. Regardless of the activities being undertaken, material breaches should be reported as they are identified.

Whistleblowing protection and confidentiality

6. The Pensions Act 2004[3] makes it clear that the duty to report overrides certain other duties a reporter may have (such as confidentiality), and that any such duty is not breached by making a report. We understand the potential impact of a report on the relationship between a reporter and their client, or, in the case of an employee, their employer.

7. The duty to report does not override legal privilege[4]. Communications (oral and written) between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed.

8. The Employment Rights Act 1996[5] (ERA) provides protection for employees making a whistleblowing report to us. If individuals that are employed by firms with a duty to report, disagree with a decision not to report, they may have protection under the ERA if they make an individual report in good faith.

9. We will take all reasonable steps to protect a reporter's identity and maintain confidentiality, when a report is made in confidence. We will not disclose any information except where lawfully allowed to do so.

10. In all cases, reporters should act conscientiously and honestly, and to take account of expert or professional advice where appropriate.

3 The Pensions (Northern Ireland) Order 2005
4 Section 311 Pensions Act 2004 [Article 283 Pensions Order (Northern Ireland) 2005
5 The Employment Rights (Northern Ireland) Order 1996

Decision to report

1. There are two key judgements required when deciding to report a breach of the law[1]:
    a. Is there reasonable cause to believe there has been a breach of the law?
    b. Is the breach likely to be of material significance to us?

> Where the potential breach relates to a failure to pay contributions, please see **Reporting payment failures** for more information of failures we consider to be materially significant.

'Reasonable cause to believe'

2. Having a reasonable cause to believe that a breach has occurred means more than merely having a suspicion that cannot be proved.
3. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with members of the governing body or with others who are able to confirm what happened. However, it would not be appropriate to alert those implicated in potential serious offences involving dishonesty, such as theft or fraud. In such cases, due to the immediate risk to scheme assets, reporters should bypass the usual checks, making only those they deem necessary and not cause undue delay to the report being made to us.

Likely to be of 'material significance'

4. By law, any breaches must be reported to us if they are likely to be of 'material significance' to us in carrying out any of our functions. Whether a breach is of 'material significance' depends on several factors.

The cause of the breach

5. A breach is likely to be of material significance to us when it was caused by:
    a. dishonesty, negligence, or reckless behaviour
    b. poor governance, ineffective controls resulting in deficient administration, or slow or inappropriate decision-making practices
    c. incomplete or inaccurate advice
    d. a deliberate act or failure to act

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1 Section 70 of the Pensions Act 2004 and Article 65 of the Pensions (Northern Ireland) Order 2005

The effect of the breach

6. We consider a breach to be materially significant where the effects include any of the following:

    a. A significant proportion of members, or a significant proportion of members of a particular category of membership, are affected by the breach.

    b. The breach has a significant effect on the benefits being paid, to be paid, or being notified to members.

    c. The breach, or series of unrelated breaches, have a pattern of recurrence in relation to participating employers, certain members, or groups of members.

    d. 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.

    e. Unmanaged conflicts of 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.

    f. 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.

    g. Risks are not properly identified and managed and/or the right money is not being paid to or by the scheme at the right time.

    h. 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.

    i. 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.

    j. Governing bodies or anyone associated with the scheme misappropriate scheme assets or are likely to do so.

    k. Trustees of defined benefit schemes not complying with requirements of the Pension Protection Fund during an assessment period.

Reaction to the breach

7. We will not 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 scheme members have been notified.

8. A breach is likely to be of concern and material significance to us if a breach has been identified that:

    a. does not receive prompt and effective action to remedy the breach and identify and tackle its cause to minimise risk of recurrence

    b. is not being given the right priority by the governing body or relevant service providers

    c. has not been communicated to affected scheme members where it would have been appropriate to do so

    d. forms part of a series of breaches indicating poor governance

    e. it was caused by dishonesty, even when action has been taken to resolve the matter quickly and effectively

The wider implications of the breach

9. These should be considered when assessing whether it is likely to be materially significant to us. For example, a breach is likely to be of material significance where:

    a. 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)

    b. other schemes may be affected, for example schemes administered by the same organisation where a system failure has caused the breach

10. Those reporting a breach should consider general risk factors, such as the level of funding (in a defined benefit scheme) 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 us than if they occurred in a well-funded, well-administered scheme.

11. 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.

12. We 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 may make it materially significant.

Glossary

Internal controls

- Arrangements and procedures to follow in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to follow for the safe custody and security of the assets of the scheme. (Section 249A of the Pensions Act 2004).

Reporter

Any person who has a duty to report a breach of the law.

How to report

1. Those responsible for reporting breaches (see **Who must report**), including the governing body, should establish and operate procedures to ensure they are able to meet their legal duties. Reporters should not rely on waiting for others to report.

2. The governing body should have:

   a. a process for clarifying the law around the suspected breach where needed

   b. a process for clarifying the facts around the suspected breach where they are unknown

   c. a process to consider the material significance of the breach, taking into account its cause, effect, the reaction to it, and its wider implications, including dialogue within the governing body where appropriate

   d. a clear referral process at the right level of seniority, so decisions can be made about whether to report to us

   e. an established procedure for dealing with difficult cases

   f. a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable

   g. a system to record breaches, even if they are not reported to us (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal an ongoing issue)

   h. a process for reviewing reporting procedures following any important changes to the scheme's governance arrangements

Making a report

3. Reporters should make a report using our online web form, email, or by post. We do not usually accept reports by telephone. If a reporter discovers an urgent breach which is likely to have an immediate and damaging effect for scheme members, they should notify us by telephone before submitting their report in writing.

4. Reporters should also mark urgent reports as such and highlight any matters they believe are particularly serious.

5. Those looking to report a payment failure for a defined contribution scheme may wish to consider doing so via our maintaining contributions portal (see our **Essential guide to reporting the late payment of contributions**).

6. Breach of law reports must be made to us in writing as soon as reasonably practicable[1]. In most cases, this should be within 10 working days of the breach being identified. However, reporters may use their judgement and apply 'reasonably practicable' to their own circumstances. Consider such factors as the seriousness of the potential breach and its consequences. Where reporters decide a longer reporting time is reasonable, they should record the reasons for this and any evidence in case they need to show this in future.

7. The report should include the:

    a. full name of the scheme

    b. description of the breach or breaches, including any relevant dates

    c. name of the employer (in the case of an occupational scheme) or scheme manager (in the case of public service and personal pension schemes)

    d. name, position, and contact details of the reporter

    e. role of the reporter in the scheme

    f. reason the reporter believes the breach is of material significance to us

    g. address of the scheme

    h. type of scheme – whether occupational (defined benefit, defined contribution, or hybrid), personal or public service

    i. name and contact details of the governing body (if different to the scheme address)

    j. pension scheme registration (PSR) number if known

    k. address of the employer

1 Section 70 of the Pensions Act 2004 [Article 65 of the Pensions (Northern Ireland) Order 2005]

Making a report continued...

8. There are other requirements placed on those running pension schemes to report to other bodies. Where the duty to report to another body coincides with the duty to report to us, the report to us should include details of the other bodies the matter has been reported to.
9. We will acknowledge all reports within five working days of receipt. If reporters have not received an acknowledgement from us within five days, they should contact us.
10. Due to legal restrictions[2] on the information we can disclose, we will not keep reporters informed of the steps we are taking to deal with the report, but we may contact a reporter to ask for more information.
11. If a scheme or an individual is at risk, for example where there has been dishonesty, the reporter should not take any actions that may alert those implicated that a report has been made. Similarly, reporters should not delay their report to us, to check whether any proposed solutions will be effective.

Multiple reporters

12. More than one person may be responsible for reporting the same breach. Those who have a duty to report should be aware this is not automatically discharged by another party reporting the breach.
13. Reporters should avoid making duplicate reports where possible. Once we become aware of a breach, we do not typically regard that breach as materially significant for the purpose of making a further report. However, an exception to this is when another reporter has additional information or different information about that breach or the circumstances related to it.
14. Where multiple reporters wish to submit a collective report, the reporting procedure should allow for the evaluation of breaches as described in this code of practice. The report should be made as soon as reasonably practicable.

Glossary

Reporter
Any person who has a duty to report a breach of the law.

2 Section 82 Pensions Act 2004 [article 77 Pensions (Northern Ireland Order 2005] and Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

Reporting payment failures

Duty to report

1. Where contributions are not paid on time, and the governing body[1] or another party with a duty to report[2] has reasonable cause to believe that the payment failure is likely to be of material significance to us, they should send a written report of the matter to us.

2. The legal requirement to report late payments of employee and employer contributions into certain occupational and personal pensions is imposed on the 'trustees and managers' of the scheme. In addition, the legal requirement to report late payments of employer contributions into public service pension schemes is imposed on a 'scheme manager'[3].

3. Reports should be made to us within 14 days of the trustees having reasonable cause to believe that a material payment failure exists. Members should be notified within 30 days of the report to us[3]. When reporting to members, governing bodies should provide payment information that will enable them to understand what has been paid to the scheme and by whom.

4. Governing bodies should also identify where contributions due to be paid under the payment schedule have been received by the scheme. Members can then take steps to resolve any payment problems with their employer at the earliest opportunity (see **General principles for member communications**).

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1 Section 111A of the Pension Schemes Act 1993 .[Article 107A of the Pensions (Northern Ireland) Schemes Act 1993] sections 49(9) and 88(1) of the Pensions Act 1995 [Articles 49(9) and 86(1) of the Pensions (Northern Ireland) Order 1995] sections 70A and 228(2) of the Pensions Act 2004 [Article 65A and 207(2) of the Pensions (Northern Ireland) Order 2005]'

2 Section 70 of the Pensions Act 2004 [Article 65 of the Pensions (Northern Ireland) Order 2005]

3 Public Service Pensions Act 2013 [Public Service Pensions Act (Northern Ireland) 2014]

4 Section 228(2) of the Pensions Act 2004. [Article 207(2) of the Pensions (Northern Ireland) Order 2005] Section 111A(7A) of the Pension Schemes Act 1993. [Article 107A(7A) of the Pensions (Northern Ireland) Schemes Act 1993] Sections 49(9) and 88(1) of The Pensions Act 1995 [Articles 49(9) and 86(1) of the Pensions (Northern Ireland) Order 1995]

Materially significant payment failures

5. Payment failures that are likely to be of material significance include:

    a. where governing bodies have reasonable cause to believe that the employer is neither willing nor able to pay contributions

    b. where there is a payment failure involving possible dishonesty or a misuse of assets or contributions

    c. where the information available to the governing body indicates that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions

    d. 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

    e. any event where contributions have been outstanding for 90 days from the due date

Materially significant payment failures continued...

6. Payment failures which are not likely to be of material significance include:

    a. where a payment arrangement is being met by an employer for the recovery of outstanding contributions

    b. where a claim has been submitted to the Redundancy Payments Office National Insurance Fund or the Northern Ireland Redundancy Payments Service

    c. where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date

    d. where payments are made in excess of the contributions due under the payment schedule

    e. where contributions are paid late but in full and within 90 days of the due date

Glossary

Contributions
Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

Days
References to ‘days’ means all days. References to ‘working days’ do not include Saturdays, Sundays or Bank Holidays.

Payment failure
A contribution which has not been paid in accordance with the payment schedule in full on or before its due date.

How to contact us

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Brighton
BN1 6AF

https://www.thepensionsregulator.gov.uk/
https://trusteetoolkit.thepensionsregulator.gov.uk/
Free online learning for trustees

https://education.thepensionsregulator.gov.uk/
Pensions education portal

The Pensions Regulator

General code of practice

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Commentary	Evidence	Primary responsibility	Current rating	Actions ahead of next review
As per the requirement	A document detailing the expectation of the Chairman has been prepared and is currently awaiting sign-off (28/8/24)	Democratic Services Officers	Not completed	A document detailing the expectation of the Chairman has been prepared and is currently awaiting sign-off (28/8/24)
Scheme managers should consider how they share information with prospective board members prior to commencement of their duties.	Members receive induction training and information on appointment. Employee representatives have a document covering expectations as part of the role, however the employer representatives do not.	Democratic Services Officers	Partially met	Review current documents for prospective employee representatives, and produce a document for prospective employer representations that appointing bodies should consider in nominations.
The scheme manager may consider liaising with their procurement team when considering best practice in this area.	Current investment advisor (Hymans Robertson) has a conflicts policy. Process for managing workload agreed by officiers in conjuction with advisors with scopes and costs agreed in line with framework. Need to more fully understand a data protection issues by asking Hymans for their policy	Investment Officers	Partially met	Need to more fully understand data protection issues by asking Hymans for their policy.
The scheme manager may consider liaising with their legal team when considering best practice in this area.	Performnce to date is in line with expectations. Need to introduce a formal annual review and record performance against KPIs.	Investment Officers	Partially met	Need to introduce a formal review of performance against KPIs. Officers should check to see if other frameworks exist when current contract nears expiry date.
As per requirement	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly details these controls needs to be created.	Pension Section Officers	Partially met	Create a document which expands on the authorisation levels for payments and includes a breakdown of each administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by

		Pension Section Officers	Partially met	by Pension Assistants and those by Pension Officers etc.
As per requirement	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly details these controls needs to be created.	Pension Section Officers	Partially met	Create a document which expands on the authorisation levels for payments and includes a breakdown of each administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by Pension Officers etc.
As per requirement	Areas stated are all included in the quarterly review and as above those changes are referred to board/committee/ senior managment. This was the case when the McCloud remedy was inroduced along with changes to processes, including updating processes notes, systems updated, comms issued to members and employers. Any changes of this nature also subject to an internal audit.	Pension Section Officers	Partially met	Produce a document to explicitly state this, which is already current practice
As per requirement	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly details these controls needs to be created.	Pension Section Officers	Partially met	Create a document which expands on the authorisation levels for payments and includes a breakdown of each administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by Pension Officers etc.
As per requirement	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly			Create a document which expands on the authorisation levels for payments and includes a breakdown of each

	details these controls needs to be created.	Pension Section Officers	Partially met	administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by Pension Officers etc.
As per requirement	Further investigations required in respect of this requirement.	Democratic Services Officers	Partially met	Further investigations required in respect of this requirement.
References to internal controls occur throughout the GCOP in slightly different contexts. Under this requirement scheme managers should ensure that internal controls are in place and are adequate to ensure that LGPS regulations and wider law is complied with.	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly details these controls needs to be created.	Pension Section Officers	Partially met	Create a document which expands on the authorisation levels for payments and includes a breakdown of each administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by Pension Officers etc.
As per requirement	Discuss if inclusion of clearer roles and responsibilities are needed for LPC and ISC members. Also potentially			Improve the understanding of the LPC by running regular training and self assessment exercises. Make clear within

	Training for all members mandatory. All major decisions (new mandates or new managers, changes in strategic from guidance a-k most are met	Investment Officers	Partially met	Training for all members mandatory. All major decisions (new mandates or new managers, changes in strategic allocation) from guidance a-k most are met
The scheme manager must operate internal controls which include its administration function of the scheme	These internal controls are in place but a new document expanding on the financial sign off amounts to explicitly details these controls needs to be created.	Pension Section Officers	Partially met	Create a document which expands on the authorisation levels for payments and includes a breakdown of each administration area, who deals with these and who checks. Plus links back to Job Descriptions, so could have tasks covered by Pension Assistants and those by Pension Officers etc.
THE GCOP is referring to the first and second conditions as set out in regulations 7 and 8 of the Occupational and Personal Pension Ultimate responsibility for compliance rests with scheme manager although in reality operational responsibility will be delegated to These requirements should form part of the standard transfer out process	Current transfer notes cover these areas, though need to be more explicit in some areas. Also more recent changes are recorded separately and need to be combined into the main document.	Pension Section Officers	Partially met	Merge transfer notes with changes document to create fully up to date single document.
A requirement under s95(2) of Pension Schemes Act 1993. Ultimate responsibility for compliance rests with scheme manager although in reality operational responsibility will be delegated to	This is current practice but notes will need to be updated to ensure that this is all explicitly stated. Processes in place to check that payments are made to bank accounts held by the receiving scheme (Bankline). Where payments amount to over £100,000 then additional dilligence is done prior to payment being made.	Pension Section Officers	Partially met	Update notes to include this which is current practice.

This should be reflected in transfer out procedures	In the event that this occurred this would be raised with Audit who would report this to Action Fraud. This is current practice but notes need amending to make this explicit.	Pension Section Officers	Partially met	Update notes to include this which is current practice.
This should be reflected in transfer out procedures	If this occurred then these would be reported to TPR (six month limit). Notes need to amended to include this practice (this is where we would have concerns about paying, e.g. scams).	Pension Section Officers	Partially met	Update notes to include this which is current practice.
Administering authorities must be satisfied that the financial advisor used by the fund member has permission to give advice and is listed on The regulatory requirement can be found at Section 48 and 51 of the Pension Schemes Act 2015	This is current practice, but notes need to be updated to state this.	Pension Section Officers	Partially met	Update notes to include this which is current practice.
Scheme managers should be able to demonstrate its processes for monitoring scheme data such as data validation and improvement plans.	The Fund has a Data Improvement plan in place and reviewed as and when requried.	Pension Section Officers	Partially met	Review Data Plan and consider whether this needs to be kept separate or incorporated into the Admin and Comms Plan
Scheme managers should be able to demonstrate its processes for monitoring scheme data such as data validation and improvement plans.	Data reviewed as part of year end exercise prior to production of Annual Benefit Statements. Common and Scheme Specific Data assessed and reported on Quarterly to Board.	Pension Section Officers	Partially met	Consider whether to expand on data review processes currently in place
This requirement applies to all IT systems relied upon by the scheme manager including, but not limited to, administration systems, payroll systems, employer and member interfaces, data storage and electronic communications	Fund Cyber Policy outlines procedures in place for ensuring service providers are managing systems appropriately.	Pension Section Officers	Partially met	Review Cyber Policy to ensure that these areas are covered

No specific examples are given, however, the GCOP does refer to obligations under the law includes the Data Protection Act 2018	Fund Cyber Policy covers internal controls including passwords, data breaches, access to system functionality	Pension Section Officers	Partially met	Review Cyber Policy to ensure that these areas are covered
As per requirement	Fund Cyber Policy covers these areas	Pension Section Officers	Partially met	Review Cyber Policy to ensure that these areas are covered
	Schedules are received on a monthly basis from contributing employers and saved as pdf files. The details on the schedules, including the employee contributions, additional contributions, pensionable pay and date of receipt are input on our EPIC database and sense checked against the individual employer rate expected. A reconciliation of the current overall balances for the Pension Fund is performed on a monthly basis.	Pension Section Officers	Partially met	Processes need to be documented and regularly reviewed.
	Schedules are received on a monthly basis from contributing employers and saved as pdf files. The details on the schedules, including the employee contributions, additional contributions, pensionable pay and date of receipt are input on our EPIC database and sense checked against the individual employer rate expected. A reconciliation of the current overall balances for the Pension Fund is performed on a monthly basis.	Pension Section Officers	Partially met	Processes need to be documented and regularly reviewed.

