Pension Fund

(Registration number: 00328856RQ)

Introduction

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

General

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

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

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

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

Membership

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

Organisations participating in the fund include the following:

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

Membership details are set out below:

	31-Mar-18	31-Mar-19
Number of employers	254	263
Number of employees in the scheme (Actives)		
County Council	7,832	7,875
Other employers	25,806	26,537
Total	**33,638**	**34,412**
Number of pensioners		
County Council	10,724	11,177
Other employers	15,746	16,796
Total	**26,470**	**27,973**
Deferred pensioners		
County Council	12,526	12,423
Other employers	24,177	24,183
Total	**35,703**	**36,606**
Total number of members in the pension scheme	**95,811**	**98,991**

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 2019. Employers contributions are set based on triennial actuarial funding valuations. In 2018/19 the average employer rate was 23.8% of pay (22.7% 2017/18).

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 uprated 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 2019

2017/18 £m		Notes	2018/19 £m
	Contributions		
(139.2)	Employer Contributions	6	(149.5)
(38.3)	Member Contributions	6	(39.9)
(12.4)	Transfers in from Other Pension Funds	7	(10.3)
(189.9)	**Total Contributions**		**(199.7)**
	Benefits		
115.0	Pensions	8	124.8
31.8	Commutation of Pensions and Lump Sum Retirement Benefits	8	32.5
3.1	Lump Sum Death Benefits		4.6
18.0	Payments to and on Account of Leavers	9	11.9
167.9	**Total Benefits**		**173.8**
22.0	**Net Additions)/(Withdrawals) from Dealings with Members**		**(25.9)**
6.4	Management Expenses	10	7.1
(15.6)	**Net Additions/(Withdrawals) Including Fund Management Expenses**		**(18.8)**
	Returns on investments		
(42.9)	Investment income	11	(36.8)
(144.0)	Profit and Losses on Disposal of Investments and Changes in Value of Investments	12	(173.1)
(186.9)	**Net Returns on Investments (Sub Total)**		**(209.9)**
(202.5)	**Net Increase / (Decrease) in the Net Assets Available for Benefits fund During the Year**		**(228.7)**
(3,880.8)	Net assets of the scheme Opening		(4,083.3)
(4,083.3)	**Net assets of the scheme Closing**		**(4,312.0)**

Net Assets Statement as at 31 March 2019

2017/18 £m		Notes	2018/19 £m
4,076.1	Investment assets	12	4,361.2
(1.2)	Investment liabilities	12	(54.0)
4,074.9			**4,307.2**
11.7	Current Assets	15	10.6
(3.3)	Current Liabilities	15	(5.8)
4,083.3	**Net Assets of the Fund at 31 March**		**4,312.0**

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

The notes on pages 88 to 109 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 2018/19 financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 2018/19.

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

a) *Contribution Income*

Normal contributions are accounted for on an acruals 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.

b) *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.

c) *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

d) *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.

e) *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.

f) *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), except for investment management expenses which are disclosed as net payments charged as opposed to grossing up the payments. The authority is collating gross management expenses and will be fully compliant in 2019/20.

Net Assets Statement

g) *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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) Contingent Assets and Contingent Liabilities

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

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

3. Critical Judgements in Applying Accounting Policies

<u>Pension Fund Liability</u>

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

<u>Investment in LGPS Central Asset Pool</u>

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because; a) the Pool only became licensed to trade in February 2018, b) no dividends to shareholders has yet been declared, and c) no published trading results are yet available.

<u>Directly Held Property</u>

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

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historic experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment in the following year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial Present Value of Promised Retirement Benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting	For instance: • A 0.5% decrease in the discount rate used would result in an increase in the pension liability of £765m

	actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	• A 0.5% increase in the pension increase rate would increase the pension liability by £599m • A one year increase in assumed life expectancy would increase the liability by between £209m and £348m.
Private Equity Investments	Private equity investment 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 £197m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by up to 28%, an increase or decrease of £55m.
Freehold, Leasehold Property and Pooled Property Funds	Valuations techniques are used to determine the carrying amount of pooled property funds and directly held freehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property based investments by up to 15%, i.e. an increase or decrease of £58m on the carrying value of £386m.

