



LOCAL PENSION BOARD – 31 JULY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2023/2024

Purpose of the Report

1. The purpose of this report is to seek the Board's comments on the appended Annual Report and Accounts of the Pension Fund for the financial year 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. Due to the Board's role in assisting the Administering Authority in ensuring the effective and efficient governance and administration, it was considered appropriate to seek the Board's views on the report. Any comments from the Board will be considered by the Local Pension Committee at its meeting on 6 September.

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 as 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*". Officers are in the process of confirming that the Fund is able to report specific benchmark name information publicly, due to the contract with the Fund's performance information provider.
- 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 Local Pension Committee will consider the Annual Report and draft Accounts at its meeting on 6 September 2024.

10. 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.
11. 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

12. 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

That the Local Pension Board note and comment on the Pension Fund Annual Report and Accounts for 2023 to 2024.

Appendix

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.

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