	No current policy in place - though in practice contributions haven't been written off. Will add to Admin and Comms strategy.	Pension Section Officers	Not completed	Update Admin and Comms strategy document to reflect what would happen if this was to occur.
	Although payments received after the statutory deadline, when payments are late, these are queries with the relevant employer at the earliest opportunity. All correspondence is recorded on EPIC database records.	Pension Section Officers	Partially met	Processes need to be documented and regularly reviewed.
	Once an overdue payment request has been made, the Pension Fund bank statement is monitored daily to check for receipt. If the payment has not been received by the agreed date, further correspondence is sent to the employer. All correspondence relating to investigations is kept on our computer systems in our email folders.	Pension Section Officers	Partially met	Processes need to be documented and regularly reviewed.
	All correspondence relating to investigations is kept in email folders on systems	Pension Section Officers	Partially met	Processes need to be documented and regularly reviewed.
	Contributions are sense checked to establish if the employer rate used is broadly similar each month.	Pension Section Officers	Partially met	Consideration needs to be given to whether any further checks are needed. Current process needs to be documented and regularly reviewed.
This section will apply in respect of members with AVCs	Provided by Pru - But this is our responsibility, will add to A+C			Add to Admin and Comms Strategy

The reference to "information required by law" refers to Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of 2013		Pension Section Officers	Partially met	
Note that a Cash Transfer Sum is a transfer of deferred refund. See row below for details of a "reasonable period"	This option is included in the Frozen Refund letter that is issued to leavers with less than two years - but this process doesn't appear to be covered by the A+C document	Pension Section Officers	Partially met	Need further reference to this in process notes and/or Admin and Comms
	This is current practice but doesn't appear to be covered by Admin and Comms Strategy.	Pension Section Officers	Partially met	Need further reference to this in process notes and/or Admin and Comms
Timescales and a process for extending timescales should be built into refund procedures	Current practice would be to extend the deadline by default, i.e. where a refund has not been claimed then a transfer can be made. Needs to be added to Admin and Comms Strategy.	Pension Section Officers	Partially met	Need further reference to this in process notes and/or Admin and Comms
Timescales and a process for extending timescales should be built into refund procedures	This is current practice but doesn't appear to be covered by Admin and Comms Strategy.	Pension Section Officers	Partially met	Need further reference to this in process notes and/or Admin and Comms
This part of the GCOP references the Transfer Section of the GCOP but is included here for completeness	This is current practice and we have notes, but recent changes need to be merged into main notes	Pension Section Officers	Partially met	Notes need to be updated

	This is current practice and we have notes, but recent changes need to be merged into main notes	Pension Section Officers	Partially met	Notes need to be updated
Ensure that letters and communications are regularly reviewed to include the required information	We refer to the Pension Ombudsman and TPAS - needs to be updated.	Pension Section Officers	Partially met	Check that all documentation has been updated to refer to MaPS, not TPAS.
The range of individuals required to report a breach is wide (see s70 of the Pensions Act 2004). The scheme manager should note the comments from TPR that it classifies '*administration' of a scheme to mean "anything*	We have a doc detailing when a breach is material and these are taken to the Board.	Pension Section Officers	Partially met	Review the process and propose a report to Board to incorporate into an annual process.
The scheme manager should make clear to all stakeholders their responsibility to report breaches (deemed material to TPR) to TPR.	Whilst a process for reporting breaches is in place, it needs to be reviewed and incorporated into an annual process.	Pension Section Officers	Partially met	Review the process and propose a report to Board to incorporate into an annual process.

The scheme manager should establish and operate a procedure that ensures they can meet their legal duties for reporting breaches.	Process in place but does require a review to ensure full compliance.	Pension Section Officers	Partially met	Review the process and propose a report to Board to incorporate into Annual Process
This requirement should be included in processes	We write to scheme members where an employer has not fully complied with their statutory requirements, e.g.late signature of an admission agreement.	Pension Section Officers	Partially met	Review the process and propose a report to Board to incorporate into Annual Process

Agenda Item 15

Leicestershire County Council

LOCAL PENSION COMMITTEE – 6 SEPTEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT PENSION FUND ANNUAL REPORT AND ACCOUNTS 2023/2024

Purpose of the Report

1. The purpose of this report is to seek the Committee's approval of the appended Annual Report and Accounts of the Pension Fund for the financial year 2023/24.

Background

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

3. The Local Pension Board considered the report at its meeting on 31 July 2024 to assist the Administering Authority in ensuring the effective and efficient governance and administration. No comments were received and the Board supported the draft Annual Report and Accounts.

New Annual Report Guidance

4. In May 2024 the Scheme Advisory Board (SAB), Chartered Institute of Public Finances and Accountancy and the Department for Levelling Up, Housing and Communities as it was formerly known, produced revised guidance to assist the LGPS with the preparation and publication of the pension fund annual report as required in regulation 57 of the LGPS Regulations 2013. The guidance applies to 2023/24 annual reports and later years.

5. It was expected that funds use best endeavours as a basis to comply fully with the guidance, but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort of cost. The guidance sets out that where significant variation from this guidance has been considered appropriate fund's should provide an explanation.

6. The guidance uses the following terms for different elements:

Must	Compliance is strongly expected. Any non-compliance should be

	clearly identified in the annual report and an explanation provided.
Should	Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.
May	Compliance is recommended but is discretionary.

7. Officers have followed the guidance as far is possible and has met the majority of the ‘must’ and ‘should’ requirements in officers view of how the guidance is set out.

8. Where non-compliance exists, these are highlighted below.

- A number of revised administration key performance indicators have been added to the report following the SAB’s recommended layout. Not all of these tables are able to be included given the Fund’s workflow tasks are not set up to report on certain activities. The Fund liaised with the SAB and the SAB Officer appreciated the limitations and agreed the Fund’s existing KPIs could be included in this section. It was accepted this may remain the case for future years ahead, until system workflow tasks are nationally agreed with standard reporting features.

- Funds ‘must’ report “*Investment performance net of fees for the 12 months corresponding to the accounting period for each fund manager or asset class must be reported alongside an appropriate benchmark chosen by the authority and the choice of benchmark must be stated. Benchmarks should not change from year to year, and if a new benchmark is adopted, there must be an explanation given”*. While the Annual Report sets out performance against its benchmarks the Fund is unable to name the benchmarks used under the terms of the current contract with the Fund’s performance information provider and the underlying benchmark providers. The Fund will consider options for future reporting ahead of publication of the 2024/25 report.

- The guidance sets out that the Fund ‘should’ indicate how it is responding to the SAB’s Code of Transparency. Steps need to be taken by the Fund to fully review this position and encourage compliance by investment managers. Presently, approximately 65% of the Fund’s investment managers are signed up to the scheme. However, it should be noted that the majority of investment managers provide cost information to the Fund through the use of the Cost Transparency Initiative (CTI) templates required by the Code of Transparency, which supports accounting of the underlying costs of investments as disclosed in the Annual Report.

Next Steps

9. The Fund accounts are subject to external audit by Grant Thornton LLP. The Pension Fund Accounts are reported to the County Council’s Constitution Committee, as part of Leicestershire County Council’s Statement of Accounts once the External Audit is completed. The External Audit of the Accounts is reported to the Corporate Governance Committee and the Chair of that Committee is required to sign a Letter of Representation assuring the auditors that the financial statements are complete, and that all required information has been disclosed in the accounts and to the external auditors. This is currently timetabled to be reported in December 2024.

10. The pension fund Annual report and Accounts will go to the Pension Fund Annual General Meeting on 10 December 2024.

Leicestershire Pension Fund Conflict of Interest Policy

11. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

12. That:

a. The Annual Report and Accounts of the Pension Fund for the financial year 2023/24 be approved subject to External Audit;

b. It be noted that the Corporate Governance Committee would receive the External Audit of the 2023/24 Leicestershire County Council Statement of Accounts, Annual Governance Statement and Pension Fund Accounts.

Appendix

Draft Pension Fund Annual Report and Accounts

Environmental Implications

13. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. This 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. The Fund is committed to supporting a fair and just transition to net-zero. Highlights from 2023/24 are included within the Annual Report and there are no changes to this approach as a result of this paper.

Equality Implications

14. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Human Rights Implications

15. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. 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. There are no changes to this approach as a result of this paper.

Officers to Contact

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LOCAL GOVERNMENT PENSION SCHEME
LEICESTERSHIRE ANNUAL REPORT

Year ended 31st March 2024

Administered by

LEICESTERSHIRE COUNTY COUNCIL

Contents

Foreword

We are pleased to introduce the annual report of the Leicestershire Pension Fund (the Fund). The aim of this report is to set out the Fund's financial position as at 31 March 2024 and to provide a summary of the Fund's key activities over the past financial year. It also sets out the way in which the Fund is managed both in relation to the administration of benefits and the investment of the Fund's assets.

It is vital we continue to manage the Fund to ensure it continues to have sufficient assets in the long term on behalf of over 100,000 scheme members and over 200 employers. This is in order to support the payment of members' pension benefits while keeping employers' contributions stable, understanding the vital roles they play within our communities. The work of the Fund is never finished, but we are pleased to highlight in particular the following activities over the past year.

- The Fund is now worth over £6.3billion. This year we achieved a 9.1% return on investments, and over the longer five-year time period it continues to outperform its benchmark.
- Over the year we have continued to support pooling, with over half of our assets invested with LGPS Central and a low-cost passive equity investment manager.
- We continue to progress net zero by 2050, with an ambition for sooner and have already reduced our equity carbon intensity by 36%. This is alongside over £1billion invested in investments supportive of the climate transition.
- We've continued to work with our partners LGPS Central and the Local Authority Pension Fund Forum to engage with companies in our role as responsible investors.
- In October 2023 the new McCloud remedy regulations, to remove the scheme discrimination came into force. McCloud continues to represent the greatest risk and challenge to pension administration due to complexity and additional resource required. The team is actively working on its implementation to factor it into benefit calculations for members.
- The Team also continues to work on the national Dashboards project which looks to allow individuals to view their consolidated pension benefits in a single online account. I know the Local Pension Board are paying keen attention to this.

Thank you for taking the time to read this report.

Mr Tom Barkley CC
Chairman of the Local Pension Committee

Declan Keegan
Director of Corporate Resources

Introduction

The Local Government Pension Scheme (LGPS) is a statutory public service pension scheme in England and Wales. The LGPS scheme regulations are determined nationally. However, the scheme itself is administered and managed locally. Leicestershire County Council is the Administering Authority for the LGPS within Leicestershire and Rutland (the Fund).

As the Administering Authority, Leicestershire County Council has a statutory obligation to administer the Fund for all eligible employees of all local authorities within the geographic boundaries of Leicester, Leicestershire, and Rutland and also the employees of certain other scheduled and admitted bodies such as Loughborough and De Montfort University. The Fund does not cover teachers, lecturers, police, or fire-fighters as they have their own schemes.

In addition to this report, the Fund also reports its compliance against a set of best practice governance principles laid down in statutory guidance. Details of these are listed below.

The Fund has a number of policy statements which can be accessed here. These include:

- Funding Strategy Statement
- Investment Strategy Statement and Investment Advisor Objectives
- Administration and Communication Strategy
- Net Zero Climate Strategy

Overall Fund Management

Scheme Management and Advisors

Scheme Administering Authority Leicestershire County Council

Administering Authority Senior officers responsible for the Fund

Finance
Declan Keegan – LGPS Senior Officer (Director of Corporate Resources, Leicestershire County Council)

Pensions Administration
Ian Howe - Pensions Manager - Leicestershire County Council

Asset Pool LGPS Central Limited

Investment Managers

Investments managed by LGPS Central**:**

All World Equity Climate Multi Factor Fund

Emerging market equities multi-managers fund *(BMO, UBS, Vontobel),*
Global active corporate bond multi-manager fund *(Neuberger Berman, Fidelity)*
Infrastructure core / core plus multi manager fund
Global active MAC multi-manager fund *(Western Asset Management, BMO)*

LGPS Central PE Partnership 2018, 2021 & 2023 LP
Global active emerging market bond multi manager fund *(Amundi, M&G)*
Global equities multi-manager fund (*Harris, Schroders & Union)*
LGPSC Credit Partnership I, II & IV (2021)

Others:
Adams Street Partners

Aspect Capital (divested by 31 March 2024)
La Salle Investment Management
Catapult Venture Managers
Colliers Capital UK

Cristofferson, Robb & Company
Infrastructure Funds Management
JP Morgan Asset Management
Standard Life Aberdeen

DTZ Investment Management

Aegon Asset management (formerly Kames Capital)
Kravis Kohlberg Roberts (KKR)
Legal & General Investment Management
Partners Group
Pictet Asset Management (divested by 31 March 2024)
M&G Investments
Ruffer LLP
Quinbrook Infrastructure Partners
Stafford Capital Partners

Fulcrum Asset Management

Fund Custodian
JPMorgan, Bournemouth

Auditor
Grant Thornton LLP

Banker
National Westminster Bank, Leicester

Legal Advisor
County Solicitor, Leicestershire County Council
Freeths Solicitors

Actuary and Investment Consultant
Hymans Robertson LLP, Glasgow

AVC Provider
Prudential, London

Risk Management

There are many risks associated with the LGPS, covering both the investment of the assets and the administration of the benefits payable. The governance arrangements between the Fund and the Administering Authority enable potential risks to be managed, including the Fund's Conflict of Interest Policy and separation of the Fund's budget from that of Leicestershire County Council as the Administering Authority.

The Fund maintains a Risk Register which identifies areas of focus for risk management. Risks are measured in accordance with Leicestershire County Councils risk management framework. Each quarter officers identify new risks, and review and manage existing risks on the Register. Each risk is assessed and scored based on the likelihood of it occurring and the impacts faced if it were to occur. Mitigating actions are then taken into account and the scoring reassessed. The Risk Register and changes to this are reported to the Local Pension Committee and Local Pension Board on a quarterly basis and this is also shared with the Administering Authorities Internal Audit Service.

The governance arrangements between the Fund and the Administering Authority enable potential risks to be managed, including the Fund's Conflict of Interest Policy and separation of the Fund's budget from that of Leicestershire County Council as the Administering Authority. The Fund's Statement of Accounts included elsewhere in this report is further externally audited and overseen by Leicestershire County Council's Corporate Governance Committee further to the Local Pension Board and Committee.

The 2023/24 Risk Register currently includes 18 risks, none of which currently score 15 or above. These are split between 6 risk categories as follows:

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

During the period, the Fund's most significant risks were:

Investment

The ongoing risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is quantified by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid. The 31 March 2022 triennial valuation detailed an improved funding position, with the Fund 105% funded.

The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer contributions, with employee contributions assumed to be fixed. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk considered. The Fund's asset allocation policy is reviewed annually, and last considered January 2024.

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

The Local Pension Committee receives advice from the investment practice of Hymans Robertson and this assists in making decisions in respect of both overall investment policy, manager selection/retention and good governance. In general, where new managers or follow on vintages from existing managers are being considered for investment, officers will agree a scope of works to cover suitability of the investment in line with the Funds objectives.

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

Other investment managers that the Fund employs are appointed by LGPS Central Ltd (LGPS Central), a company which pools pension fund assets from eight pension funds across the Midlands. Leicestershire County Council along with seven other local authorities are joint owners of the company. The company has its own governance and risk management structures in place and is authorised and regulated by the Financial Conduct Authority to operate as an Alternative Investment Fund Manager In this capacity the Company acts as the operator of a collective investment vehicle called an Authorised Contractual Scheme. LGPS Central also manage other collective investment vehicles and provide discretionary and advisory services under the Markets in Financial Instruments Directive II authorisation.

The Fund also considers the risk to assets and liabilities arising from climate change due to the impact on global markets and assets from the transition to a low carbon economy, and/or the failure to achieve an orderly transition in line with the Paris Agreement. The Fund manages this risk through its Net Zero Climate Strategy approved in March 2023, investment decisions and stewardship. Further detail can be found elsewhere in this report.

Operational

Managing third party risk is included in the Fund's risk register. There are risks that cover failure to receive accurate and timely data from employers, and employer and employee contributions not paid accurately and on time.

Cyber risk is included on the Fund's risk register. The Fund reviewed its Cyber Risk policy in December 2023 that was approved by Pensions Committee in March 2024.

Administration

On the 8 September 2023, the Department for Levelling Up, Housing and Communities (DLUHC) laid The Local Government Pension Scheme (Amendment) (No 3) Regulations 2023. The regulations implemented the scheme changes from 1 October 2023, backdated to 1 April 2014. This is commonly known as McCloud.

McCloud was introduced to resolve an age discrimination case brought against the Government by younger members of public sector schemes following the move from final salary benefits to career average. The Pension Section has been working on the implementation of McCloud. This requires new cases to have McCloud factored into the calculation of benefits, and the possible recalculation of benefits back to 1 April 2014 for previously completed cases.

McCloud represents the greatest risk and challenge to pension administration within the Leicestershire Fund, due to the administrative complexity and additional resource required.

Governance and Training

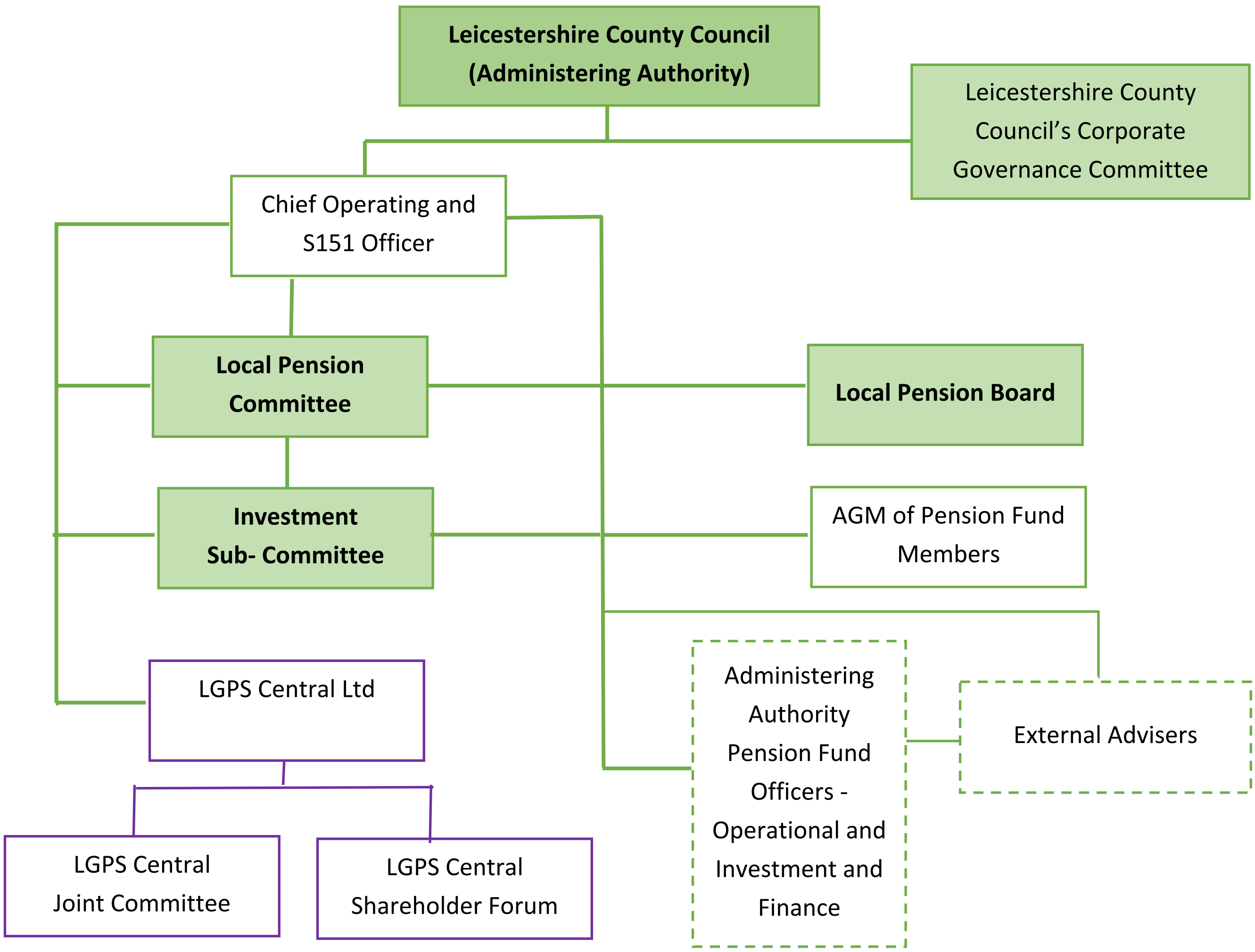
The Local Government Pension Scheme Regulations 1997 requires the Fund to publish a compliance statement and to review this on an ongoing basis the Regulations also require the Fund's governance arrangements to be measured against a number of standards set out within guidance issued by Department for Levelling Up Housing and Communities. The Fund's compliance with these can be viewed at the end of the report, here.

To improve the transparency and auditability of its governance arrangements, the Fund's governance compliance statement recognises the Scheme Advisory Board's recommendations as set out within the Good Governance Phase 3 report.

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

Fund Governance Structure

The diagram below summarises the local governance structure established for the Leicestershire Pension Fund.



Chief Operating and S151 Officer

The Council has delegated responsibility for the administration of the day-to-day operational functions of the Fund to the Director of Corporate Resources, who is also the County Council's Section 151 Officer. The Director oversees the implementation of Fund policy as determined by the Local Pension Committee through the Fund's operational, finance and investment service areas.

The Local Pension Committee

The Fund's governance compliance statement recognises all scheme members and employers should be appropriately represented in the running of the Fund while at the same time ensuring that the County Council, as the body with ultimate responsibility for running the Fund, maintains its representation on the key governance bodies. To this end the Terms of Reference for the Local Pension Committee (LPC) specifies that the Council shall maintain an equal share of voting members on the Pension Committee.