5. Events after the Reporting Date

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

6. Contributions

2017/18 £m		2018/19 £m
	Employers	
132.0	Normal	143.1
2.5	Deficit Repair	3.7
0.1	Voluntary additional	0.1
3.9	Advanced payments for early retirements	1.8
0.7	Additional payments for ill-health retirements	0.8
	Members	
37.9	Normal	39.5
0.4	Purchase of additional benefits	0.4
177.5	**Total**	**189.4**

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:

2017/18 £m		2018/19 £m
42.4	Leicestershire County Council	44.4
126.4	Scheduled bodies	136.2
8.7	Admitted bodies	8.8
177.5	**Total**	**189.4**

7. Transfers In

2017/18 £m		2018/19 £m
9.7	Individual transfers in from other schemes	10.3
2.7	Bulk transfers in from other schemes	0.0
12.4	**Total**	**10.3**

8. Benefits

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

2017/18 £m		2018/19 £m
53.4	Leicestershire County Council	57.3
89.0	Scheduled bodies	96.4
7.5	Admitted bodies	8.2
149.9	**Total**	**161.9**

9. Payments to and on Account of Leavers

2017/18 £m		2018/19 £m
0.8	Refunds to members leaving the scheme	0.9
0.1	Payments for members joining state scheme	0.0
17.1	Individual transfers to other schemes	11.0
0.0	Bulk transfers to other schemes	0.0
18.0	**Total**	**11.9**

10. Management Expenses

2017/18 £m		2018/19 £m
4.9	Investment Management Expenses	4.9
1.1	Pension Scheme Administration Costs	1.8
0.4	Oversight and Governance Expenses	0.4
6.4	**Total**	**7.1**

11. Investment Income

2017/18 £m		2018/19 £m
2.9	Dividends from equities	2.4
0.0	Income from Government Bonds	0.2
2.2	Income from index-linked securities	2.2
30.9	Income from pooled investment vehicles	24.4
7.0	Net rents from properties	7.0
0.3	Interest on cash or cash equivalents	0.5
(0.5)	Net Currency Profit / (Loss)	0.1
0.1	Insurance Commission	0.0
42.9	**Total**	**36.8**

12. Investments

	Value at 1 April 2018 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2019 £m
Equities	80.3	57.4	(58.7)	3.4	82.4
Government Bonds	0.7	28.2	0.0	0.0	28.9
Index-linked securities	384.2	586.0	(600.4)	21.4	391.2
Pooled investment vehicles	3,332.0	631.9	(595.6)	206.7	3,575.0
Properties	102.1	0.0	0.0	0.5	102.6
Cash and currency	157.6	0.0	(28.5)	0.0	129.1
Derivatives contracts	14.9	40.0	0.0	(58.9)	(4.0)
Other investment balances	3.1	1.1	(2.2)	0.0	2.0
Total	**4,074.9**	**1,344.6**	**(1,285.4)**	**173.1**	**4,307.2**

	Value at 1 April 2017 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change In Market Value £m	Value at 31 March 2018 £m
Equities	77.5	47.0	(43.8)	(0.4)	80.3
Government Bonds	0.0	0.7	0.0	0.0	0.7
Index-linked securities	373.3	289.7	(275.9)	(2.9)	384.2
Pooled investment vehicles	3,070.1	365.6	(184.9)	81.2	3,332.0
Properties	96.3	0.1	(0.1)	5.8	102.1
Cash and currency	238.1	0.0	(80.5)	0.0	157.6
Derivatives contracts	15.6	6.7	(67.7)	60.3	14.9
Other investment balances	1.7	1.4	0.0	0.0	3.1
Total	**3,872.6**	**711.2**	**(652.9)**	**144.0**	**4,074.9**

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:

2017/18 £m		2018/19 £m
0	LGPS Central - Global Equity Active Multi Manager Fund	313.1
270.4	Legal and General North America Index Fund	267.8
260.4	Legal and General FTSE RAFI North America Fund	264.3
530.8	**Total**	**845.2**