The Committee is made up of 10 Employer Representatives with voting rights comprising of five County Councillors, two City Councillors, two District Councillors jointly nominated by the district councils, and one member jointly nominated by De Montfort/Loughborough Universities. These members are appointed using the due political process or, in the case of the two universities, by joint arrangement.

There are also three non-voting employee representatives that sit on the Committee, and they are appointed by Fund Members at the Annual Meeting of the Fund.

Full details of LPC Members are provided on Leicestershire County Council's website.

A record of Member attendance at LPC meetings is maintained and a copy of this for the 2023-2024 period is included at Appendix C.

The Committee meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund which is usually held in January of each year.

The Committee may delegate certain actions to the Director of Corporate Resources, and it is expected that the Director will carry out some of the more administrative matters relating to investment management, such as the appointment of a custodian.

Full details of the role and responsibilities of the LPC are set out in its Terms of Reference. Details of the Committee's work during 2023/24 can be found on the Council's website. A summary is provided below:

- Alongside regular portfolio monitoring each quarter Committee met with a different investment manager within the portfolio to discuss market conditions, performance, and responsible investment considerations over 2023/24 this covered Stafford Capital, DTZ, LGIM and Adams Street Partners.

- Review and approval the Fund's risk register each quarter. Discussions by Members included geopolitical risks, potential regulatory changes and climate change.

- Monitored the implementation of the Fund's Net Zero Climate Strategy and welcomed the positive progress against targets discussed elsewhere in this report.

- A notice of motion in relation to request for a development of a fossil free fund was put to the Committee. This was subsequently considered by the Fund's Investment Advisor in advance of the Strategic Asset Allocation review and Committee agreed to implement a number of actions to support strengthening of engagement with underlying managers and improvement of reporting against stewardship.

- Continued to receive updates on the progress of pooling from LGPS Central, progress of investment Fund's and a presentation on their revised Stewardship Strategy. As well as approval of the annual Responsible Investment Plan and quarterly reports on progress against alongside responsible investment activities of the Fund including engagement and voting results.

- Approval of the Pension Fund Business Plan and Budget, Strategic Asset Allocation, Terms of Reference, and Cyber Policy alongside other pension Fund policies.

- Discussion of a proposed response to a consultation issued by the Department for Levelling Up, Housing and Communities (DLUHC) in relation to pooling, levelling up, private markets and training that was delegated to the Director of Corporate Resources following consultation with the Chairman to submit.

- Noted the scale of work to be undertaken with the implementation of the McCloud Remedy, and the introduction of Government Dashboards, which were proving to be resource heavy in the Pensions Section. Members congratulated Pensions Section officers on the speed of the action taken in response to the McCloud Remedy which was considered exemplary.

Investment Sub-Committee

The Committee has formed an Investment Sub-Committee (Sub-Committee) to deal with more technical aspects of investment (such as looking at potential new investment opportunities or dealing with the appointment of new investment managers). Membership of the Sub-Committee is drawn from members of the Committee. It is a decision-making body, and its decisions are reported to the Committee. Full details of the role and responsibilities of the Sub-Committee are set out in the Committee Terms of Reference referred to above.

Details of the Sub-Committee's work during 2023/24 can be found on the Council's website. A summary is provided below:

- Investments were made in the following funds to support achievement of the Strategic Asset Allocation infrastructure target. This covered LGPS Central's Core / Core plus fund, JP Morgan IIF fund, Quinbrook Net Zero Power Fund.

- A review was undertaken of the Fund's targeted return portfolio which led to further investment in Ruffer, a new investment in Fulcrum and a divestment from an existing manager.

- Changes were agreed to the listed equity portfolio following a review by the Fund's Investment Advisor, including investment in a Low Carbon Transition Fund and a restructure of the Fund's holdings to provide a better balance of risk and return and support the Fund's Net Zero Climate strategy targets.

- LGPS Central attended and updated Sub-Committee on their Multi Asset Credit and Investment Grade Fund, discussing performance, the market environment and interest rate expectations and responsible investment considerations.

- Consideration of a report on investment management fee savings. The Sub-Committee congratulated officers on the discussions that had resulted in the savings.

- Noted the cash holding of the Fund recognising the positive cash flow nature and approved the Cash Management Strategy for the Fund.

The Local Pension Board

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

The Board is made up of six voting members, three Employer Representatives (two elected members of Leicestershire County Council and one from Leicester City Council) and three Employee Representatives appointed by Fund Members at their Annual Meeting. Membership of the Board is detailed on the County Council's website and can be accessed here.

The Board publishes an Annual Report which is available on the Fund's website, and provides further detail on the Board's activities, a record of Member attendance and training undertaken by Board Members each year. The Annual Report for 2023-2024 can be accessed here.

Pension Fund Members Annual General Meeting

An Annual General Meeting of the Pension Fund is held, to which all employee members and other interested parties are invited. The purpose of the meeting is to present the Annual Report of the Fund and to report on current issues, as well as to elect employee representatives to any vacant positions on the Committee or Board.

A number of other initiatives to involve stakeholders also take place, including:
- Presentations by the Fund/Actuary to employing bodies.
- Pensions roadshows at various venues.
- Engagement on relevant strategies and documents such as the Net Zero Climate Strategy.
- Other communications to members.

Corporate Governance Committee

The Audit of the Pension Fund's Statement of Accounts is reported to the County Council's Corporate Governance Committee each year.

Pension Fund Officers and External Advisors

The Committee, Board and Pension Fund Members at the AGM are advised and supported by the Director of Corporate Resources, Assistant Director of Finance, Director of Law and Governance, the Head of Pensions, and other Senior Finance Officers from the County Council. They attend all meetings to present reports and answer members questions on all matters relating to the operation of the fund, its investments and financial performance.

Recognising the complexity of pension investment, funding, and administration the Council has appointed independent external investment consulting and actuarial advice to support the Chief Operating Officer and the Local Pension Committee. The Council appointed Hymans Robertson who are invited to attend relevant Committee meetings and Investment Sub-Committee meetings.

LGPS Central Ltd

In 2018, the Council was a co-founder of the LGPS Central Pool (LGPS Central) in response to Government Regulations and associated statutory guidance which required all Administering Authorities to commit to a suitable pool and to set out an approach to pooling investment. The LGPS Central pool is a partnership of eight Administering Authorities (the 'Partner Funds') to enter into collective arrangements for the investment of their LGPS fund assets.

The Partner Funds established LGPS Central which is a Financial Conduct Authority (FCA) regulated pool company. Each Partner Fund is an equal shareholder in this company which is an arm's length company set up to manage the partner funds' pooled investments.

The Partner Funds and LGPS Central Ltd work collaboratively to develop pooled investment approaches which meet LGPS pooling requirements and benefits, Partner Fund strategic asset allocation aims in line with regulation and guiding principles, holding LGPS Central Ltd to account and meeting FCA requirements.

The Fund recognises the potential conflict posed by its involvement in the pool with LGPS Central and specific governance arrangements have therefore been established reflecting each Partner Fund's role as shareholder and client of LGPS Central. These are managed through the following forums:

- The Shareholder Forum – The Forum oversees the operation and performance of LGPS Central and represents the ownership rights and interests of the shareholding Councils. The Forum is independent of LGPS Central Ltd, and its meetings are separate from Company meetings and enshrined within a Shareholders' Agreement.

- The Joint Committee – This Committee provides a public forum for shareholding Councils to provide oversight of the delivery of the objectives of the Pool, the delivery client services, the delivery against its Business Plan and to deal with common investor issues. The Company's investment performance and capability is overseen on a day-to-day basis by senior fund officers via a Practitioner's Advisory Forum and, on a bi-annual basis, by this Committee. Agenda's and minutes for the Joint Committee can be found here.

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

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

Training

A major factor in the governance arrangements of the Fund is to ensure that the Committee and the Board members and officers have the relevant skills and knowledge through application of the CIPFA Knowledge and Skills Framework.

The Fund adopted a Training Policy in 2019 and this was subsequently updated in March 2022 and will next be reviewed in 2024. The Policy is approved by the Committee and applies to all members of the Committee, Board, and senior officers involved in the management and administration of the Fund and recognises that this is necessary to ensure they are best placed to make well-informed decisions and, consequently, will be able to comply with the increased requirements of the regulator and the overarching governance requirements of the scheme.

The Policy has regard to relevant codes of practice and guidelines issued by the Pensions Regulator, CIPFA, the training needs of the Committee and Board and the Fund's current priorities. A copy of the Fund's Training Policy can be found here.

All Members are required to undertake induction training prior to taking up their role and are provided with an Information Pack including all relevant reading material to keep them up to date with pensions issues. Arrangements are also made for further regular training which is delivered through various means including in-house structured training events, conferences, training delivered at meetings, as well as briefings and research material.

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

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

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

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

Evidencing Standards of Training

In accordance with the Fund's Training Policy, training undertaken by members of the Committee and Board is monitored, recorded, and reported to each body. Details for the 2023/24 period in relation to the Committee and Investment Sub-Committee, are at Appendix D. The Board's training is set out within its Annual Report.

Committee and Board Members' subject knowledge is assessed on an annual basis through the completion of a self-evaluation form. The results are analysed, and any gaps identified are addressed as part of individual member training plans, this was reported to January's and April's Committee and Board respectively. Targeted training is provided that is timely and directly relevant to items considered by the Committee and Board. This included asset class training ahead of the Fund's Strategic Asset Allocation review and training provided from LGPS Central on responsible investment, climate, and stewardship for Committee members.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

Hymans Aspire Learning Training

The Fund introduced the Hymans Aspire Learning Academy during November 2021, which was updated in June 2023, and was designed to support the training needs of the Committee, Board and Fund Officers and supplements the Fund's own training plan. It consists of a series of video presentations with supplemental learning material and quizzes. The records of training for the Committee for the previous training and new modules from April 2023 to March 2024 is also attached to this report also at Appendix D. Records for Board Members are contained in its Annual Report.

Management of Conflicts of Interest

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

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

Members of the Committee and Board and key officers involved with the Fund are required to complete a Conflict of Interest form upon appointment. At each meeting members are also asked to declare any interest in items which they are due to consider, and any declarations are recorded in the minutes of that meeting. Where conflicts arise, these are managed in line with the Policy.

Other key elements of governance

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

  The latest business plan and budget is publicly available here.

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

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

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

  - details of the structures and processes in place for the delivery of the pension administration function.
  - expected levels of performance for the delivery of key Fund and employer functions.
  - the Fund's approach to training and development of staff.
  - the Fund's approach to the use of technology in pension administration.

  The policy can be viewed here.

Financial Performance

The LGPS is a defined benefit scheme providing benefits to scheme members according to salary and length of service. The benefits within the scheme are determined by regulation and guaranteed by statute. The Fund exists to help defray the cost of paying pension benefits. This following section provide a range of high-level information on the Funds key financial performance metric for the year.

Income

Contributions to the pension scheme are made by both employees and employers. Employee contributions are set at a national level adjusted on 1 April each year. An individual's contribution rate is determined by their pensionable pay. Any new employee is automatically brought into the scheme unless they opt out. Employer contribution rates are assessed at the triennial valuation and set based on each employer's individual liabilities.

There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively because of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, however, it was not felt necessary to levy interest on overdue contributions. Employer contributions ranged from 0% to 36.6% with the average employer rate being 26.8%.

Expenditure

Administrative costs (includes investment management costs and transaction fees) were £54.4m for the year compared to £54.5m in the previous year (2022/23). Whilst this total has remained overall constant, there was a notable increase in transaction fees owing to steps taken to rebalance the fund's portfolio of investments in line with the Strategic Asset Allocation. This increase was offset by a large decrease in performance fees as expected, due to the relative performance of different investments during the year, and in part due to a move away from some performance fee-charging managers in line with the rebalancing activity. Action was taken during the year to reduce investment management costs where there was an opportunity to do so. There were no material movements in non-investment assets and liabilities.

Cash flow

The general trend of overall net cash flows is monitored, whether these are derived from investment or non-investment related sources. Non-investment cash flows were positive by £73.4m in 2023/24, compared to £72.6m in 2022/23. In addition, the Fund received investment income of £75.5m. In the context of the Funds £6billion of assets, the cash flow movements are not material. Any short-term cash surpluses or shortfall can be managed through the funds passive investments that have good levels of liquidity.

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

The overall impact of a strong positive cash flow is that the Fund has flexibility in the selection of investments and fewer restrictions due to liquidity concerns. There are strong controls in place for ensuring that all income due is received and that benefits are not overpaid.

Details of contributions in and payments out of the Fund are shown below:

2022/23 £m		2023/24 £m
	Payments in:	
(212.0)	Employer Contributions	(233.9)
(50.2)	Member Contributions	(54.3)
(12.4)	Transfers in from other pension funds	(8.1)
(274.6)	**Total Inflows**	**(296.3)**
	Payments out:	
146.5	Pensions	163.3
37.8	Lump Sum Retirement Benefits	39.2
4.1	Lump Sum Death Benefits	4.3
13.6	Payments to and on Account of Leavers	16.1
202.0	**Total Outflows**	**222.9**
(72.6)	**Net Cash (inflows)**	**(73.4)**

2023/24 Performance Vs Budget

The outturn for 2023/24 was:

Heading	Budget £000s	Actual £000s	Variance £000s
Investment Management Expense:			
o **Management**	25,792	27,968	2,176
o **Transaction**	6,642	13,251	6,609
o **Performance**	10,500	9,268	(1,232)
Sub Total	**42,934**	**50,487**	**7,553**
LGPS Central costs	1,216	898	(318)
Staffing	1,551	1,776	225
IT costs	520	476	(44)
Actuarial costs	150	97	(53)
Support Services/Other	630	690	60
Total	**47,001**	**54,424**	**7,423**

Cashflow and Forecasting

Due to the positive cash flow the monitoring is focused on making investments to keep the variance to the strategic asset allocation as low as possible. An overview of the Funds cashflow and forecasting approach is shown in the table below.

Cash Flow	£ millions	Forecast approach
Opening Cash Balance 01 April 2023	**129**	
Net investment activity	215.3	Significant underlying activity, purchases of 1,859m and sales of 2,074m. Large net divestment reflects the fact the Fund was overweight in growth assets at the start of the reporting period. These funds are now awaiting reinvestment into income generating asset class.
Currency hedge profit or loss	16	Dependent upon relative currency performance and Aegon's decisions. Very hard to forecast and necessitates the holding of a cash buffer.
Investment, management, and administration expenses	(4)	This is the element of fund management and administration fees which result in a cash flow out. Most investment fees paid are embedded in the underlying fund so do not generate a cash flow. Able to make good level of prediction, although elements are performance dependant.
Investment income	76	Primarily from infrastructure, timberland, private debt, and property assets, usually predictable.
Non-investment income	73	Employer and employee contributions exceed the benefit payments made. This net inflow is predictable year-on-year. There is also an impact from transfers in/out of the scheme, which are difficult to predict reliably.
Change in working capital	7	Working capital is the capital the Fund uses for its day-to-day operations and is calculated as current assets minus current liabilities. This is usually predictable as it generally relates to contributions due from employers, investment income, fees, and expenses.
Total increase/(decrease) in cash balance	383	Aim to keep cash level minimal as per strategic allocation. Cash balances were lower at the start of the reporting period due to efforts in 2022/23 to invest in illiquid markets and the availability of new products from LGPS Central. Over the period, cash balances have risen due to divestment from overweight asset classes.
Closing Cash Balance 31 March 2024	512	

Payments, Recoveries, Write-offs, and National Fraud Initiative exercises

Work was undertaken on the biennial National Fraud Initiative (NFI) counter fraud data matching exercise.

This exercise identified four cases where pensions were continuing to be paid to deceased pensioners. For one case, the overpayment was recovered from the spouse’s pension. The remaining three cases, totalling around £4,000 continue to be pursued by the Pension Service.

The next biennial exercise is due to be undertaken during 2024/25 with reports available in January 2025.

In addition to the biennial NFI exercise, the Pension Section has subscribed to the six monthly NFI mortality screening service. This acts as a more regular check.

The June 2023 exercise identified three cases where pensions were continuing to be paid to deceased pensioners. One case amounting to over £10,000 was recovered. The remaining two cases totalling around £2,600 continue to be pursued by the Pension Section.

The November 2023 exercise identified three cases totalling £15,000. One case represents £12,600 and the Pension Section is offsetting this from the widow’s entitlement. The remaining two cases totally £2,400 continue to be pursued by the Pension Section.

There is no suggestion of any fraudulent activity relating to these cases. No overpayments were identified outside of the NFI exercises.

Fund Account, Net Assets Statement and Notes

Leicestershire County Council Pension Fund Accounts 2023/24

(Registration number: 00328856RQ)

Introduction

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

General

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

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

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

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

Membership

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

Organisations participating in the fund include the following:

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

Membership details are set out below:

	31-Mar-23	31-Mar-24
	189	189
Number of employees in the scheme (Actives)		
County Council	8,596	8,886
Other employers	30,227	31,962
Total	**38,823**	**40,848**
Number of pensioners		
County Council	12,126	12,324
Other employers	20,434	21,578
Total	**32,560**	**33,902**
Deferred pensioners		
County Council	9,853	9,794
Other employers	21,958	22,456
Total	**31,811**	**32,250**
Total number of members in the pension scheme	**103,194**	**107,000**

*Active employers is defined as employers with one or more actively contributing employees

Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% and 12.5% of pensionable pay for the financial year ending 31 March 2024. Employers' contributions are set based on triennial actuarial funding valuations. In 2023/24 the average employer rate was 26.8% of pay (26.3% 2022/23).

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

Fund Account for the Year Ended 31 March 2024

2022/23 £m		Notes	2023/24 £m
	Contributions		
(212.0)	Employer Contributions	6	(233.9)
(50.2)	Member Contributions	6	(54.3)
(12.4)	Transfers in from Other Pension Funds	7	(8.1)
(274.6)	**Total Contributions**		**(296.3)**
	Benefits		
146.5	Pensions	8	163.3
37.8	Commutation of Pensions and Lump Sum Retirement Benefits	8	39.2
4.1	Lump Sum Death Benefits		4.3
13.6	Payments to and on Account of Leavers	9	16.1
202.0	**Total Benefits**		**222.9**
(72.6)	**Net (Additions)/Withdrawals from Dealings with Members**		**(73.4)**
54.5	Management Expenses	10	54.4
(18.1)	**Net (Additions)/Withdrawals Including Fund Management Expenses**		**(19.0)**
	Returns on investments		
(43.8)	Investment income	11	(75.5)
77.6	(Profit) and Losses on Disposal of Investments and Changes in Value of Investments	12	(522.7)
33.8	**Net Returns on Investments (Sub Total)**		**(598.2)**
15.7	**Net (Increase) / Decrease in the Net Assets Available for Benefits fund During the Year**		**(617.2)**
(5,790.0)	Net assets of the scheme Opening		(5,774.3)
(5,774.3)	**Net assets of the scheme Closing**		**(6,391.5)**

Net Assets Statement as at 31 March 2024

2022/23 £m		Notes	2023/24 £m
5,751.4	Investment assets	12	6,377.0
(0.1)	Investment liabilities	12	(2.1)
5,751.3			**6,374.9**
26.7	Current Assets	15	24.8
(3.8)	Current Liabilities	15	(8.2)
5,774.2	**Net Assets of the Fund at 31 March**		**6,391.5**

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

The notes on pages 24 to 56 form part of the Financial Statements.

Notes to the Accounts

1. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2023/24 financial year and its position as at 31 March 2024. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2023/24.

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

The Accounts have been prepared on a going concern basis.

2. Accounting Policies

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

Fund Account – Revenue Recognition

Contribution Income

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

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

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

Transfers to and from other Schemes
Transfers in and out relate to members who have either joined or left the fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In, shown in Note 7. Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

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

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

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

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

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

Fund Account – Expense Items

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

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

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

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

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

Net Assets Statement

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

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

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

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

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

Foreign Currencies

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

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

Cash and Cash Equivalents

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

Financial Assets

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

Additional Voluntary Contributions

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

Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a plausible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

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

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

Directly Held Property

The fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The fund has determined that these contracts all constitute operating lease arrangements under IAS 17 and the Code, and therefore the properties are retained on the net assets statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease.

3. Critical Judgements in Applying Accounting Policies

It has not been necessary to make any material critical judgements in applying the accounting policies.

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historic experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment in the following year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Private Equity Investments	Private equity investments are valued at fair value. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £411.0m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or overstated by 5% the value of the investment would increase or decrease by £20.5m
Freehold, Leasehold Property and Pooled Property Funds	Valuations techniques are used to determine the carrying amount of pooled property funds and directly held freehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	The carrying value of all property held by the fund is £411.1m. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property based investments. If this was under or overstated by 5% the value of the investment would increase or decrease by £20.6m.
Pooled Bond and Debt Funds (including Private Debt Funds)	Pooled bond and debt funds are valued on a net asset basis in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable market data but where it is not possible management uses the best data available. Private debt funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Pooled bond and debt funds are valued at £545.2m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or overstated by 5% the value of the investment would increase or decrease by £27.3m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Infrastructure Investments	Infrastructure funds are valued in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable data but where it is not possible management uses the best data available.	Infrastructure funds are valued at £544.3m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or overstated by 5% the value of the investment would increase or decrease by £27.2m
Timberland Investment	Investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by an underlying fund manager. In circumstances where audited financial statements are not available, the valuations are then derived from unaudited quarterly reports.	Timberland funds are valued at £124.8m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or overstated by 5% the value of the investment would increase or decrease by £6.2m
Pooled commodity funds	Pooled commodity funds are valued on a net asset basis in accordance with each investment managers valuation policy. Where possible these valuation techniques are based on observable market data but where it is not possible management relies on the best data available	Pooled commodity funds are valued at £21.9m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. If this was under or overstated by 5% the value of the investment would increase or decrease by £1.1m

5. Events after the Reporting Date

The Statement of Accounts was authorised for issue by the Director of Corporate Resources on 28 June 2024. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2024, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information (where known). There are no material events after the reporting date that would require an adjustment or additional disclosure to the accounts.

6. Contributions

2022/23 £m		2023/24 £m
	Employers	
197.7	Normal	222.8
11.3	Deficit Repair	6.9
1.5	Advanced payments for early retirements	1.5
1.5	Additional payments for ill-health retirements	2.7
	Members	
49.9	Normal	53.9
0.3	Purchase of additional benefits	0.4
262.2	**Total**	**288.2**

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

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

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

2022/23 £m		2023/24 £m
64.6	Leicestershire County Council	71.8
186.6	Scheduled bodies	204.4
11.0	Admitted bodies	12.0
262.2	**Total**	**288.2**

7. Transfers In

2022/23 £m		2023/24 £m
12.4	Individual transfers in from other schemes	8.1
0.0	Bulk transfers in from other schemes	0.0
12.4	**Total**	**8.1**

8. Benefits

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

2022/23 £m		2023/24 £m
62.4	Leicestershire County Council	68.2
118.6	Scheduled bodies	130.5
7.4	Admitted bodies	8.1
188.4	**Total**	**206.8**

9. Payments to and on Account of Leavers

2022/23 £m		2023/24 £m
0.9	Refunds to members leaving the scheme	1.0
12.7	Individual transfers to other schemes	15.0
0.0	Bulk transfers to other schemes	0.0
13.6	**Total**	**16.1**

10. Management Expenses

2022/23 £m		2023/24 £m
51.3	Investment Management Expenses (Note 10A)	50.8
2.1	Pension Scheme Administration Costs	2.4
1.1	Oversight and Governance Expenses	1.2
54.5	**Total**	**54.4**

10a. Investment Management Expenses

2022/23 £m		2023/24 £m
24.5	Management Expenses	28.3
8.0	Transaction Costs	13.3
18.8	Performance Related Fees	9.3
51.3	**Total**	**50.9**

11. Investment Income

2022/23 £m		2023/24 £m
1.8	Dividends from equities	0.5
0.7	Income from Government Bonds	0.9
1.3	Income from index-linked securities	1.5
29.7	Income from pooled investment vehicles	50.3
5.9	Net rents from properties	3.6
2.3	Interest on cash or cash equivalents	19.2
2.1	Net Currency Profit / (Loss)	(0.6)
43.8	**Total**	**75.5**

11a. Property Income

2022/23 £m		2023/24 £m
6.7	Rental income	6.9
(0.8)	Direct operating expenses	(3.4)
5.9	**Total**	**3.6**

No contingent rents have been recognised as income during the period.

12. Investments

	Value at 1 April 2023 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2024 £m
Equities	20.9	19.2	16.9	0.9	24.1
Government Bonds	23.5	70.4	41.1	0.9	53.7
Index-linked securities	265.1	114.2	111.2	(17.2)	250.9
Pooled investment vehicles	5,206.9	1,653.0	1,953.0	529.7	5,436.7
Properties	101.8	0.4	0.0	(6.2)	96.0
Derivatives contracts	2.7	0.0	18.7	16.5	0.4
Cash and currency & other investment balances	130.4	384.7	0.0	(1.8)	513.2
Total	**5,751.3**	**2,241.9**	**2,141.0**	**522.7**	**6,374.9**

	Value at 1 April 2022 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2023 £m
Equities	46.0	23.8	(47.3)	(1.6)	20.9
Government Bonds	8.5	90.3	(73.2)	(2.0)	23.5
Index-linked securities	280.8	220.1	(163.7)	(72.2)	265.1
Pooled investment vehicles	5,121.8	435.6	(406.1)	55.6	5,206.9
Properties	120.3	(0.2)	0.0	(18.3)	101.8
Derivatives contracts	4.6	37.2	0.0	(39.1)	2.7
Cash and currency and other investment balances	188.5	0.0	(58.1)	0.0	130.4
Total	**5,770.5**	**806.8**	**(748.4)**	**(77.6)**	**5,751.3**

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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

2022/23 £m		2023/24 £m
895.6	LGPS Central – All World Equity Climate Multi Factor Fund	811.6
520.6	LGPS Central - Global Equity Active Multi Manager Fund	636.3
213.3	LGPS Central – Multi Asset Credit Multi Manager Fund	349.5
0.0	Legal and General All World Equity Index	701.4
68.7	Internally Managed Cash Balances	391.1
330.8	Legal and General North America Index Fund	0.0
2,029.0	**Total**	**2,889.9**

2022/23 £m		2023/24 £m
	Equities	
7.0	UK quoted	8.4
1.3	UK unquoted	1.3
12.6	Overseas quoted	14.4
20.9		**24.1**
	Government Bonds	
0.7	UK Government Unquoted	0.7
3.9	UK Government Quoted	0.0
18.9	Overseas Quoted	53.0
23.5		**53.7**
	Index Linked Securities	
259.9	UK quoted	250.9
5.2	Overseas quoted	0.0
265.1		**250.9**
	Pooled investment vehicles (unquoted)	
305.7	Property funds	315.1
423.2	Private equity	411.0
1,037.2	Bond and debt funds	1,177.2
2,516.7	Equity-based funds	2,705.1
21.3	Commodity-based funds	21.9
126.3	Timberland fund	124.8
151.8	Managed futures fund	0.0
9.8	Protection fund	11.1
144.4	Targeted return fund	126.2
470.5	Infrastructure fund	544.3
5,206.9		**5,436.7**
	Properties	
101.8	**UK (Note 14)**	**96.0**
128.7	**Cash and currency**	**511.7**
	Derivatives contracts	
2.8	Forward foreign exchange assets	2.4
(0.1)	Forward foreign exchange liabilities	(2.1)
2.7	**Sterling Denominated**	**0.4**
1.7	**Other Investment Balances**	**1.5**
5,751.3	**Total Investments**	**6,374.9**

13. Derivatives

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

Forward Foreign Exchange Contracts

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

Settlement	Currency Bought	Local Value Millions	Currency Sold	Local Value Millions	Asset Value £m	Liability Value £m
Within 1 Month	GBP	0.3	JPY	55.9	0.0	0.0
	GBP	8.3	USD	10.6	0.0	(0.1)
	GBP	1.1	AUD	2.2	0.0	0.0
	GBP	11.4	EUR	13.3	0.0	0.0
1 - 3 Months	CNY	8.3	GBP	0.9	0.0	(0.0)
	GBP	11.9	CHF	13.0	0.5	0.0
	GBP	2.7	HKD	26.3	0.0	(0.0)
	GBP	22.7	TWD	888.0	0.7	0.0
	GBP	233.6	USD	296.5	0.0	(1.1)
	GBP	28.0	CNY	253.3	0.3	0.0
	GBP	3.9	SEK	51.8	0.1	0.0
	GBP	31.0	JPY	5,750.0	0.9	0.0
	GBP	7.4	CAD	12.6	0.0	(0.0)
	JPY	(1,277.6)	GBP	53.8	0.0	(0.0)
	USD	(69.0)	GBP	6.7	0.0	(0.8)
Open forward currency contracts at 31 March 2024					**2.4**	(2.1)
Net forward currency contracts at 31 March 2024					**0.4**	

Prior Period Comparison:

Open forward currency contracts at 31 March 2023	**2.7**	(0.1)
Net forward currency contracts at 31 March 2023	**2.6**	

14. Property Investments

31 March 2023 £m		31 March 2024 £m
82.2	Freehold	80.5
14.0	Long Leasehold (over 50 years unexpired)	10.8
5.6	Medium/Short Leasehold (under 50 years unexpired)	4.6
101.8	**Total**	**96.0**

All properties, with the exception of the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK Limited at 31st March 2024. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All of the Valuers are Members of the Royal Institute of Chartered Surveyors.

14a. Property Holdings

31 March 2023 £m		31 March 2024 £m
120.3	**Opening Balance**	**101.8**
0.0	Additions:	0.0
0.0	Purchases	0.0
(0.2)	Subsequent Expenditure	0.4
0.0	Disposals	0.0
(18.3)	Net increase/(decrease) in Market Value	(6.2)
101.8	**Total**	**96.0**

15. Current Assets and Liabilities

2022/23 £m		2023/24 £m
20.8	Contributions due from employers	20.3
5.9	Other Debtors	4.5
26.7	**Current assets**	**24.8**
(0.0)	Due to Leicestershire County Council	(2.6)
(1.4)	Fund Management Fees Outstanding	(0.9)
(2.4)	Other Creditors	(4.7)
(3.8)	**Current liabilities**	**(8.2)**
22.9	**Net current assets and liabilities**	**16.6**

16. Analysis of Investments by Manager

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

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

31 March 2023 £m	%		31 March 2024 £m	%
		Investments Managed by LGPS Central Pool		
895.2	15.6	All World Equity Climate Multi Factor Fund	811.6	12.7
		Global equities multi-manager fund:		
145.2	2.5	*Harris*	171.7	2.7
199.4	3.5	*Schroders*	245.6	3.9
176.0	3.1	*Union*	219.0	3.4
		Global Active MAC Multi Manager Fund		
105.1	1.8	*Western Asset Management*	172.3	2.7
108.3	1.9	*CTI*	177.2	2.8
		Global Active Investment Grade Corporate Bond MMF		
73.7	1.3	*Neuberger Berman*	79.7	1.3
73.0	1.3	*Fidelity*	79.5	1.2
		Emerging market equities multi-manager fund:		
62.0	1.1	*CTI*	60.6	1.0
59.4	1.0	*UBS*	60.6	1.0
60.7	1.1	*Vontobel*	63.4	1.0
		Global Active Emerging Market Bond MMF		
54.6	0.9	*Amundi*	30.7	0.5
56.1	1.0	*M&G*	32.5	0.5
72.2	1.3	LGPSC Credit Partnership I LP	134.8	2.1
58.4	1.0	LGPS Central Core/Core Plus Infrastructure Partnership LP	81.5	1.3
30.5	0.5	LGPSC Credit Partnership IV LP	53.3	0.8
26.4	0.5	LGPSC Credit Partnership II LP	33.3	0.5
8.2	0.1	LGPS Central PE Primary Partnership 2018 LP	9.0	0.1
0.6	0.0	LGPS Central PE Primary Partnership 2021 LP	4.8	0.1
0.0	0.0	LGPS Central UK Direct Property Fund	49.1	0.8
2,265.0	**39.5**	**Sub Total**	**2,570.3**	**40.4**
		Investments Managed outside of Pool		
907.5	15.8	Legal & General Investment Management Limited	1,063.4	16.9
75.2	1.2	Internally Managed	397.4	6.1
382.7	6.7	Adams Street Partners L.P.	371.5	5.8
338.7	5.8	Aegon Asset Management Limited	346.6	5.4
244.0	4.3	LaSalle Limited	242.5	3.9

242.8	4.2	Partners Group Limited	200.1	3.1
132.2	2.3	Ruffer LLP	172.9	2.7
147.4	2.6	JP Morgan Asset Management (UK) Limited	168.8	2.6
153.2	2.7	IFM Investors (UK) Ltd	161.2	2.5
0.0	0.0	Fulcrum Asset Management	126.2	2.0
126.3	2.2	Stafford Capital Partners Limited	124.8	2.0
115.5	2.0	Colliers Capital UK Limited	108.2	1.6
69.1	1.2	Cristofferson, Robb & Company Ltd	65.6	1.1
30.0	0.5	Quinbrook	52.1	0.8
54.8	1.0	DTZ Investment Management	50.1	0.8
47.9	0.8	Kravis Kohlberg Roberts & Co. Ltd	49.2	0.7
57.5	1.0	M&G	47.1	0.7
33.6	0.6	Infracapital	31.5	0.5
30.8	0.5	Aberdeen Standard Life Limited	24.4	0.4
0.9	0.0	Catapult Venture Managers Limited	1.2	0.0
151.8	2.6	Aspect Capital Limited	0.0	0.0
144.4	2.5	Pictet Asset Management Limited	0.0	0.0
3,486.3	**60.5**	***Sub Total***	**3,804.8**	**59.6**
5,751.3	**100.0**	**Grand Total**	**6,375.0**	**100.0**

17. Custody of Assets

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

18. Operation and Management of fund

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

19. Employing bodies and fund members

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

20. Fair value – basis of valuation

Unquoted equities in LGPS Central asset pool are valued at cost, as an appropriate estimate of fair value. All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of Asset	**Valuation Hierarchy**	**Basis of valuation**	**Observable and unobservable inputs**	**Key sensitivities affecting valuations provided**
Market quoted Investments (equities and bonds)	Level 1	Published bid market price ruling on final day of the accounting period	Not required	Not required
Market quoted pooled funds	Level 1	Closing bid price or closing single price at reporting date	Not required	Not required
Forward foreign exchange contracts	Level 1	Market forward exchange rates at reporting date	Not required	Not required
Pooled investment vehicles	Level 2	Fair value based on the weekly market quoted prices of the respective underlying securities	When considering the fair value of assets which are not at the reporting date, the price of a recent transaction for an identical asset provides evidence of fair value	Not Required
Unquoted Equity (including Private Equity, Infrastructure and Timberland)	Level 3	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.	Earnings before interest, tax, depreciation, and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.

Private Debt	Level 3	Valued at fair value in accordance with International Valuation Standards and investment managers valuation policy	Comparable valuation of similar assets, EBITDA multiple, Revenue multiple, Discounted cash flows, Enterprise value estimation	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts.
Pooled investment vehicles (including targeted return funds, commodity funds and pooled property funds)	Level 3	Stated at bid price quoted or closing single market price	Net asset value (NAV) based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts of the underlying assets.
Freehold and Leasehold Property	Level 3	Stated at open market value based on expert valuation provided by a RICS registered Valuer and in accordance with RICS guidelines.	Existing lease terms and rentals, independent market research, tenant covenant strength, estimated vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or discount rate could affect valuations

Sensitivity of assets valued at Level 3

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges and, as set out below, the consequent potential impact on the closing value of investments at 31 March 2024 and 31 March 2023.

Asset Type	Value at 31 March 2024 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	1.3	31	1.7	0.9
UK Bonds	0.7	6	0.7	0.7
Pooled property funds	315.1	21	381.3	248.9
Pooled private equity funds	410.9	31	538.3	283.5
Pooled bond and debt funds	545.2	11	605.2	485.2

Pooled commodity funds	21.9	19	26.1	17.7
Pooled targeted return funds	0.0	8	0.0	0.0
Pooled timberland fund	124.8	14	142.3	107.3
Pooled infrastructure fund	544.3	14	620.5	468.1
UK property	96.0	16	111.4	80.6
Total assets available to pay benefits	**2,060.2**		**2,427.5**	**1,692.9**

Asset Type	Value at 31 March 2023 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	1.3	31	1.7	0.9
UK Bonds	0.7	6	0.7	0.7
Pooled property funds	305.7	23	376.0	235.4
Pooled private equity funds	423.2	31	554.4	292.0
Pooled bond and debt funds	510.0	11	566.1	453.9
Pooled commodity funds	21.3	22	26.0	16.6
Pooled targeted return funds	144.4	9	157.4	131.4
Pooled timberland fund	126.3	16	146.5	106.1
Pooled infrastructure fund	470.5	16	545.8	395.2
UK property	101.8	15	117.1	86.5
Total assets available to pay benefits	**2,105.2**		**2,491.7**	**1,718.7**

20a. Valuation of financial instruments and non-financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of the information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and quoted pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

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

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

Values at 31st March 2024	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial and non-financial assets at fair value	2,729.3	1,074.5	2,060.2	5,864.0
Financial liabilities at fair value	(2.0)	0.0	0.0	(2.0)
Net financial and non-financial assets carried at fair value	**2,727.3**	**1,074.5**	**2,060.2**	**5,862.0**

The above table excludes cash and cash equivalents of £511.6m and other investment balances of £1.5m which are carried at amortised cost.

Values at 31st March 2023	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial and non-financial assets at fair value	2,446.7	1,069.1	2,105.2	5,621.0
Financial liabilities at fair value	(0.1)	0.0	0.0	(0.1)

Net financial and non-financial assets carried at fair value	**2,446.6**	**1,069.1**	**2,105.2**	**5,620.9**

The above table excludes cash and cash equivalents of £128.7m and other investment balances of £1.7m which are carried at amortised cost.