2017/18 £m		2018/19 £m
	Equities	
23.2	UK quoted	21.5
1.3	UK unquoted	1.3
55.8	Overseas quoted	59.6
80.3		**82.4**
	Government Bonds	
0.7	UK Government Unquoted	0.7
0.0	UK Government Quoted	5.8
0.0	Overseas Quoted	22.4
0.7		**28.9**
	Index Linked Securities	
347.1	UK quoted	358.0
37.0	Overseas quoted	33.2
384.1		**391.2**

	Pooled investment vehicles (unquoted)	
262.6	Property funds	283.0
152.5	Private equity	210.3
468.3	Bond and debt funds	520.7
0.3	Hedge funds	0.2
1,887.2	Equity-based funds	1,909.4
12.1	Commodity-based funds	15.4
91.4	Timberland fund	132.5
142.1	Managed futures fund	129.4
119.9	Targeted return fund	147.7
195.6	Infrastructure fund	226.4
3,332.0		**3,575.0**
	Properties	
102.1	**UK (Note 14)**	**102.6**
157.6	**Cash and currency**	**129.1**
	Derivatives contracts	
12.9	Forward foreign exchange assets	47.1
0.1	Currency option assets	1.4
3.1	Other option assets	1.5
(1.1)	Forward foreign exchange liabilities	(54.0)
0.0	Currency option liabilities	0.0
15.0	**Sterling Denominated**	**(4.0)**
3.1	**Other Investment Balances**	**2.0**
4,074.9	**Total Investments**	**4,307.2**

At 31 March 2019 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £196.0m in private equity, £22.3m in illiquid corporate bonds and £132.5m in timberland.

13. Derivatives

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

Forward Foreign Exchange Contracts

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

2017/18 £m		2018/19 £m
0.3	Active currency positions (those whose purpose is solely to seek economic gain)	(0.7)
11.4	Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	(6.2)
11.7	**Total**	**(6.9)**

Options

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

2017/18 £m		2018/19 £m
0.1	Currency-based	1.4
3.1	Equity rate-based	1.5
3.2	**Total**	**2.8**

14. Property Investments

31 March 2018 £m		31 March 2019 £m
71.3	Freehold	72.9
16.2	Long Leasehold (over 50 years unexpired)	16.2
14.6	Medium/Short Leasehold (under 50 years unexpired)	13.5
102.1	**Total**	**102.6**

All properties, with the exception of the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2019. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

15. Current Assets and Liabilities

2017/18 £m		2018/19 £m
8.4	Contributions due from employers	8.7
1.0	Cash Balances	0.0
1.2	Other Debtors	1.2
1.1	Due from Ministry of Justice	0.7
11.7	**Current assets**	**10.6**
(1.2)	Due to Leicestershire County Council	(3.6)
(0.9)	Fund Management Fees Outstanding	(1.2)
(1.2)	Other Creditors	(1.0)
(3.3)	**Current liabilities**	**(5.8)**
8.4	**Net current assets and liabilities**	**4.8**

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

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum, and at 31st March 2019 there were two more payments due.

16. *Analysis of Investments by Manager*

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

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

At 31 March 2018 £m	%		At 31 March 2019 £m	%
		Investments managed by LGPS central Pool		
		LGPS Central - global equities		
0.0	0.0	Harris	117.7	2.7
0.0	0.0	Schroders	103.5	2.4
0.0	0.0	Union	112.0	2.6
		Investment Manager		
1,369.4	33.6	Legal & General	1375.6	31.9
391.4	9.6	Kames Capital	438.6	10.2
251.7	6.2	Ruffer LLP	254.2	5.9
199.4	4.9	Partners Group	245.4	5.7
190.8	4.7	Aviva Investors (La Salle)	202.3	4.7
144.0	3.5	Adams Street Partners	196.0	4.6
177.5	4.4	Macquarie Investments	181.9	4.2
119.9	2.9	Pictet Asset Management	147.7	3.4
91.4	2.2	Stafford Timberland	132.5	3.1
126.3	3.1	Colliers Capital UK	129.9	3.0
142.1	3.5	Aspect Capital	129.4	3.0
104.0	2.6	JP Morgan Asset Management	120.4	2.8
103.9	2.6	Ashmore	110.7	2.6
85.2	2.1	Prudential / M&G	76.0	1.8
62.6	1.5	IFM Investors (UK) Ltd	73.9	1.7
40.4	1.0	Cristofferson, Robb & Co	48.9	1.1
52.0	1.3	Kravis Kohlberg Roberts & Co	45.9	1.1
90.8	2.2	Internally Managed and Currency Managers	36.6	0.9
3.9	0.1	Infracapital	13.6	0.3
7.3	0.2	Standard Life Aberdeen	13.0	0.3
1.1	0.0	Catapult Venture Managers	1.2	0.0
0.4	0.0	Permal (formerly Fauchier Partners)	0.3	0.0
187.1	4.6	KBI (formerly Kleinwort Benson Investors)	0.0	0.0
132.3	3.2	Kempen Capital	0.0	0.0
4,074.9		**Total**	**4,307.2**	

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 introduction to the accounts.

20. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of the information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

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

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

Values at 31st March 2019	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets at fair value	2,994.0	0.0	1,367.2	4,361.2
Financial liabilities at fair value	(54.0)	0.0	0.0	(54.0)
Net financial assets	**2,940.0**	**0.0**	**1,367.2**	**4,307.2**

Values at 31st March 2018	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets at fair value	2,828.1	0.0	1,248.0	4,076.1
Financial liabilities at fair value	(1.2)	0.0	0.0	(1.2)
Net financial assets	**2,826.9**	**0.0**	**1,248.0**	**4,074.9**

21. Classification of Financial Instruments

2017/18 £m Fair value through profit and loss	2017/18 £m Assets at amortised cost	2017/18 £m Liabilities at amortised cost		2018/19 £m Fair value through profit and loss	2018/19 £m Assets at amortised cost	2018/19 £m Liabilities at amortised cost
			Financial Assets			
80.3			Equities	82.4		
0.7			Government Bonds	28.9		
384.2			Index-linked securities	391.2		
3,332.0			Pooled investment vehicles	3,575.0		
16.0			Derivatives contracts	49.9		
	157.6		Cash and currency		129.1	
	2.4		Other investment balances		1.6	
	1.1		Sundry debtors and prepayments		0.7	
3,813.2	**161.1**			**4,127.4**	**131.4**	
			Financial Liabilities			
(1.1)			Derivatives contracts	(53.9)		
		(0.5)	Other Investment Balances			0.0
		(2.7)	Sundry Creditors			(5.3)
3,812.1	**161.1**	**(3.2)**	**Total**	**4,073.5**	**131.4**	**(5.3)**

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:

2017/18 £m		2018/19 £m
	Financial Assets	
83.7	Fair value through profit and loss	231.5
	Financial Liabilities	
60.3	Fair value through profit and loss	(58.9)
144.0	**Total**	**172.6**

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

22. External Audit Fee

2017/18 £		2018/19 £
27,637	Payable in respect of external audit	21,280
27,637	**Total**	**21,280**

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 2018/19 reporting period:

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

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown in the second table):

Asset Type	Value at 31st March 2019 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	24.5	16	28.4	20.6
Overseas equities	55.8	19	66.4	45.2
UK Corporate Bonds	0.7	10	0.8	0.6
Global Government Bonds	28.2	8	30.5	25.9
Global index-linked bonds	391.2	8	422.5	359.9
Pooled property funds	283.0	15	325.5	240.6
Pooled private equity funds	210.3	28	269.2	151.4
Pooled bond and debt funds	520.7	10	572.8	468.6
Pooled hedge funds	0.2	12	0.2	0.2
Pooled equity funds	1907.1	19	2,269.4	1,544.8
Pooled commodity funds	19.8	14	22.6	17.0
Pooled targeted return funds	147.7	12	165.4	130.0
Pooled timberland fund	132.5	16	153.7	111.3
Pooled managed futures fund	129.4	12	145.0	113.9
Pooled infrastructure fund	226.4	14	258.1	194.7
UK property	102.6	15	118.0	87.2
Cash and currency	129.1	1	130.4	127.8
Options, futures, other investment balances, current assets and current liabilities	2.8	1	2.8	2.8
Total assets available to pay benefits	**4,312.0**		**4,981.7**	**3,642.5**