20b. Reconciliation of asset held at level 3

	Value at 1 April 2023 £m	Purchases £m	Sales £m	Realised gains / (losses) £m	Unrealised gains or (losses) £m	Value at 31 March 2024 £m
UK Equities	1.3	0.0	0.0	0.0	0.0	1.3
UK Bonds	0.7	0.0	0.0	0.0	0.0	0.7
Pooled property funds	305.7	57.9	(38.7)	12.4	(22.2)	315.1
Pooled private equity funds	423.2	26.1	(51.6)	29.3	(16.1)	410.9
Pooled bond and debt funds	510.0	119.2	(96.2)	25.2	(13.0)	545.2
Pooled commodity funds	21.3	20.0	(20.7)	(1.1)	2.4	21.9
Pooled targeted return funds	144.4	0.0	(148.6)	4.2	0.0	0.0
Pooled timberland funds	126.3	0.0	(3.1)	0.8	0.8	124.8
Pooled Infrastructure funds	470.5	97.1	(41.9)	8.9	9.7	544.3
UK Property	101.8	0.4	0.0	0.0	(6.2)	96.0
Total	**2,105.2**	**320.7**	**(400.8)**	**79.7**	**(44.6)**	**2,060.2**

21. Classification of Financial Instruments

2022/23 £m				2023/24 £m		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
			Financial Assets			
20.9	0.0	0.0	Equities	24.1	0.0	0.0
23.5	0.0	0.0	Government Bonds	53.7	0.0	0.0
265.1	0.0	0.0	Index-linked	250.9	0.0	0.0
5,207.0	0.0	0.0	Pooled investment vehicles	5,436.7	0.0	0.0
2.7	0.0	0.0	Derivatives contracts	2.4	0.0	0.0
0.0	128.7	0.0	Cash and currency	0.0	511.7	0.0
0.0	0.0	0.0	Other investment balances	0.0	0.0	0.0

0.0	1.1	0.0	Sundry debtors and prepayments	0.0	1.5	0.0
5,519.2	**129.8**	**0.0**		**5,767.8**	**513.2**	**0.0**
			Financial Liabilities			
(0.1)	0.0	0.0	Derivatives contracts	(2.1)	0.0	0.0
0.0	0.0	0.0	Other investment balances	0.0	0.0	0.0
0.0	0.0	(2.4)	Sundry Creditors	0.0	0.0	(6.4)
(0.1)	**0.0**	**(2.4)**		**(2.1)**	**0.0**	**(6.4)**

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

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

2022/23 £m		2023/24 £m
	Financial Assets	
(58.5)	Fair value through profit and loss	532.9
	Financial Liabilities	
(0.7)	Fair value through profit and loss	(2.1)
(59.2)	**Total**	**530.8**

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

22. External Audit Fee

2022/23 £		2023/24 £
57,393	Payable in respect of external audit	96,563
57,393	**Total**	**96,563**

23. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

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

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

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

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

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual

securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

Other price risk

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

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

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2023/24 reporting period:

Asset type	Potential market movements
Cash	0%
Index Linked Gilts (medium)	7%
Fixed Interest Gilts (medium)	6%
Private equity	31%
Property	16%
Commodities	19%
Global Distressed Debt	14%
Emerging Markets Equity Unhedged	23%
Unlisted Infrastructure Equity	14%
Diversified Growth Fund (high equity beta)	12%
Diversified Growth Fund (medium equity	8%
Multi Asset Credit (sub inv grade)	7%
All World Equity GBP Unhedged	16%
Direct Lending (Private Debt) GBP Hedged	11%
Corporate Short AA Low	4%
Corporate Medium BBB	8%
Asia-Pacific Equity Hedged	18%
European Equity Hedged	16%
US Equity Hedged	17%
Japan Equity Hedged	18%
UK REITs GBP	21%

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

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

Asset Type	Value at 31 March 2024 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	9.7	16%	11.3	8.1
Overseas equities	14.4	16%	16.7	12.1
UK Corporate Bonds	0.7	7%	0.7	0.7

Global Government Bonds	303.9	7%	324.6	283.2
Pooled property funds	315.1	21%	381.3	248.9
Pooled private equity funds	410.9	31%	538.3	283.5
Pooled bond and debt funds	1,177.4	9%	1,286.8	1,068.0
Pooled Protection funds	11.1	8%	12.0	10.2
Pooled equity funds	2,705.2	16%	3,151.0	2,259.4
Pooled commodity funds	21.9	19%	26.1	17.7
Pooled targeted return funds	126.2	8%	136.3	116.1
Pooled timberland fund	124.8	14%	142.3	107.3
Pooled managed futures fund	0.0	0%	0.0	0.0
Pooled infrastructure fund	544.3	14%	620.5	468.1
UK property	96.0	16%	111.4	80.6
Cash and currency	511.6	0%	511.6	511.6
Other investment balances, current assets and current liabilities	1.9	0%	1.9	1.9
Total assets available to pay benefits	**6,374.9**		**7,272.4**	**5,477.3**

Asset Type	Value at 31st March 2023 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	8.3	18	9.8	6.8
Overseas equities	12.6	18	14.9	10.3
UK Corporate Bonds	0.0	0	0.0	0.0
Global Government Bonds	287.9	7	308.1	267.7
Pooled property funds	305.7	23	376.0	235.4
Pooled private equity funds	423.2	31	554.4	292.0
Pooled bond and debt funds	1,037.2	10	1,140.9	933.5
Pooled Protection funds	9.8	9	10.7	8.9
Pooled equity funds	2,517.4	20	3,020.9	2,013.9
Pooled commodity funds	21.3	0	21.3	21.3
Pooled targeted return funds	144.4	9	157.4	131.4
Pooled timberland fund	126.3	16	146.5	106.1
Pooled managed futures fund	151.8	13	171.5	132.1
Pooled infrastructure fund	470.5	16	545.8	395.2
UK property	101.8	15	117.1	86.5
Cash and currency	128.7	0	128.7	128.7
Other investment balances, current assets and current liabilities	4.4	0	4.4	4.4
Total assets available to pay benefits	**5,751.3**		**6,728.4**	**4,774.2**

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2024 and 31st March 2023 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31 March 2023	Asset type	As at 31 March 2024
128.7	Cash and Currency	511.6
287.9	Fixed interest securities	303.9
416.6	**Total**	**815.5**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Exposure to interest rate risk	Carrying amount as at 31 March 2024	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	**£m**	**£m**
Cash and Currency	511.6	511.6	511.6
Fixed interest securities	303.9	260.9	354.6
Total	**815.5**	**772.5**	**866.2**

Exposure to interest rate risk	Carrying amount as at 31 March 2023	Impact of increase	Impact of decrease
		+100 BPS	-100 BPS
	£m	**£m**	**£m**

Cash and Currency	128.7	128.7	128.7
Fixed interest securities	287.9	243.9	341.8
Total	**416.6**	**372.6**	**470.5**

Assets exposed to interest rate risk:

Exposure to interest rate risk	**Interest receivable 2023/24**	**Impact of increase**	**Impact of decrease**
		+100 BPS	-100 BPS
	£m	**£m**	**£m**
Cash and Currency	19.2	22.4	16.0
Fixed interest securities	2.4	2.4	2.4
Total	**21.6**	**24.8**	**18.4**

Exposure to interest rate risk	**Interest receivable 2022/23**	**Impact of increase**	**Impact of decrease**
		+100 BPS	-100 BPS
	£m	**£m**	**£m**
Cash and Currency	2.3	3.9	0.7
Fixed interest securities	2.0	2.0	2.0
Total	**4.3**	**5.9**	**2.7**

Currency risk

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

The Fund's currency rate risk is actively managed and the neutral position is to hedge 30% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2024 and as at the previous period end:

Asset value as at 31 March 2023 £m	**Currency exposure – asset type**	**Asset value as at 31 March 2024 £m**
12.6	Overseas equities	14.4
18.9	Overseas government bonds	25.3
5.2	Overseas government index-linked bonds	0.0
951.8	Overseas pooled investment vehicles	978.7

30.7	Overseas cash and currency	39.8
1,019.2	**Total overseas assets**	**1,058.2**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 8.9% (as measured by one standard deviation).

An 8.9% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Current exposure – asset type	Asset value as at 31 March 2024	Change to net assets available to pay benefits	
		8.9%	-8.9%
	£m	**£m**	**£m**
Overseas equities	14.4	15.7	13.1
Overseas government bonds	25.3	27.6	23.0
Overseas government index-linked bonds	0.0	0.0	0.0
Overseas pooled investment vehicles	978.7	1,065.8	891.6
Overseas cash and currency	39.8	43.3	36.3
Total change in assets available		**94.2**	**(94.2)**

b) Credit Risk

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

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

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

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

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

The Fund believes it has managed its exposure to credit risk and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2024 was £511.6m (31st March 2023: £128.7m).

c) Liquidity Risk

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2024 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £1.5bn, which represented 23% of total Fund assets. (31st March 2023: £1.4bn, which represented 25% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund's investment strategy. All financial liabilities at 31st March 2024 are due within one year.

Refinancing Risk

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

Securities Lending

The Fund ceased to take part in securities lending activities towards the end of the 2017/18 financial year and there was no stock on loan at 31 March 2024.

Reputational Risk

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

24. Related Party Transactions

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

During the reporting period LCC incurred costs of £2.6m in relation to administration and management of the Fund, the full amount has been recharged to the Fund, and is recognised in the expenses outlined in note 10 above. As at the 31 March 2024 £2.6m of this was a creditor balance in the Fund accounts. Contributions of £71.8m were receivable from LCC during 2023/24 (£64.6m 2022/23) of which £5.6m was still outstanding at 31 March 2024 (£5.4m at 31 March 2023).

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

During 2023/24 a total of £1.7m (£1.0m 2022/23) was payable to LGPS Central Ltd for governance, operator and product development fees. Of these £0.5m was a creditor balance at the year end. As at 31 March 2024, £2.6bn of LCC LGPS investments were managed by LGPS Central Ltd (£2.3bn as at 31 March 2023).

25. Contingent Liabilities and Contractual Commitments

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

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £2.5m, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

At 31st March 2024, the Fund had the following contractual commitments: -

	31-Mar-23 £m	31-Mar-24 £m
Aberdeen Standard Life Capital SOF III Fund	10.3	8.4
Adams Street Partners L.P.	90.2	69.8
Infracapital Greenfield Partners I Fund	4.3	1.8
M & G Debt Opportunities Funds III & IV	17.9	0.8
KKR Global Infrastructure	7.9	7.2
Stafford International Timberland & Carbon Offset Funds	54.2	53.3
LGPS Central PE Primary Partnership 2018 LP	2.4	1.8
LGPSC Credit Partnership IV	50.0	60.8
LGPSC Credit Partnership II LP	167.1	106.8
LGPSC Credit Partnership I LP	32.8	29.1
LGPS Central Core/Core Plus Infrastructure Partnership	49.1	52.9
LGPS Central PE Primary Partnership 2021 LP	29.1	24.9
LGPS Central PE Primary Partnership 2023 LP	0.0	40.0
LGPS Central UK Direct Property	0.0	69.3
Quinbrook Infrastructure Partners	19.1	46.9
Partners Group Multi Asset Credit VI and VII	22.3	11.7
Total	**556.7**	**585.5**

25a Key Management Personnel

The fund has identified the Director of Corporate Resources (LCC) and the Assistant Director Finance, Strategic Property and Commissioning (LCC) as key management personnel with the authority and responsibility to control or exercise significant influence over the financial and reporting decisions of the fund. The combined compensation for these officers attributable to Leicestershire County Council Pension Fund is shown below:

2022/23 £000s		2023/24 £000s
21.5	Short-term benefits	27.1
6.1	Pension contributions	8.0
27.6	**Total**	**35.1**

26. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. During 2022/23 £2.5m in contributions were paid to Prudential. The capital value of all AVC's at year end 31 March 2023 was £18.7m. The equivalent figures for 31 March 2024 were not available at the time of publishing the draft 2023/24 accounts. This will be updated in the final published audited statements.

27. Policy Statements

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

Investment Strategy Statement (ISS)

Administration and Communication Strategy

Funding Strategy Statement (FSS)

28. Compliance Statement

Income and other taxes

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

Self-investment

There has been no material employer related investment in 2023/24 (or 2022/23). There were occasions on which contributions were paid over by the employer later than the statutory date and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values

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

Pension Increase

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

Changes to LGPS

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

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2023/24 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund ("the Fund").

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

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

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

Present value of promised retirement benefits

Year ended	31 March 2024	31 March 2023
Active members (£m)	2,490	2,333
Deferred members (£m)	1,087	1,098
Pensioners (£m)	2,249	2,304
Total (£m)	**5,826**	**5,735**

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2024 and 31 March 2023. I estimate that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £330m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £35m.

Financial assumptions

Year ended	31 March 2024	31 March 2023
	% p.a.	% p.a.
Pension Increase Rate (CPI)	2.75%	2.95%
Salary Increase Rate	3.25%	3.45%
Discount Rate	4.85%	4.75%

Demographic assumptions

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

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.1 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	21.8 years	25.4 years

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

Sensitivity Analysis

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

Change in assumption at 31 March 2024	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	109
1 year increase in member life expectancy	4%	233
0.1% p.a. increase in the Salary Increase Rate	0%	5
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	111

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2024' which identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Tom Hoare FFA

21 May 2024

For and on behalf of Hymans Robertson LLP

Statement of Responsibilities for Leicestershire County Council Pension Fund

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

MR. L. BRECKON
CABINET LEAD MEMBER FOR CORPORATE RESOURCES
28 JUNE 2024

THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

The Director of Corporate Resources is responsible for the preparation of the Authority's Pension Fund Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.
- Kept proper accounting records which were up to date,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on the assumption that the functions of the Pension Fund will continue in operational existence for the foreseeable future; and
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire County Council Pension Fund as at 31 March 2024 and its income and expenditure for the year ended the same date.

D KEEGAN
DIRECTOR OF CORPORATE RESOURCES
28 JUNE 2024

Investments and Funding

Investment Strategy Statement

The Investment Strategy Statement (ISS) was last amended and approved by the Local Pensions Committee in March 2024. A fuller review takes place at least every three years with the next one due to take place during 2024. The ISS is compliant with regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The ISS which remained in place for much of 2023/24 was approved by the Local Pension Committee in March 2023. In January 2024 minor updates were made which included reference to the 2024 strategic asset allocation as proposed by the Fund's investment advisor. The following actions (not exhaustive) were made during 2023/24 in response to ISS:

- A listed equity review was commissioned, and proposals were presented to the Investment Sub-Committee for consideration at its meeting in April 2023. The review made proposals that took into account the large proportion of Fund assets allocated to listed equity and their ability to materially affect overall future returns expectations, costs of changes, the effect on the Fund's Responsible Investment (RI) ambitions and policy, as well as the achievement of its new Net Zero Climate Strategy. The listed equity changes were proposed to be completed in stages with the final stage taking place in 2024/25 after a LGPS Central initiated a three-year global equity investment fund product review.

- The 2023 strategic asset allocation reduced the allocation to the targeted return asset class. The strategy was to move from 7.5% of total Fund assets to 5.0% was and this was approved by the Investment Sub-Committee in April 2023. The changes agreed moved the Fund towards a simpler structure encompassing two managers that were more likely to meet the Fund's investment returns ambition for this asset class.

- The Fund continued to make inroads to pooling in line with its ISS. At the year end the Fund has £2.5bn invested across 12 investment products with LGPS Central. In addition, the Fund has outstanding commitments with LGPS Central of c£0.4bn across 8 investment products. The Fund also has invested into collectively procured low-cost passive listed equities with Legal and General investment management (LGIM) prior to the commencement of pooling. At the year end these investments were valued at £1.1bn.

The annual review of the ISS takes into account the Funding Strategy Statement for the Fund, including the link between required future investment returns in order to be a fully funded scheme (as per the last triennial valuation) and an updated view of expected returns from the asset classes the Fund is invested in. Where adjustments to the asset allocation are required, the investment advisor makes proposals which are presented for approval to the Local Pension Committee, usually in January each year. The process to review the Fund's strategic asset allocation for the Fund commences months in advance with officers meeting with the investment advisors to discuss the scope and priorities for the review.

Any recommendations made will take into account other factors such as costs incurred (management and performance fees), as well as liquidity and environmental, social and governance (ESG) considerations for example. The Fund has a specific Net Zero Climate Strategy which has medium term targets and all investment recommendations will take these targets into consideration when proposals are made.

Funding Strategy Statement

The Fund's Funding Strategy Statement (FSS) is reviewed annually as part of the Fund's annual review of policies and approved by the Local Pension Committee. The FSS is written in conjunction with the Fund Actuary and employers are consulted on significant changes.

The FSS was last reviewed in February 2024 and is next scheduled for review in 2025 as part of the next Fund valuation.

Amendments made to the FSS during the period included;

- Inclusion of the Fund's cash management strategy (CMS) which is based on the Administering Authority's policy on approved organisations for lending. This Policy was supported by the Administering Authority's external treasury management advisor.

- An update with the most recent strategic asset allocation (SAA) approved by the Local Pension Committee in January 2024.

Officers are comfortable that the ISS and FSS are compliant with statutory guidance.

Investment Performance

The Fund's asset class investment performance over the year is shown below, alongside the benchmark. Over the period a return of 9.1% was achieved including the effect of the Fund's hedging programme. Excluding the hedge, an 8.9% return was achieved versus a benchmark return of 11.4%. This underperformance against the benchmark was attributable mainly to private equity and infrastructure which performed poorly over the one year period but have been in line with expectations over longer three and five year periods.

The Fund sees longer term performance as important as short-term performance and as such recognises that there is likely to be sustained periods of underperformance for a variety of reasons. The Local Pension Committee members are presented with investment performance reports regularly across various timeframes and their attention is drawn to any areas of underperformance. For example, due to the way performance is calculated for private equity investments (underlying holdings can be valued infrequently) the actuals performance can sometimes lag the public market benchmark comparisons which are based on the listed equity markets. This has been the case during 2023/24, when over a one year period, private equity underperformed the benchmark but has performed in line with benchmarks over longer timeframes.

Asset class	1 year return	Benchmark	Difference
Growth assets	*13.8%*	*18.0%*	*-4.2%*
Listed Equity	17.6%	18.0%	-0.4%
Private Equity	-1.8%	24.1%	-25.9%
Targeted Return	5.7%	9.1%	-3.4%
Income assets	*4.0%*	*6.1%*	*-2.1%*
Infrastructure	2.7%	9.1%	-6.4%
Global private credit	7.5%	9.0%	-1.5%
Property	-1.7%	-1.7%	0.0%
liquid multi asset credit	6.7%	9.1%	-2.4%
Emerging market debt	12.4%	7.6%	4.8%
Protection assets	*0.7%*	*-0.5%*	*1.2%*
Inflation linked bonds	-5.2%	-5.0%	-0.2%
Investment grade (IG) credit	8.6%	6.3%	2.3%
Short dated IG credit	6.3%	6.3%	0.0%
Cash	4.2%	5.1%	-0.9%
Total ex hedge	8.9%	11.4%	-2.5%
Total inc hedge	9.1%	n/a	n/a

Responsible Investment and Environmental Social and Governance Issues

The term ‘responsible investment’ (RI) refers to the integration of financially material Environmental, Social, and Governance (ESG) factors into investment processes. RI is relevant both before and after the investment decision and is a core part of the Fund’s fiduciary duty. It is distinct from ‘ethical investment,’ which prioritises an organisation’s moral persuasions over its investment considerations.

As a long-term asset owner, the Fund believes that RI can enhance long-term investment performance. The Fund has integrated this belief into its ISS and is committed to continual improvement through its annual RI Plan. The Fund’s approach is integrated in two key areas:

Sustainable investment through consideration of environmental, social and governance (ESG) factors: The Fund considers the financial impact of ESG factors on its investments, including climate risk.

Throughout 2023/24 the Fund appointed and invested in investment managers that all demonstrated clear ability to integrate ESG and embed these factors into its investment processes. These actions included:

- Investment in LGIM's Low Carbon Transition Fund bringing the total of climate specific listed equity investments to 15.5% of Total Fund Assets
- $114m million committed to the Quinbrook Net Zero Power Fund. That invests in solar power with battery systems, both as part of the decarbonisation of the energy system, and as part of demand from data centres.
- Consideration of the climate change implications on the Fund's protection portfolio.

Investment Managers delivered presentations on traditional market and performance metrics as well as ESG updates. These presentations enhance the knowledge of the Committee to make more informed decisions in the future on the issues surrounding each asset class.

Stewardship and governance: The Fund acts as a responsible investor/owner by voting its shares thoughtfully and engaging with investee company management as part of the investment process.

Collective pressure from investors has helped to encourage listed companies to enhance their corporate governance and to improve their environmental and social impacts. The Local Pension Committee integrates RI matters into every meeting and is supported by its partners that report quarterly on their engagement activities, key partners are highlighted below, and the Fund is also supported in its activities by its investment managers.

Each Committee meeting an Investment Manager is invited to present on their strategy, performance and responsible investment providing an opportunity for Committee to question and challenge and gain assurance.

The Fund expects the proportion of assets to be managed by LGPS Central to increase over time as assets are transitioned into pooled vehicles, whereby Central's Responsible Investment and Engagement Framework will be applied to all investments.

Voting

LGPS Central provide the Fund with a quarterly update of voting activity. This is focused on listed equities. This voting activity covers the funds managed by Central and the fund's managed by Legal and General Investment Management (LGIM). On 31st March 2024 this covered c43% of all Fund assets. Around 20% of fund assets reside within debt and property and have no voting rights.

Both Central and LGIM with whom the Fund has the majority of listed equites vote at company meetings in line with their relevant policies.

Voting Policies	Voting Disclosures
LGPS Central March 2023 Voting Principles	LGPS Central
LGIM Global Corporate Governance and Responsible Investment Policy	LGIM

Over 2023 75,596 votes were cast on our behalf at 6241 meetings. At 4148 of these meetings, we opposed one or more resolutions. The Committee receives the results of engagement and voting activities on a quarterly basis, via voting reports and quarterly LAPFF, LGIM and LGPS Central updates.

The largest area the Fund voted against or abstained related to board structure. These resolutions may relate to issues such as voting against non-independent non-executive directors where there is not sufficient independent oversight on a company board, for example.

Climate Change and the Net Zero Climate Strategy

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

A full report of the Fund's activities in managing climate risk and opportunities over 2023 is available here:

Net Zero by 2050, with an ambition for sooner

Achieve a 40% reduction in absolute carbon emissions for the equity portfolio by 2030	Halve the carbon intensity of the Equity portfolio by 2030
Increase the Fund's exposure to climate solutions.	Reduce the Fund's exposure to fossil fuel reserves.
90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.	90% of the Fund's financed emissions are classified as achieving Net Zero, aligned or aligning, or subject to an engagement programme to build that about by 2030
Increase asset coverage analysed to 90% by 2030	Operational targets for Leicestershire County Council (Scheme Manager) and LGPS

	Central to achieve net zero operations by 2030.

Step 1: Evaluation

Step 2: Engagement

Step 3: Voting

Step 4: Divestment

These targets and measures support real-world emissions reduction and are in line with the Institutional Investor Group for Climate Change's Net Zero Investment Framework which support the goals of the Paris Agreement to limit global temperature well below 2degrees with the aim of achieving a 1.5degree limit. The Fund will support this through its approach to Stewardship with a four step plan.