Asset Type	Value at 31st March 2018 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	24.5	16	28.4	20.6
Overseas equities	55.8	19	66.4	45.2
UK Corporate Bonds	0.7	10	0.8	0.6
Global Government Bonds	0.0	8	0.0	0.0
Global index-linked bonds	384.1	8	414.9	353.4
Pooled property funds	262.6	15	302.0	223.2
Pooled private equity funds	152.5	28	195.2	109.8
Pooled bond and debt funds	468.3	10	515.2	421.5
Pooled hedge funds	0.3	12	0.4	0.3
Pooled equity funds	1,887.2	19	2,245.7	1,528.6
Pooled commodity funds	12.1	14	13.7	10.4
Pooled targeted return funds	119.9	12	134.3	105.5
Pooled timberland fund	91.4	16	106.0	76.8
Pooled managed futures fund	142.1	12	159.2	125.1
Pooled infrastructure fund	195.6	14	223.0	168.2
UK property	102.1	15	117.4	86.8
Cash and currency	157.6	1	159.1	156.0
Options, futures, other investment balances, current assets and current liabilities	26.5	1	26.8	26.2
Total assets available to pay benefits	**4,083.3**		**4,708.5**	**3,458.2**

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 2019 and 31st March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

As at 31st March 2018 £m	Asset type	As at 31st March 2019 £m
157.6	Cash and Currency	129.1
469.0	Fixed interest securities	420.1
626.6	**Total**	**549.2**

Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31st March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	129.1	1.3	(1.3)
Fixed interest securities	420.1	4.2	(4.2)
Total	**549.2**	**5.5**	**(5.5)**

Asset type	Carrying amount as at 31st March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and Currency	157.6	1.6	(1.6)
Fixed interest securities	469.0	4.7	(4.7)
Total	**626.6**	**6.3**	**(6.3)**

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 50% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2019 and as at the previous period end:

Asset value as at 31st March 2018 £m	Currency exposure – asset type	Asset value as at 31st March 2019 £m
55.8	Overseas equities	82.4
0	Overseas government bonds	22.4
37.0	Overseas government index-linked bonds	33.2
151.4	Private equity pooled funds	209
0.3	Pooled hedge Funds	0.4
1,577.9	Overseas and Global equity-based pooled funds	1,577.6
12.1	Commodity-based pooled funds	19.8
195.6	Infrastructure pooled funds	226.4
91.4	Timberland pooled fund	132.5
103.9	Emerging Market Debt pooled fund	110.7
2,225.4	**Total overseas assets**	**2,414.4**

Currency risk – sensitivity analysis

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

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

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

Current exposure – asset type	Asset value as at 31st March 2019	Change to net assets available to pay benefits	
		+13%	-13%
	£m	£m	£m
Overseas equities	82.4	93.1	71.7
Overseas government bonds	22.4	25.3	19.5
Overseas governmet index-linked bonds	33.2	37.5	28.9
Private equity pooled funds	209.0	236.2	181.8
Pooled hedge funds	0.4	0.5	0.4
Overseas equity-based pooled funds	1,577.6	1782.7	1,372.5
Commodity-based pooled funds	19.8	22.4	17.2
Infrastructure pooled funds	226.4	255.8	197.0
Timberland pooled fund	132.5	149.7	115.3
Emerging Market Debt pooled fund	110.7	125.1	96.3
Total change in assets available	**2,414.4**	**2,728.3**	**2100.6**

At 31st March 2019 and 31st March 2018 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and currency options.

The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

Currency exposure – asset type	Asset value as at 31st March 2019	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£m	£m	£m
Active currency portfolios	340.0	348.5	331.5
Total change in assets available	**340.0**	**348.5**	**331.5**

Currency exposure – asset type	Asset value as at 31st March 2018	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£m	£m	£m
Active currency portfolios	340.0	348.5	331.5
Total change in assets available	**340.0**	**348.5**	**331.5**

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 a 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 2019 was £129.1m (31st March 2018: £157.6m).

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 2019 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £954.9m, which represented 22.1% of total Fund assets. (31st March 2018: £804.5m, which represented 19.7% 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 2019 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 2019

Reputational Risk

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

24. Related Party Transactions

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

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

During 2018/19 a total of £0.8m was payable to LPGS Central Ltd for governance, operator and product development fees, and investment management and transaction fees. Of these £0.2m was a creditor balance at the year end. During 2018/19 £0.5m was received from LPGS Central Ltd as reimbursement for set up costs advanced in 2017/18. As at 31 March 2019, £350m of LCC LGPS investments were managed by LGPS Central Ltd.