To monitor progress against the NZCS the Fund produces an annual Climate Risk Report that performs top down and bottom-up analysis of the Funds investment portfolio. The NZCS and the Fund's latest Climate Risk Report can be viewed here. This is supplemented by the following Taskforce on Climate-related financial disclosures report.

Taskforce on Climate-related financial disclosures (TCFD) 2023 Extract

The Fund's TCFD report sets out its approach to climate-related risks and opportunities. Climate change is already causing widespread impacts on people and infrastructure, affecting scheme members, employers, and the local communities they support. With scientists predicting that extreme events are becoming more common and severe it is important that the Fund manages climate risks and opportunities to its investments and liabilities. The Funds full 2023 TCFD report can be viewed here.

- Governance - The Local Pension Committee has overall responsibility for all issues relevant to the Fund, including regular engagement on the oversight and management of risks and opportunities related to climate change.

  Fund Officers, Advisors, and Investment Managers support the Committee in development and delivery of the Fund's Net Zero Climate Strategy, investment decisions and stewardship activities.

- Strategy - Climate risk and opportunities have impacted the Fund's approach to investment decision making. The Fund's Net Zero Climate Strategy defines the key climate related risks and opportunities across the Fund and how it is managed. This has led to over £1billion in climate related investments and a focus on real-world impact.

- Risk Management - Climate change risk is embedded within day-to-day risk management processes and investment decisions. Committee considers the Fund risk register and stewardship activities on a quarterly basis and climate risk metrics on at least an annual basis. This supports identification of risks and supports decision making in management of them.

- Metrics and Targets - The Fund reports progress annually against its nine targets, including to become net zero by 2050, with an ambition for sooner. As of 31st March 2023, the Fund is on track against each metric for its equity portfolio where baseline data as of 31st December 2019 is available.

Net Zero Climate Strategy Equity Targets	On Track
50% reduction in carbon intensity by 2030	✓
40% reduction in absolute carbon emissions by 2030	✓
Reduced exposure to fossil fuel reserves	✓
Increased exposure to climate solutions	✓
90% of material sector companies aligned or aligning by 2030 90% of financed emissions aligned, aligning or subject to an engagement by 2030	*Reported for the first time 2023*

Strategic Asset Allocation

The Fund's target strategic asset allocation (SAA) as at the January 2024 is shown below alongside the actual allocation at the end year end. The difference to the January 2024 target is also shown bearing in mind alignment will take an amount of time to enact. The fund has been moving from growth assets which are more liquid to income assets which primarily invest in the private markets and therefore can take years to get money invested.

The SAA is updated once a year usually in the first calendar quarter and proposals are presented to, and discussed with, the Local Pension Committee for approval. Changes to the portfolio holdings are then enacted over the year and sometimes over multiple years to adjust towards the target SAA. In most circumstances specific advice from the Fund's investment consultant is requested.

The setting of the SAA is the one of the most important decisions that the Committee makes. It is this decision that will have the most significant impact on the investment return achieved. Both careful asset allocation and rebalancing are important for investment returns because they can help to reduce risk adjusted returns by tilting towards better asset classes and away from others that may be deemed overvalued from a risk versus returns perspective and increase potential returns by rebalancing mechanically by divesting from assets that have increased in value and reinvesting in those which have fallen. Neither is a guarantee for success, however, both form part of the Fund's long term investment strategy.

Individual investment manager choices are important as they can produce added value by outperforming their benchmarks, but their influence is smaller in comparison to the choice of benchmark. Variances to benchmark positions can take time to close especially when investments or divestments need to be made to illiquid products such as infrastructure and property that usually have a time lag between committing capital and the money being requested (called) by the investment manager.

At the year end the major differences to the 2024 target SAA is described as being overweight ‘growth’ assets by 4.0% and underweight ‘income’ assets by 10%. Growth assets contain the Funds equity holdings which have performed well over the one year and in line with their benchmarks, taken together with other asset classes that have not performed as well as the growth asset class which has increased the overweight to the target allocation. Whilst the Fund is awaiting capital calls made to underweight areas and has ample cash available it is deemed appropriate to maintain an overweight position to growth assets and in particular listed equity.

The UK exposure has been calculated using manager data where provided at the year end. Including the UK sterling cash 28% of the Fund is exposed to the UK and 21% excluding the cash.

Asset group / class	Actual Weighting 31 March 2024	Target SAA Jan 2024	Difference actual to Jan 2024 SAA target	UK exposure % 31 March 2024
Growth	***54.0%***	***50.0%***	***+4.0%***	***6.6%***
Listed equity	42.7%	37.50%	+5.2%	3.8%
Private equity	6.6%	7.5%	-0.9%	0.5%
Targeted return	4.7%	5.0%	-0.3%	2.3%
Income	***31.9%***	***42.0%***	***-10.1%***	***10.1%***
Infrastructure	9.9%	12.5%	-2.6%	1.3%
Property	7.2%	10.0%	-2.8%	6.8%
Private credit	8.3%	10.5%	-2.2%	1.4%
Liquid global credit	5.5%	9.0%	-3.5%	0.6%
Emerging market credit	1.0%	0.0%	+1.0%	0.0%
Protection	***14.1%***	***8.00%***	***+6.1%***	***11.4%***
Inflation linked bonds	3.7%	3.5%	+0.2%	3.7%
Investment grade credit	3.5%	3.75%	-0.25%	1.0%
Cash including hedge collateral	6.9%	0.75%	+6.15%	6.6%
	100.0%	**100.0%**		**28.1%**

During 2023/24 Investment Subcommittee decisions were taken to realign to the strategic asset allocation. The move from growth assets to income assets involved a listed equity review which was agreed and would take at least one year to achieve the reorganisation of the current listed equity funds and divest the exposure given the lower strategic allocation of 37.5% to listed equity. The planning of this exercise involved the appointment of a transition advisor who proposed the four stage plan and consulted with the Fund’s investment advisor.

A targeted return review was also undertaken which paved the way to achieve the lower target allocation of 5% (reduced from 7.5%) of total Fund assets. In addition, the proposed solution approved by the ISC simplified the Fund by utilising two managers instead of three to achieve the aims of the targeted return strategy.

A protection assets review was presented to the ISC during the year with the aim of reviewing the current structure of strategies used, use of alternative strategies and assessment of the total allocation that would be desirable to achieve the Fund's long term aims. Although many alternatives were considered alongside extensive modelling of the Fund's assets and liabilities far out into the future it the outcomes was to maintain the current use of managers and strategies. The Fund currently considers the use of index linked bonds (mainly UK), investment grade corporate bonds and a currency hedge to reduce volatility from the overseas currency exposure as it's primary protection assets.

Smaller proposals to the infrastructure and private equity asset class were also approved as a normal course of action in order to maintain exposure to these asset classes as capital is returned to the Fund from older investments that have reached maturity.

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

A summary of investment performance is included below at asset class level.

	1 Year %		**3 Years % p.a**		**5 Years % p.a**	
	Fund	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Growth assets	13.8	18.0	9.6	9.4	10.2	9.9
Income assets	4.0	6.1	5.0	4.9	4.0	4.3
Protection assets	0.7	-0.5	-5.4	-6.5	-2.1	-2.6
TOTAL FUND ex HEDGE	**8.9**	**11.4**	**6.6**	**6.3**	**7.0**	**6.8**

The Fund has a large number of investment managers although with careful management of the years it has been reducing this to make the Fund governance simpler whilst maintaining adequate diversification. It is inevitable that some of them will have periods of disappointing performance and sometimes this disappointing performance can last multiple years. This can be the result of a particular investment 'style' not being in favour with market sentiment. It is therefore expected that at any given time there will be parts of the Fund that are not performing as well as others.

It is, however, important to understand why managers are performing in the manner they are, regardless of whether this is above or below their benchmark and to assess whether this is a cause for concern. Spontaneous reactions that are based on relatively short periods of poor performance are not usually sensible and understanding the reasons for poor performance is vital. The Fund undertakes regular reviews of asset classes with the investment advisor and reports on performance of each manager at Local Pension Committee meetings highlighting and providing commentary. Manager reports which are compiled on a quarterly basis are appended to every set of Local Pension Committee papers.

It is unlikely that all managers appointed by the Fund can simultaneously perform well, in fact the Fund is positioned such that some assets should perform well in traditional market downturns. The Fund needs to have a reasonable spread of management styles and asset classes and occasionally a manager is chosen specifically because they provide diversification of returns from other managers within the overall portfolio. There are a number of managers that the Fund employs that evidenced this in 2022 when both equity and bond markets fell in tandem. A small negative return in 2022/23 (which was in line with the benchmark) can be considered a reasonable 'return' considering the turbulent world economics over that year.

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate. An investment manager is usually invited to each Local Pension Committee to present their strategy, investment performance, views on market they operate in and how they demonstrate their responsible investing credentials in practice.

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

Growth Assets

The Fund has a global passive equity manager (Legal and General) that manages against both market capitalisation benchmarks and also against alternative benchmarks such as low carbon transition global equity index. The Fund has two active equity investments with LGPS Central (the pooling company), a global equity multi manager investment and an active emerging market multi manager product. The Fund also has invested into a passive product in 2020 with LGPS Central, a climate multi factor fund.

Within the growth assets group, the Fund also includes private equity investments (investments in unquoted companies), the vast majority of which is managed by Adams Street Partners as well as investment in three LGPS Central Private Equity vintages.

The final constituents of the growth asset group are two managers classed within targeted return class. This exposure can generally be categorised as investments that are seeking to make a return of 4% p.a. more than could be achieved by an investment in cash and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund uses two managers employed in this area Ruffer and Fulcrum asset management.

Income Assets

Property - Colliers Capital UK manage a directly owned property portfolio. LaSalle Investment Management manage a portfolio of pooled property funds, which includes a wide range of property types and some which are specialist in nature. They invest in funds which allows the fund to access global property exposure.

The Fund has also invested in two stand-alone non core property funds which are closed ended and will be returning capital over the next few years.

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

Other asset classes included within the income class include various types of credit investments. Emerging market credit and private credit to corporate enterprises feature in this class. Partners Group are the single largest private credit manager based on assets under management with whom the Fund invests. Over time this will change as more assets are pooled via LGPS Central who have developed a range of private credit solutions.

Protection assets

UK inflation is one of the Fund's biggest risks, due to the direct link to pension benefits and the less-direct link to salary growth of active members. Protecting against this risk is therefore sensible but can be expensive. It involves taking money out of assets that are seeking investment growth (e.g. equities) and investing it in safer, and therefore lower-returning, index-linked bonds. Aegon Asset Management manages a portfolio of index-linked bonds for the Fund.

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds. This asset class has suffered over the couple of years as a combination of negative factors pushed prices lower. The Fund in accordance with its SAA rebalances where possible by adding to or divesting from an asset class when valuations deviate from the target allocation.

The Fund has other avenues to obtaining protection against inflation, investment in property, infrastructure, and timberland, all of which have a good historic link to inflation. In the case of infrastructure inflation protection is afforded by exposure to underlying assets which are subject to contracted or regulated income.

Other mandates included within protection assets include a short dated investment grade bond fund with Aegon Asset Management and a LGPS Central investment grade corporate bond fund. Both aim to provide stable and safer rates of returns in a variety of economic conditions.

Other portfolios

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

Pooling

As mentioned earlier in the report the Fund is an investor in LGPS Central Ltd, a company which pools together pension fund assets from various pension funds across the Midlands. Leicestershire County Council along with eight other funds is a joint owner of the company.

The company has its own governance and risk management structures in place. The aim of the Company is to use the combined buying power of its partner funds to reduce costs, improve investment returns and widen the range of available asset classes for investment – all for the benefit of local government pensioners, employees and employers.

Further information on the Governance Structure on LGPS Central can be found within the Governance Compliance Section here.

LGPS Central ltd is based in Wolverhampton and their details can be found below:
Address:
LGPS Central Ltd
Floor 1
i9
Wolverhampton Interchange
Wolverhampton
WV1 1LD

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

Assets under management

In total as at 31 March 2024, £2.5bn worth of assets were managed directly by the LGPS Central Pool. Further to this the Fund has £1.1bn worth of passive equities which are invested in a low cost collectively pooled vehicle. Taken together as at 31 March 2024 57% of the Fund's assets could be defined as pooled.

Post Pooling Report (as issued by LGPS Central for Leicestershire Pension Fund)

The information request set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2023/24. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in later years.

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

1. Set-Up Costs

£000	2018/19 Direct	2018/19 Indirect	2018/19 Total	Cumulative 2014/15 to 2018/19 Total
Set Up Costs				
Recruitment	-	-	-	27
Procurement	-	-	-	2
Professional Fees	-	-	-	187
IT	-	-	-	97
Staff Costs	-	-	-	142
Other Costs (provide details)				
Premises	-	-	-	49
Staffing-Related Costs	-	-	-	5
Travel and Expenses	-	-	-	1
Training and Events	-	-	-	1
FCA Fees	-	-	-	1
General Admin Costs	-	-	-	2
Set-Up Costs Before Funding	-	-	-	514
Share Capital	-	-	-	1,315
Debt	-	-	-	685
Other Costs	-	-	-	-
Set-Up Costs After Funding	-	-	-	2,514

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

Please note that CIPFA has not provided a set definition of Indirect Costs but notes that ‘‘these would include, for example, overhead costs incurred by the administering authority or the pool in respect of senior management time, accommodation or support services recharged on a % of time/floor area basis as opposed to being directly linked to pension fund activities’’.

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

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

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

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

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

£000	At 1 April-23	Charges in Year	Settled in Year	At 31 March-24
Governance Costs	-	291	-	-
Operator Costs	-	816	-	-
IMMC (*)	-	609	-	-
Product Development Costs	-	85	-	-
Total	531	1,801	(1,404)	928

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

4. Other Transactions between Partner Funds and LGPSC (e.g., service support provided by West Midlands to LGPSC / rent payable by LGPSC to Derbyshire County Council)

£000	At 1 April-23	Charges in Year	Settled in Year	At 31 March-24
Interest Payable	46	65	(46)	65
Item 2				
Item 3				
Total	46	65	(46)	65

5. LGPSC Investment Management Expenses Charged to Partner Funds

	£000	Direct	Indirect	Total	*Bps Charge*
1	Ad Valorem	3,012		3,012	*13.89*
2	Performance	-		-	-
3	Research	-		-	-
4	PRIIPS Compliance	-		-	-
5	Other (provide details)	2		2	*0.01*
	Management Fees	3,014	-	3,014	*13.90*
6	Commissions	525		525	*2.42*
7	Acquisition/issue costs	-		-	-
8	Disposal costs	-		-	-

9	Registration/filling fees	-		-	-
10	Taxes and Stamp Duty	2,981		2,981	*13.74*
11	Other (provide details)			-	-
	Investment Administration			-	-
	Other administration charges			-	-
	Implicit Costs	6,172		6,172	*28.46*
	Transaction Costs	9,678	-	9,678	*44.62*
					-
12	Custody/Depositary	215		215	*0.99*
13	Other (provide details)				-
	Fund Accounting	219		219	*1.01*
	Transfer Agent	18		18	*0.08*
	Property Expenses	113		113	*0.52*
	External Audit	20		20	*0.09*
	Performance Reporting	14		14	*0.06*
	Transaction Charges	616		616	*2.84*
	MACS Fees	4		4	*0.02*
	Total Costs	13,911		13,911	*64.14*

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

6. Investment Management Expenses By Product / Service

£000	1	2	3	4	5	6	7	8	9	10	11	12	13	Total 2023/24 Costs	AUM At 31 March 2024 £m	*2023/24 Bps Charge*
Global Multi-Manager	1,131					145				158	985	54	17	2,490	636	*45.03*
Climate Factor Fund	171					264				304	(355)	85	23	492	812	*6.03*
Emerging Market Equities	685					111				174	97	32	26	1,125	185	*63.20*
Corporate Bonds	145					-				-	580	13	6	744	159	*49.93*
Emerging Market Debt	233					-				-	4,873	9	12	5,127	63	*457.77*
Multi-Asset Credit	129				2					2,345		2	769	3,247	49	*4638.57*
ACS Sub-Funds	481					5				-	(8)	20	151	649	349	*28.46*
	2,975	-	-	-	2	525	-	-	-	2,981	6,172	215	1,004	13,874	2,253	
Private Equity 2018 V'tage																
Private Equity 2021 V'tage	3													3	10	*3.00*
Private Debt	10													10	30	*12.50*
Infrastructure	13													13	160	*1.78*
Alternative Vehicles	11													11	70	*3.14*
	37	-	-	-	-	-	-	-	-	-	-	-	-	37	270	
Total	3,012	-	-	-	2	525	-	-	-	2,981	6,172	215	1,004	13,911	2,523	*64.14*

Items 1 – 13 relate to the categories highlighted in data request (5).

7. Asset Under Management & Performance By Product / Service

£000	AUM At 1 April-23 £m	AUM At 31 March-24 £m	One Year Gross Performance %	One Year Net Performance %	Passive Benchmark Used	One Year Passive Index %
Global Multi-Manager	521	636	22.52%	22.28%	FTSE All World Index	20.98%
Climate Factor Fund	896	812	19.04%	18.99%	FTSE All-World Climate Balanced Comprehensive Factor Index	18.66%
Emerging Market Equities	182	185	2.48%	1.75%	FTSE Emerging Markets Index	6.20%
Corporate Bonds	147	159	8.66%	8.56%	ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%	6.29%
Direct Property	-	49	1.10%	-1.30%	MSCI Quarterly index	0.50%
Emerging Market Debt	111	63	12.63%	12.41%	JPMorgan EMBI Global Diversified Index, hedged to GBP	10.36%
Multi-Asset Credit	213	349	6.99%	6.69%	3-month GBP SONIA	5.23%
ACS Sub-Funds	2,070	2,253				
Private Equity 2018 Vintage	10	10				
Private Equity 2021 V'tage	30	30				
Private Debt	417	160				
Infrastructure	100	70				
Alternative Vehicles	557	270				
Total	2,627	2,523				

8. Transition Costs

No transitions in 2023/24.

ASSET TABLE

A supplementary table in line with new guidance is included below showing allocations to UK investments across four asset classes in sterling. Note that the 'not pooled' UK listed equity exposure is via collectively procured low cost passive Legal and General investment management funds. The Fund considers these low cost passive investments as pooled investments given the low fees and collective nature of the procurement process. The Fund is currently developing its reporting for levelling up as defined by Government policy.

£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

The table below shows the Fund's assets split by asset classes they are usually reported in. An alternative format illustrates the same but with a different classification for asset classes that might aid comparisons across other LGPS funds.

Asset values as at 31 March 2024 £m	Pooled (LGPS Central)	Under LGPS Central advisory management	Not Pooled	Total
Growth	***1,645***	***299***	***1,466***	***3,410***
Listed equity	1,633		1,064[1]	2,697
Private equity	12		402	414
Targeted return		299		299
Income	***731***	***0***	***1,286***	***2,016***
Infrastructure	60		568	628
Property	49		403	452
Private credit	210		315	525
Liquid global credit	348			348
Emerging market credit	63			63
Protection	***159***	***0***	***732***	***892***
Inflation linked bonds			235	235
Investment grade credit	159		60	220
Cash including hedge collateral			437	437
Total	***2,535***	***299***	***3,484***	***6,318***
% of total AUM	***40%***	***5%***	***55%***	

[1] the £1.064bn (16.8% of total fund) of assets 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'.

Alternative table to aid comparison with other LGPS funds showing pooling progress.

£m Asset Values at at 31 March 2024	Pooled	Under LGPS Central advisory management	Not Pooled	Total
Equities	1,633		1,064	**2,697**
Bonds	570		296	**866**
Property	49		403	**452**
Hedge Funds		299		**299**
Diversified Growth Funds				**0**
Private Equity	12		402	**414**
Private debt	210		315	**525**
Infrastructure	60		568	**628**
Derivatives				**0**
Cash and net current assets			437	**437**
Other				**0**
total	2,535	299	3,484	**6,318**
% of total AUM	***40%***	***5%***	***55%***	

Administration

Summary of Activity

The Pension Section dealt with various areas of administration throughout 2023/24. Areas include deaths, retirements, transfers, refunds, divorce calculations, new joiners, aggregations, optants out.

The Pension Section used the information contained within its Administration and Communication strategy to communicate with various stakeholders including, members or their representatives (including actives, deferred, pensioners, prospective members), employers, Members of the Local Pension Board and Committee, and various other stakeholders including HMRC, The Pensions Regulator, and DLUHC.

Communication was provided in various formats, website, member self-service, phone calls, face to face, employer forums, training sessions, written letters and email.

Key Performance Indicators

Key performance indicators are split into 5 categories and are found in Appendix A of the report and summarised below.

- Casework
- The Funds 10 specific indicators split by business process and customer feedback
- Communications and engagement
- Administration - Resources
- Data Quality

Casework

Officers have used the Scheme Advisory Boards recommended layout. It details the number of cases created and completed in the year, and the previous year, for comparison.

The Funds 10 specific indicators split by business process and customer feedback

Officers are unable to complete the Scheme Advisory Boards recommended layout for this section because the Fund's workflow tasks are not set up to report on certain activities. Officers liaised with a Scheme Advisory Board who agreed the Fund should use our own KPIs in this section.

The Fund has been measuring 10 KPIs, 3 for business process and 7 for customer feedback, for many years and these are reported to the Fund's Board and Committee.

Officers measure results against target and these are included in Appendix A.

Communication and engagement

Officers have used the Scheme Advisory Boards recommended layout. It provides percentages of the Fund's various scheme members who have registered on the on-line Member Self-Service (MSS) system. Scheme members can run their own estimates, view annual benefit statements and update personal details and officers and employers regularly promote MSS sign up.

Communication includes numbers of phone calls, emails, online enquiries and various other types of communication methods.

Administration – Resources

Officers have used the Scheme Advisory Boards recommended layout. It provides the full time equivalent number of Officers working in pensions administration and the average length of service working at Leicestershire. It does not include previous periods of employment elsewhere.

It also provides staff vacancy rate during the year and ratio of scheme members to officers.

Data Quality

Officers have used the Scheme Advisory Boards recommended layout. The table provides the percentage of annual benefit statements issued by the statutory deadline of the 31 August.

Common data and scheme specific data are data fields the Pension Section should hold for each scheme member. These are scored annually and reported to The Pensions Regulator. Officers monitor these annually and put into place data improvement plans where necessary.

As more people move away from post to email, more email addresses are being captured on member's records.

Employers submit monthly data to the Pension Section. This is monitored and employers are chased where submissions are late.

Fund members

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

Year	Active Members	Preserved Members	Pensioner and Survivor Members	Total
2020/21	36,972	30,469	30,089	97,530
2021/22	37,139	30,704	31,397	99,240
2022/23	38,823	31,811	32,560	103,194
2023/24	40,848	32,250	33,902	107,000
Difference in the year	2,025	439	1,342	3,806

As of the 31 March 2024 there were 6,499 status 2 records. These are uncomplete cases (known as undecided leavers) that could become a refund, preserved or pensioner.

Fund Employers

A summary of the largest contributing employers is set out in the table below.

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

A summary of the number of employers in the Fund analysed by scheduled bodies, admitted and designated bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities) is set out within Appendix E.

Communications Policy

The Pension Section used the information contained within its Administration and Communication strategy to communicate with various stakeholders including, members or their representatives (including actives, deferred, pensioners, prospective members), employers, Members of the Local Pension Board and Committee, and various other stakeholders including HMRC, The Pensions Regulator, and DLUHC.

Communication was provided in various formats, website, member self-service, phone calls, face to face, employer forums, training sessions, written letters and email.

The Fund has a website that provides details of the scheme. New members receive a welcome letter introducing them to the scheme with a link to the website and member self service to enable members to run their own estimate projections.

Employers auto enrol eligible new employees into the scheme and re-enrol non members through their auto enrolment duties.

Fund officers may provide sessions with employers and scheme members when requested.

The Fund's administration and communication strategy provides details of how we communicate with various stakeholders.

Value for Money Statement

Administration Costs

Officers must demonstrate value for money. The cost per member is calculated using the total cost for staffing, IT, actuarial and support services divided by the scheme membership on 31 March 2024. To compare the 2023/24 costs, information from three years prior is included.

The Fund has 37 full time equivalent working in Pension Scheme Administration including two additional full time temporary staff, working on the McCloud remedy. Scheme membership is 107,000 equating to 2,892 and increase of 176 members per FTE in the year.

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

Year	Members	Full Time Equivalent – Pensions Administration	Administration Costs £000	Cost per member (Admin cost / members)
2019/20	95,401	33	2,300	£24.11
2020/21	97,530	33	2,155	£22.10
2021/22	99,240	36	2,576	£25.96
2022/23	103,194	38	2,919	£28.29
2023/24	107,000	37*	3,039	£28.40

*Includes two full time temporary staff working on the McCloud remedy.

The following table compares spend between 2022/23 and 2023/24 in the five administration areas.

Year	Staffing	IT	Actuarial	Support Services	Other	Total
2022/23	1,520,000	475,000	183,000	627,000	114,000	2,919,000
2023/24	1,776,000	476,000	97,000	606,000	84,000	3,039,000
Difference	256,000	1,000	(86,000)	(21,000)	(30,000)	120,000

- Staffing- The increase in staff costs were due to the ongoing McCloud work, inflationary increases and pay progression for colleagues moving through the pay bands.

- IT – 2023/24 costs were almost the same as in 2022/23 and below budget by £44,000. In 2023/24 the Pension Section purchased and implemented an enhancement to the administration system to further automate the retirement to pension payroll process.

- Actuarial – Actuarial charges were budgeted at £150,000 for 2023/24. The actual spend on actuarial services in the year were £53,000 lower than budget. Every three years the Fund completes an actuarial valuation, the most recent one taking place on the 31 March 2022. The next actuarial valuation takes place on the 31 March 2025. There is an expected increase in actuarial charges in 2024/25 as the Fund prepares for the valuation, and throughout 2025/26 in readiness for employer rate changes from the 1 April 2026.

- Support Services – There was a decrease in support services charges in 2023/24 from process improvements.

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

- The total budget was £2,851,000 and actual spend was £3,039,000 causing an overspend of £188,000 in 2023/24. This was predominately due to higher than anticipated staff costs due to inflation.

Fund Administration Charge

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

Dispute Resolution

In line with legislation the Fund has an Internal Disputes Resolution Procedure that deals with formal complaints against the Scheme. During 2023/24 the Fund had two Stage 2 complaints via the formal Internal Resolution Disputes process. Both cases are currently with the Pensions Ombudsman.

The procedure is summarised below.

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

  Any points of difference should firstly be addressed with the Pensions Office on an informal basis. You can write to: The Leicestershire County Council Pension Section, County Hall, Glenfield, Leicester, LE3 8RB.

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

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

  A copy of the form is available here.

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

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

  Further advice can be found at the following:

Money Helper	Web:	https://www.moneyhelper.org.uk
LGPS Regulation & Guidance	Web:	https://www.lgpsregs.org/

Contact Details

Help desk arrangements and information are as follows:

Contact Type	From	To	Contact
MSS Helpdesk Phones	08:00	14:00	0116 3057886

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

Actuarial Report on Funds

Leicestershire County Council Pension Fund (the Fund)

Actuarial Statement for 2023/24

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2023. In summary, the key funding principles are as follows:

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

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,790 million, were sufficient to meet 105% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £283 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2022 valuation were as follows:

Financial assumptions	31 March 2022
Discount rate	4.4% pa
Salary increase assumption	3.4% pa
Benefit increase assumption (CPI)	2.9% pa

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	24.4 years
Future Pensioners*	22.3 years	25.9 years

*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

Experience over the period since 31 March 2022

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2022 and 2023, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in higher than expected LGPS benefit increases of 10.1% in April 2023 and 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). There has been a significant shift in the wider economic environment since 2022, resulting in generally higher expected future investment returns and a reduction in the value placed on the Fund's liabilities. Overall, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2022.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Tom Hoare

Tom

Hoare

FFA 21

May 2024

For and on behalf of Hymans Robertson LLP

External Audit Opinion

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

To follow

Additional Information

Internal Audit

The Role of Internal Audit

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:
Performance against KPIs is reported to the Local Pension Board on a quarterly basis. The Pension Committee further receives regular updates. KPI performance is reported in the Fund's annual report. Plans to address any workloads are added to the business planning process above.

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

Internal Audit Work Undertaken – 2023/24

Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. In total, seven assurance audits were undertaken in 2023/24. The assurance grading was overall positive and there were no high importance recommendations. Final reports for all completed audits were also shared with the Fund's External Auditor (Grant Thornton LLP) in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts.

In the year, Internal Audit reviewed several areas of the Fund's administration and investment. These areas included, Contribution Banding Changes, Contribution Calculations, annual Pensions Increase, Data Collection and Input in relation to McCloud, Pension Creation and Investment Payments made from the Pension Fund.

Three planned audits were deferred into 2024/25, purely due to delayed developments nationally. However, one was replaced with an audit of Life Certificates for Overseas Pensioners. Work was also undertaken on the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. Reports for the latest exercise (2022/23) were released in January 2023, and investigations are currently ongoing. The next biennial exercise is due to be undertaken during 2024/25 with reports available around January 2025.

In addition, the Pension Service has continued to subscribe to the NFI Mortality Screening Service, where pension records are checked against the Department for Work and Pensions (DWP) Deceased Persons database. Following the success of the first exercise in June 2022, subsequent exercises, ie. June and November 2023 were expanded to include all pension records. The most recent exercise was undertaken in November 2023, which identified three cases where payments had continued for deceased pensioners, totalling over £15K. However, a widow has been identified for the largest overpayment of £12.6K and the Pension Service are seeking to offset the overpayment from her entitlement.

Whilst the Risk Register is the responsibility of the Pensions Manager and is maintained and updated by him, Internal Audit continue to review and comment on any updates prior to Board and Committee meetings.

Regarding the internal audit arrangements for LGPS Central, ongoing collaborative work with partner fund internal auditors, continues with Leicestershire staff providing feedback to the wider Internal Audit Working Group (IAWG).

The first four-year cycle of agreed internal audits have now been completed, namely 2018/19 to 2022/23 as part of this arrangement, and a revised four-year plan of audit work from 2023/24 to 2027/28 has been agreed.

The 2023/24 audits were assigned to colleagues at West Midlands (Governance), and Staffordshire County Council (Investments). Overall opinions on work completed were 'Satisfactory' and 'Substantial' respectively. Leicestershire County Council are due to complete audit work during 2024/25, on behalf of the IAWG. One of the roles of the IAWG is to review the AAF/0106 Control Report (Type 2).

LGPS Central External Auditors experienced some difficulties in producing the latest report on a timely basis, i.e. The year ending December 2022 was not available for review until January 2024 and was 'Qualified.' Due to the time taken in producing the AAF/0106 Control Report, LGPS Central asked all partner fund internal auditors to discuss with their External Auditors and S151 Officers, the possibility of agreeing an alternative approach on a short-term basis.

The alternative approach was for a 'Type 1' report and an assurance stack. After obtaining the views of our External Auditor (Grant Thornton) it was confirmed that the proposed approach would generate a significant increase in work for the External Auditor, resulting in a cost to the Fund. Based on this, Leicestershire requested a Type 2 report, as did other Partners. However, the company's Audit Risk and Compliance Committee and Board were unable to meet this request and have made arrangements for a Type 1 AAF report to be completed and have agreed to support Partner Funds with access to any other forms of assurance that are being performed.

Freedom of Information Requests summary

All Freedom of Information requests are logged by Leicestershire County Council who keep a record of Freedom of Information requests and response in the disclosure log available here.

Area	2023/2024
Investments	**10**
Administration	**1**

Glossary

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

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

Appendix A – Administration Key Performance Indicators

Table A - Total number of casework

Ref	Casework KPI	Total number of cases open as at 31 March (starting position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total % of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A1	Deaths recorded of active, deferred, pensioner and dependent members	183	939	954	101.60%	999	95.23%
A2	New dependent member benefits	0	296	296	100.00%	379	100.00%
A3	Deferred member retirements	352	1,039	1,382	133.01%	1,286	93.94%
A4	Active member retirements	382	1,815	1,660	91.46%	1,691	98.14%
A5	Deferred benefits	1,302	24,38	1,948	79.60%	2,324	78.49%
A6	Transfers in (including interfunds in, club transfers)	101	160	113	70.63%	73	50.69%
A7	Transfers out (including interfunds out, club transfers)	206	466	359	77.04%	405	86.17%
A8	Refunds	1075	3562	3428	96.24%	3,170	84.22%
A9	Divorce quotations issued	9	181	160	88.40%	169	98.26%
A10	Actual divorce cases	2	6	1	16.67%	9	100%
A11	Member estimates requested either by scheme member and employer	164	1,280	1,277	99.76%	1,081	97.21%
A12	New joiner notifications	0	9,552	9,552	100%	10,145	100%

Ref	Casework KPI	Total number of cases open as at 31 March (starting position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total % of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A13	Aggregation cases	917	2198	994	45.22%	1538	71.53%
A14	Optants out received after 3 months membership	6	27	11	40.74%	1	5.88%

Table B - Time taken to process casework.

Fund Officers are unable to complete Table B of Annex A because the Leicestershire Fund workflow tasks are not set up to report on certain activity.

Fund Officer liaised directly with a Scheme Advisory Board Officer about this section. The SAB Officer appreciated the limitations and agreed the Fund's existing KPIs could be included in this section. It was accepted this may remain the case for future years ahead, until system workflow tasks are nationally agreed with standard reporting features.

Full Year - 1 April 2023 to 31 March 2024

Business Process Perspective	Target			Customer Perspective - Feedback	Target		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	88%	▶	Establish members understanding of info provided - rated at least mainly ok or clear	95%	98%	▲
Pension payments made within 10 working days of receiving election	95%	94%	▶	Experience of dealing with Section - rated at least good or excellent	95%	93%	▶
Death benefits/payments sent to dependant within 10 working days of notification	90%	83%	▼	Establish members thoughts on the amount of info provided - rated as about right	92%	93%	▲
				Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Below target	▼			Email response - understandable	95%	98%	▲
Close to target	▶			Email response - content detail	92%	100%	▲
Good or better than target	▲			Email response - timeliness	92%	95%	▲

Table C - Communications and engagement

Ref	Engagement with online portals	Percentage as at 31 March
C1	% of active members registered	49.93%
C2	% of deferred member registered	34.95%
C3	% of pensioner and survivor members	49.61%
C4	% total of all scheme members registered for self-service	44.71%
C5	Number of registered users by age. (Excludes pensioners and dependents – no data held this year for end of year data)	0-39 = 6,351 40-49 = 7,314 50-59 = 12,198 60+ = 5,163
C6	% of all registered users that have logged onto the service in the last 12 months	61.56%
	Communication	
C7	Total number of telephone calls received in year	13,065
C8	Total number of email and online channel queries received	23,893
C9	Number of scheme member events held in year (total of in-person and online)	8
C10	Number of employer engagement events held in year (in-person and online)	28
C11	Number of active members who received a one-to-one (in-person and online)	87
C12	Number of times a communication (i.e newsletter) issued to:	
	a) Active members	1
	b) Deferred members	1
	c) Pensioners	2

Table D: Resources

Ref	Resources	
D1	Total number of all administration staff (FTE)	37.00
D2	Average service length of all administration staff	13.64 years
D3	Staff vacancy rate as %	2.63%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	2,892:1
D5	Ratio of administration staff (excluding management) to total number of scheme members	3,344:1

Table E - Data Quality

	Annual Benefit Statements	
E1	Percentage of annual benefit statements issued as at 31 August	100.00%
	Short commentary if less than 100%	Not applicable
	Data category	
E3	Common data score	98.00%
E4	Scheme specific data score	97.61%
E5	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date	2.35%
E6	Percentage of active, deferred and pensioner members with an email address held on file	51.25%
	Employer performance	
E7	Percentage of employers set up to make monthly data submissions	96.30%
E8	Percentage of employers who submitted monthly data on time during the reporting year	71.00%

Table Notes

A2 – No specific task for dependants – created as part of the deceased task – figures show Dependants created in period.

A12 – No specific task for new starters – created directly from i-connect – iconnect start date used for record creations.

A14 – Low numbers as cases are often created as Frozen cases.

C5 – Figures exclude pensioners and dependants as figures not collated by age for this group this year at year end.

D2 – Based on members scheme start date in most recent employment with Leicestershire County Council

Appendix B: Governance Compliance Statement

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

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

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

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

Appendix C: Meeting Attendance

The attendance figures for the Local Pension Committee and Investment Sub-Committee for 2023/24 are recorded in the table below:

2023/24	REPRESENTING	June - LPC	July - ISC	September - LPC	October - ISC	December - LPC	January - LPC	March - LPC	%
VOTING MEMBERS (EMPLOYER REPRESENTATIVES)									
Mr. T. Barkley CC	Administering Authority	✓	✓	✓	✓	X	✓	✓	86%
Mr. D. Bill CC	Administering Authority	X	X	X	✓	✓	✓	✓	57%
Mr. D. Grimley CC	Administering Authority	✓	✓	X	✓	✓	✓	✓	86%
Mr. P. King CC	Administering Authority	X	\	✓	\	✓	✓	✓	80%
Mrs. A. Wright CC (till March 2024)	Administering Authority	✓	\	X	\	X	X	X	20%
Cllr. A. Clarke (from August 2023)	Leicester City Council	\	X	X	X	✓ (v)	✓	✓ (v)	50%
Cllr. M. March (from November 2023)	Leicester City Council	\	\	\	\	✓	X	✓	66%
Cllr. Sue Waddington (to May 2023)	Leicester City Council	\	\	\	\	\	\	\	-
Mr. Z. Limbada	Universities Representative	✓	✓	✓	X	✓ (v)	✓	X	71%
Cllr. R. Denney (from June 2023)	District Representative	✓	\	✓	X	✓	✓	✓	83%
Cllr. M. Cartwright (from June 2023)	District Representative	\	\	✓	\	✓	✓	✓	100%
Cllr. M. Graham (till June 2023)	District Representative	✓	✓	\	\	\	\	\	100%
Cllr. N. Grundy (to May 2023)	District Representative	\	\	\	\	\	\	\	-

NON-VOTING MEMBERS (EMPLOYEE REPRESENTATIVES)									
Mr. N. Booth (from 2023 AGM)	Employee Representative	✓	\	✓	\	✓	✓	✓	100%
Mr. G. Lawrence (to August 2023)	Employee Representative	✓	X	\	\	\	\	\	50%
Mr. C. Pitt	Employee Representative	✓	✓	✓	✓	✓	X	✓	86%
Mr. V. Bechar (from 2023 AGM)	Employee Representative	\	\	\	\	\	✓	X	50%
VOTING MEMBERS (EMPLOYER REPRESENTATIVES) SUBSTITUTES									
Mrs. H. Fryer (from January 2023) – Substitute	Administering Authority	\	\	\	\	✓ – for Mrs. Wright	\	\	100%
Mr. D. Harrison (from January 2023) – Substitute	Administering Authority	✓ – for Mr. King	\	✓ – for Mr. Grimley	\	✓ – for Mr. Barkley	\	✓ – for Mrs. Wright	100%
Mr. C. Smith (from January 2023) - Substitute	Administering Authority	\	\	\	\	\	✓ – for Mrs. Wright	\	100%

(v) = Members attended virtually online, but in line with regulations are not classed as being formally in attendance, and were not allowed to vote on any matters arising during the meeting.

\ = Not a member at the time, or not required.

Appendix D: Training Attendance

Local Pension Committee 2023/24

		Joint Training: Roles and Responsibilities, Conflict of Interest, LAPFF, Administration, Risk Register, Manager Monitoring	LGPS Central & Stafford Capital Presentation	LGPS Central RI & Engagement 101 training	LCT / ESG from LGIM	SAA R	LGPS Central Stewardship Themes, ASP, Private Equity Funds Training
Mr. T. Barkley CC	Leicestershire County Council	✓	✓	✓	X	✓	✓
Mr. D. Bill CC	Leicestershire County Council	X	X	X	✓	✓	✓
Mr. D. Grimley CC	Leicestershire County Council	X	✓	X	✓	✓	X
Mr. P. King CC	Leicestershire County Council	✓	X	✓	✓	✓	✓
Mrs. A. Wright CC (till March 2024)	Leicestershire County Council	✓	✓	X	X	X	X
Cllr. A. Clarke (from 15 August 2023)	Leicester City Council	\	\	X	✓- (v)	✓	✓
Cllr. M. March (from 22 November 2023)	Leicester City Council	\	\	\	✓	X	X
Cllr. Sue Waddington (to May 2023)	Leicester City Council	\	\	\	\	\	\
Mr. Z. Limbada (to May 2024)	University Representative	✓	✓	✓	✓ - (v)	\	X
Cllr. R. Denney (from June 2023)	District Representative	✓	✓	✓	✓	✓	X
Cllr. M. Cartwright (from June 2023)	District Representative	\	\	✓	✓	✓	✓
Cllr. M. Graham (till June 2023)	District Representative	X	✓	\	\	\	\
Cllr. N. Grundy (to May 2023)	District Representative	\	\	\	\	\	\

Mr. N. Booth (from 2023 AGM)	Employee Rep Elected 2023 AGM	✓	✓	✓	✓	✓	X
Mr. G. Lawrence (to 2 August 2023)	Employee Rep Elected 2021 AGM	X	✓	\	\	\	\
Mr. C. Pitt	Employee Rep Elected 2022 AGM	✓	✓	✓	✓	X	✓
Mr. V. Bechar (from 2023 AGM)	Employee Rep Elected 2023 AGM for I year	\	\	\	\	✓	X
Mrs. H. Fryer (from January 2023) - Substitute	Leicestershire County Council	X	\	\	✓ - for Mrs. Wright	\	✓
Mr. D. Harrison (from January 2023) - Substitute	Leicestershire County Council	✓	✓ - for Mr. King	✓	✓ - for Mr. Barkley	\	\
Mr. C. Smith (from January 2023) - Substitute	Leicestershire County Council	✓	\	\	\	✓	\

\ = Not a member at the time, or not required.