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 £1.7m, 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.

McCloud Judgement - a ruling has been made by the Court of Appeal regarding age discrimination arising from public sector pension scheme transition arrangements. LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from the protections. The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019. The Fund's actuary has estimated the impact on the Leicestershire County Council Pension Fund to be approximately £56m. This has been included in the IAS19 estimate shown within the Pension Fund Accounts Reporting Requirement report appended to the end of the Pension Fund Accounts.

Guaranteed Minimum Pensions – a ruling has been made that (LGPS) defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS). GMPs are inherently unequal due to a number of factors including the different retirement ages for men and women and female GMPs accruing at a higher rate. Currently the Government have only agreed to an interim solution whereby LGPS Funds (and therefore employers within) have to pay all the increases on their GMP. If the interim solution is made permanent it is estimated that the impact for the Authority could be up to a 0.5% increase in overall liabilities. This would add up to £35m to the overall net pensions liability. Due to the uncertainty around the implementation and potential Government appeal against the ruling, the impact has not yet been included in the IAS19 estimate for the pension fund.

At 31st March 2019, the Fund had the following contractual commitments:-

	31 March 2018 £m	31 March 2019 £m
Adams Street Partners	151.4	143.2
Catapult Venture Managers	0.5	0.5
KKR Global Infrastructure	42.6	36.7
Stafford International Timberland VI Fund	1.5	1.5
Stafford International Timberland Funds VII & VIII	43.8	8.5
M & G Debt Opportunities Fund IV	40.0	28.7
IFM Global Infrastructure Fund	21.3	23
Aberdeen Standard Life Capital SOF III Fund	22.0	21.1
Kames Active Value Property Unit Trust II	18.2	12.5
Infracapital Greenfield Partners I Fund	26.9	19.3
JPM Infrastructure Investment Fund	20.0	0.0
Partners 2018 Multi Asset Credit Fund	78.0	0.0
Total	**466.2**	**295.0**

26. Additional Voluntary Contributions (AVC's)

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

During 2018/19, £1.8m (2017/18 £1.8m) in contributions were paid to Prudential. At the year end the capital value of all AVC's was £14.0m, (31.3.18, £14.1m).

27. Policy Statements

The Fund has a number of policy statements that are available on request from the Technical Accounting Team, Strategic Finance, Leicestershire County Council, County Hall, Glenfield, Leicester. LE3 8RB (email technical.accoutingteam@leics.gov.uk). 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:

Statement of Investment Principles (SIPs)
Communications Policy Statement
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 2018/19 (or 2017/18). There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self-investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

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

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

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

Leicestershire County Council Pension Fund ("the Fund") Actuarial Statement for 2018/19

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), effective from 15 February 2019. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. 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 still at least a 66% chance that the Fund will return to full funding over 20 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 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164 million, were sufficient to meet 76.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £989 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a specified time period as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.1%

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 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	23.8 years	26.2 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
26 April 2019

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 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 2019	31 March 2018
Active members (£m)	3,789	3,063
Deferred members (£m)	1,414	1,258
Pensioners (£m)	1,827	1,820
Total (£m)	**7,030**	**6,141**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from the case affecting public sector pension schemes.

The above 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 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £552m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	3.5%	3.4%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	24.3 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.8 years	26.2 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

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 liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	605
0.5% p.a. increase in the Salary Increase Rate	2%	118
0.5% p.a. decrease in the Real Discount Rate	11%	771

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2019 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 25 April 2019, as this now includes allowance for the “McCloud ruling”.

Prepared by:-

Richard Warden FFA
10 July 2019
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

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 2019 and its income and expenditure for the year ended the same date.

C TAMBINI
DIRECTOR OF CORPORATE RESOURCES
29 JULY 2019

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

Opinion

We have audited the financial statements of Leicestershire County Council Pension Fund (the 'pension fund') administered by Leicestershire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or

the Director of Corporate Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, Annual Governance Statement and Pension Fund accounts, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 114, the Authority is required to make arrangements for the proper administration of its financial affairs 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. The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Corporate Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Corporate Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

J Gregory

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

31 July 2019

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