Training Attendance for the Investment Sub-Committee 2023/24

INVESTMENT SUB-COMMITTEE		**Hymans Listed Equity and Targeted Return**	**Aegon Asset Management, Index-Linked Bonds**	**LGPS Central**
Mr. T. Barkley CC	Administering Authority	✓	✓	✓
Mr. D. Bill CC	Administering Authority	X	✓	X
Mr. D. Grimley CC	Administering Authority	✓	✓	✓
Cllr. R. Denney (from June 2023)	District Representative	\	X	✓
Cllr. M. Graham (till June 2023)	District Representative	✓	\	\
Cllr. A. Clarke (from 15 August 2023)	Leicester City Council	X	\	X
Mr. Z. Limbada (to May 2024)	University Representative	✓	X	✓
Mr. G. Lawrence	Employee Representative	\	\	\
Mr. N. Booth – on rotation	Employee Representative	\	\	✓
Mr. C. Pitt – on rotation	Employee Representative	✓	✓	\
Mr. V. Bechar – on rotation	Employee Representative	\	\	\

Hymans Robertson Aspire Training – the Local Pension Committee Members 2022/23

The table below show training undertaken by members prior to the updating of modules in June 2023.

	1 – An introduction to the LGPS	2 – LGPS Governance and Oversight Bodies	3 – Administration & Fund Management	4 – Funding and Actuarial Matters	5 – Investments	6 – Current Issues
Mr. T. Barkley CC	C	C	C	C	C	C
Mr. D. Grimley CC	C	C	C	C	C	C
Mr. D. Bill CC	S	S	S	S	S	S
Mr. P. King	C	P	S	S	S	S
Mrs. A. Wright (to March 2024)	S	S	S	S	S	S
Cllr. M. Graham (to June 2023)	C	C	C	C	C	P
Cllr. N. Grundy (to May 2023)	P	S	S	S	S	S
Cllr A. Clarke (to May 2023)	P	P	S	S	S	S
Cllr S. Waddington (to May 2023)	P	S	S	S	S	S
Mr. Z. Limbada (to May 2024)	S	S	S	S	S	S
Mr. N. Booth	C	S	S	C	C	C
Mr. G. Lawrence (to August 2023)	C	C	C	C	C	C
Mr. C. Pitt	C	C	C	C	C	C

S – Subscribed P – In progress C – Completed \ - Not a member at the time or not required to undertake the training.

Hymans Robertson Aspire Training – the Local Pension Committee Members 2023/24

The table below show training undertaken by members following the updating of modules in June 2023.

	1 - Committee Role and Pensions Legislation	2 - Pensions Governance	3 - Pensions Administration	4 - Pensions Accounting and Audit Standards	5 - Procurement and Relationship Management	6 - Investment Performance and Risk Management	7 - Financial Markets and Product Knowledge	8 - Actuarial methods, Standards and Practices	Current Issues
Mr. T. Barkley CC	C	C	C	C	C	C	C	C	C
Mr. D. Bill CC	S	S	S	S	S	S	S	S	S
Mr. D. Grimley CC	P	S	S	S	S	S	S	S	P
Mr. P. King CC	S	S	S	S	S	S	S	S	P
Mrs. A. Wright CC (to March 2024)	S	S	S	S	S	S	S	S	S
Cllr. A. Clarke (from August 2023)	S	S	S	S	S	S	S	S	S
Cllr. M. March (from November 2023)	S	S	S	S	S	S	S	S	P
Mr. V. Bechar (from 2023 AGM)	C	C	C	C	C	S	S	S	S
Cllr. R. Denney (from June 2023)	S	S	S	S	S	S	S	S	S
Cllr. M. Cartwright (from June 2023)	S	S	S	S	S	S	S	S	S
Mr. N. Booth (from 2023 AGM)	C	S	C	C	S	C	S	S	C
Mr. G. Lawrence (to August 2023)	\	\	\	\	\	\	\	\	\
Mr. C. Pitt	S	S	S	S	S	S	S	S	S
Mr. Z. Limbada (to May 2024)	S	S	S	S	S	S	S	S	S

S – Subscribed P – In progress C – Completed \ - Not a member at the time or not required to undertake the training.

Appendix E: Employer List by Type, Active, Admission, Cease

Employer Name	Employer Type	EmployerSubType	ActivesFlag	AdmissionDate	AdmissionCeaseDate
Scheduled Bodies					
Leicestershire CC	Scheduled Body	--	TRUE		
Leicester City Council	Scheduled Body	--	TRUE		
Blaby District Council	Scheduled Body	--	TRUE		
Charnwood Borough Council	Scheduled Body	--	TRUE		
Harborough District Council	Scheduled Body	--	TRUE		
Hinckley and Bosworth BC	Scheduled Body	--	TRUE		
Melton BC	Scheduled Body	--	TRUE		
North West Leics DC	Scheduled Body	--	TRUE		
Oadby and Wigston BC	Scheduled Body	--	TRUE		
Rutland CC	Scheduled Body	--	TRUE		
The Chief Constable & The OPCC	Scheduled Body	--	TRUE		
Leics Fire Service (Civilians)	Scheduled Body	--	TRUE		
ESPO	Scheduled Body	--	TRUE		
Further Education Bodies					
Loughborough University	Scheduled Body	--	TRUE		
SMB Group(Brook/Melton/Steph)	Scheduled Body	--	TRUE		
Loughborough College of FE	Scheduled Body	--	TRUE		
South Leics College	Scheduled Body	--	TRUE		
WQE and Regent College Group	Scheduled Body	--	TRUE		
Leicester College	Scheduled Body	--	TRUE		
Leics De Montfort University	Scheduled Body	--	TRUE		
Academies					

Uppingham Community College	Scheduled Body	Academy	TRUE	
Better Futures MAT (Gateway)	Scheduled Body	Academy	TRUE	
Rutland&District Schools Fed	Scheduled Body	Academy	TRUE	
Tudor Grange Academies Trust	Scheduled Body	Academy	TRUE	
Casterton B&EC AT	Scheduled Body	Academy	TRUE	
Welland Park CC	Scheduled Body	Academy	TRUE	
Lutterworth High School	Scheduled Body	Academy	TRUE	
OAK Multi Academy Trust	Scheduled Body	Academy	TRUE	
Brooke Hill Academy	Scheduled Body	Academy	TRUE	
Avanti Schools Trust	Scheduled Body	Academy	TRUE	
The Mowbray Education Trust	Scheduled Body	Academy	TRUE	
Woodbrook Vale School	Scheduled Body	Academy	TRUE	
Stephenson Studio School	Scheduled Body	Academy	TRUE	
Ash Field Academy	Terminated	Academy	FALSE	29/02/24
Forest Way School	Scheduled Body	Academy	TRUE	
LIFE Academy Trust	Scheduled Body	Academy	TRUE	
Bradgate Education Partnership	Scheduled Body	Academy	TRUE	
Redmoor Academy	Scheduled Body	Academy	TRUE	
Market Bosworth High School	Scheduled Body	Academy	TRUE	
Symphony Learning Trust	Scheduled Body	Academy	TRUE	
Open Thinking Partnership	Scheduled Body	Academy	TRUE	
Gartree High School	Scheduled Body	Academy	TRUE	
Lutterworth Academies Trust	Scheduled Body	Academy	TRUE	
Learn Academies Trust	Scheduled Body	Academy	TRUE	
Discovery Schools Acad Trust	Scheduled Body	Academy	TRUE	
Long Field Academy	Scheduled Body	Academy	TRUE	
Futures Trust (Hinckley Acad)	Scheduled Body	Academy	TRUE	
St Thomas Aquinas CMAT	Scheduled Body	Academy	TRUE	
Brookvale Groby Learning Trust	Scheduled Body	Academy	TRUE	
The Success Academy Trust	Scheduled Body	Academy	TRUE	
Embrace AT	Scheduled Body	Academy	TRUE	

Lady Jane Grey Primary Academy	Scheduled Body	Academy	TRUE	
Castle Donington College(EMET)	Scheduled Body	Academy	TRUE	
Queniborough CofE Primary Sch	Terminated	Academy	FALSE	30/09/23
Birkett House School	Scheduled Body	Academy	TRUE	
Church Hill CofE Junior School	Scheduled Body	Academy	TRUE	
Wigston Academies Trust	Scheduled Body	Academy	TRUE	
Queensmead Primary Academy	Scheduled Body	Academy	TRUE	
Rendell Primary School	Scheduled Body	Academy	TRUE	
Barwell CofE Academy	Scheduled Body	Academy	TRUE	
Bottesford CofE Primary School	Terminated	Academy	FALSE	30/09/23
Thrussington CofE Primary Sch	Terminated	Academy	FALSE	30/09/23
Holywell Primary School	Scheduled Body	Academy	TRUE	
Mountfields Lodge School	Termination in progress	Academy	FALSE	31/03/24
Beacon Academy	Scheduled Body	Academy	TRUE	
Measham CofE Primary School	Termination in progress	Academy	FALSE	31/03/24
St.Peters CofE Primary Academy	Scheduled Body	Academy	TRUE	
Outwoods Edge Primary School	Scheduled Body	Academy	TRUE	
LEAD Academy Trust	Scheduled Body	Academy	TRUE	
Stonebow Primary School	Scheduled Body	Academy	TRUE	
Cobden Primary School	Terminated	Academy	FALSE	31/03/24
Rise A CofE MAT	Scheduled Body	Academy	TRUE	
Asfordby Hill Primary School	Scheduled Body	Academy	TRUE	
South Charnwood High School	Scheduled Body	Academy	TRUE	
Lionheart Academies Trust	Scheduled Body	Academy	TRUE	
The Pastures Primary School	Scheduled Body	Academy	TRUE	
Battling Brook Primary School	Scheduled Body	Academy	TRUE	
Frisby CE Primary School	Termination in progress	Academy	FALSE	31/03/24
Scholars Academy Trust	Scheduled Body	Academy	TRUE	
Thringstone Primary School	Scheduled Body	Academy	TRUE	
Odyssey Educational Trust	Scheduled Body	Academy	TRUE	
The OWLS AT	Scheduled Body	Academy	TRUE	

Inspiring Primaries AT	Scheduled Body	Academy	TRUE		
Rothley CofE Primary School	Scheduled Body	Academy	TRUE		
Hastings High School	Scheduled Body	Academy	TRUE		
Old Dalby CofE Primary School	Scheduled Body	Academy	TRUE		
Stanton under Bardon Primary	Scheduled Body	Academy	TRUE		
Hall Orchard Primary School	Scheduled Body	Academy	TRUE		
Kirby Muxloe Primary School	Scheduled Body	Academy	TRUE		
Robert Bakewell Primary School	Scheduled Body	Academy	TRUE		
Falcon Primary School	Scheduled Body	Academy	TRUE		
David Ross Education Trust	Scheduled Body	Academy	TRUE		
Midland Academies Trust	Terminated	Academy	FALSE		30/11/23
Ryhall CE Academy	Scheduled Body	Academy	TRUE		
The Rutland Learning Trust	Scheduled Body	Academy	TRUE		
Townlands CofE Primary Academy	Scheduled Body	Academy	TRUE		
The Mead Educational Trust	Scheduled Body	Academy	TRUE		
Learning Without Limits AT	Scheduled Body	Academy	TRUE		
The Priory AT Belvoir Academy	Scheduled Body	Academy	TRUE		
Nova Ed Trust (Melton Vale)	Scheduled Body	Academy	TRUE		
The Vines Academy Trust	Terminated	Academy	FALSE		31/01/24
Attenborough Learning Trust	Scheduled Body	Academy	TRUE		
Aspire Learning Partnership	Scheduled Body	Academy – MAT HQ	TRUE	01/06/23	
United Learning Trust	Scheduled Body	Academy	TRUE	01/12/23	
Resolution Bodies					
Mountsorrell PC	Resolution Body	--	TRUE		
Shepshed TC	Resolution Body	--	TRUE		
Ashby Town Council	Resolution Body	--	TRUE		
Lutterworth TC	Resolution Body	--	TRUE		
Glen Parva PC	Resolution Body	--	TRUE		
Braunstone Town Council	Resolution Body	--	TRUE		
Thurmaston Parish Council	Resolution Body	--	TRUE		

Countesthorpe PC	Resolution Body	--	TRUE	
Broughton Astley PC	Resolution Body	--	TRUE	
Anstey Parish Council	Resolution Body	--	TRUE	
Sileby Parish Council	Resolution Body	--	TRUE	
Syston Town Council	Resolution Body	--	TRUE	
Kirby Muxloe PC	Resolution Body	--	TRUE	
Leics Forest East PC	Resolution Body	--	TRUE	
Whetstone PC	Resolution Body	--	TRUE	
Oakham Town Council	Resolution Body	--	TRUE	
Ashby Woulds Town Council	Resolution Body	--	TRUE	
Market Bosworth PC	Resolution Body	--	TRUE	
Barwell Parish Council	Resolution Body	--	TRUE	
Blaby Parish Council	Resolution Body	--	TRUE	
Bagworth & Thornton PC	Resolution Body	--	TRUE	
Thurcaston & Cropston PC	Resolution Body	--	TRUE	
Groby Parish Council	Resolution Body	--	TRUE	
Enderby Parish Council	Resolution Body	--	TRUE	
East Goscote Parish Council	Resolution Body	--	TRUE	
Bottesford Parish Council	Resolution Body	--	TRUE	
Scraptoft Parish Council	Resolution Body	--	TRUE	
Croft Parish Council	Resolution Body	--	TRUE	
CABs				
Voluntary Action Leicester	Terminated	--	FALSE	30/9/23
Bradgate Park Trust	Community Admission Body	--	TRUE	
Platform Housing	Terminated	--	FALSE	30/11/23
EMH Homes	Community Admission Body	--	TRUE	
TABs				
Rushcliffe Care Ltd	Contractor (TAB)	--	TRUE	
SLM (Blaby DC 2006 contract)	Contractor (TAB)	--	TRUE	

G4S (City Council)	Contractor (TAB)	--	TRUE	
Melton Learning Hub	Contractor (TAB)	--	TRUE	
East Midland Shared Services	Contractor (TAB)	--	TRUE	
Aspens (City Crown Hills)	Terminated	--	FALSE	31/12/23
Capita IT City of Leicester	Contractor (TAB)	--	TRUE	
Idverde Ltd (formerly Quadron)	Contractor (TAB)	--	TRUE	
Chartwells(LeicsCC Ravenhurst)	Contractor (TAB)	--	TRUE	
Solo Service Group (Leics CC)	Contractor (TAB)	--	TRUE	
CSE (Samworth Tudor Grange)	Contractor (TAB)	--	FALSE	
SLM (O&W BC)	Contractor (TAB)	--	TRUE	
SLM (North West DC)	Contractor (TAB)	--	TRUE	
SLM (Blaby DC 2019 contract)	Contractor (TAB)	--	TRUE	
Kindred (formerly Ridge Crest)	Terminated	--	FALSE	31/07/23
Bellrock Management Ltd	Terminated	--	FALSE	31/07/23
Solo Service Group (MowbrayET)	Terminated	--	FALSE	31/07/23
Govindas Limited	Contractor (TAB)	--	TRUE	
Aspens (Nova ET)	Contractor (TAB)	--	TRUE	
Coombs Catering Ltd (Ashby Hilltop)	Contractor (TAB)	--	TRUE	
Caterlink (Tudor Grange AT)	Contractor (TAB)	--	TRUE	
OCS Food (Soar & Moat)	Contractor (TAB)	--	TRUE	
Mitie Care (Chief Constable)	Contractor (TAB)	--	TRUE	
Compass Services (City, Shaf)	Contractor (TAB)	--	TRUE	
Caterlink (DRET)	Contractor (TAB)	--	TRUE	
OCS Food (City of Leicester)	Contractor (TAB)	--	TRUE	
Hutchison Catering(AET Beacon)	Contractor (TAB)	--	TRUE	
Compass Services (City, Marr)	Contractor (TAB)	--	TRUE	
Compass Services (City, Gleb)	Termination in progress	--	FALSE	10/02/24
Taylor Shaw Limited (MET)	Contractor (TAB)	--	TRUE	
Caterlink (Odyssey - Humb Prim)	Contractor (TAB)	--	TRUE	
MCS Cleaning (South Charnwood 2021)	Contractor (TAB)	--	TRUE	
Turning Point (County 2022)	Contractor (TAB)	--	TRUE	

Turning Point (City 2022)	Contractor (TAB)	--	TRUE		
Cucina (Lutterworth AT)	Contractor (TAB)	--	TRUE		
Total Swim (Life MAT)	Contractor (TAB)	--	TRUE		
Freshstart (LWLAT)	Contractor (TAB)	--	TRUE		
Caterlink (City, Granby)	Contractor (TAB)	--	TRUE		
Caterlink (City, St Barnabas)	Contractor (TAB)	--	TRUE		
Coombs Catering (Hastings Sch)	Contractor (TAB)	--	TRUE		
Capita (ex Charnwood 2020)	Contractor (TAB)	--	TRUE		
Ingeus (LCC)	Contractor (TAB)	--	TRUE		
Aramark (NWSLC (LCC))	Contractor (TAB)	--	TRUE		
Churchill Contract(BeaconAcad)	Contractor (TAB)	--	TRUE		
Caterlink (Bradgate EP IH)	Contractor (TAB)	--	TRUE		
Caterlink (Bradgate EP (LCC))	Contractor (TAB)	--	TRUE		
Compass (MEAD ET) Primary	Contractor (TAB)	--	TRUE		
Compass (MEAD ET) Secondary	Contractor (TAB)	--	TRUE		
Compass (Rich Hill (Vines AT))	Contractor (TAB)	--	TRUE		
Dolce (LCC Belvoirdale Sch)	Contractor (TAB)	--	TRUE	13/07/23	
Caterlink (City, Mellor)	Contractor (TAB)	--	TRUE		
CleanTEC (Bradgate EP-Wreake)	Contractor (TAB)	--	TRUE	01/08/23	
Coombs (LCC, Hemington)	Contractor (TAB)	--	TRUE	01/04/23	
Coombs (LCC, St Edward's)	Contractor (TAB)	--	TRUE	01/04/23	
Dolce (LCC, Sir John Moore)	Contractor (TAB)	--	TRUE	13/10/23	
Coombs (Lionheart ET)	Contractor (TAB)	--	TRUE	01/10/23	
Compass (LCC, Glebelands)	Termination in progress	--	FALSE		27/02/24
CSE (TGAT, Samworth Acad) 2023	Contractor (TAB)	--	TRUE		
Coombs (VofB - LCC Schools)	Contractor (TAB)	--	TRUE	01/10/23	
Caterlink (Cobden Primary)	Contractor (TAB)	--	TRUE	01/08/23	
Relish (Symphony LT)	Contractor (TAB)	--	TRUE	14/10/23	
Coombs (VofB - Old Dalby)	Contractor (TAB)	--	TRUE	01/10/23	
Voluntary Action Leic (2023)	Contractor (TAB)	--	TRUE		
Aspens (City, Herrick)	Contractor (TAB)	--	TRUE		

CleanTEC (Lionheart ET)	Contractor (TAB)	--	TRUE	01/09/23
BAM FM (Tudor Grange AT)	Contractor (TAB)	--	TRUE	01/08/23

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Agenda Item 21

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Agenda Item 30

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Agenda Item 46

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