

## 2025 Valuation - Governance Audit Trail

This paper is addressed to Leicestershire County Council, in its capacity as Administering Authority of the Leicestershire County Council Pension Fund (“the Fund”). It has been prepared for the purpose of providing an audit trail of the Fund’s governance process and key decisions taken throughout the 2025 triennial funding valuation (“the valuation”).

This paper has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

### Overview

Under LGPS Regulations, all funds have a statutory obligation to carry out a formal valuation every 3 years. The Regulations set out the responsibilities of the Administering Authority to obtain the following:

- An actuarial valuation report setting out the assets and liabilities of the Fund, including
- A Rates and Adjustments Certificate setting out the contribution rates payable by all participating employers in the Fund for the next 3 years.

To complete the formal valuation, the Administering Authority undertakes actuarial advice to review assumptions and funding strategy with key decisions being taken to the Pension Fund Committee (PFC) for approval.

Throughout the valuation, the Fund engages with various stakeholders including the PFC, Local Pensions Board and Employers, which includes a formal consultation period on funding strategy and outcomes.

To ensure a robust governance process has been followed, and in line with best practice, the Fund has maintained a governance audit trail throughout the valuation to document key decisions (and decision-makers) that have affected funding strategy and outcomes. This paper summarises the audit trail – the Fund also holds a full decisions log for future reference and audit.

### 2025 governance process

The triennial actuarial valuation is a significant exercise carried out by the Fund. A high-level audit trail is set out below. This is split into two areas – section A covering the key funding strategy decisions and section B covering stakeholder engagement.

#### Section A: Funding strategy

##### 1. Review of funding strategy (major employers)

The Fund currently operates a stabilisation policy for precepting employers (Local Authorities, Police and Fire) which restricts increase/decreases in contribution rates to +/-2% of pay p.a. The Fund carried out a review of the funding strategy for these employers (as set out in a paper entitled ‘2025 valuation funding review’, dated 19 February 2025). The ALM analysis carried out by the Fund Actuary reviewed the longer-term strategy (measured by likelihood of success), short-term risks (such as the risk of contributions having to increase at the next valuation, known as the ‘Risk of Regret’) and various stress tests (such as the impact of higher inflation, or lower returns on growth assets, on outcomes). The funding strategy also considered the importance of qualitative factors such as inter-generational fairness, the long-term cost of the scheme and the existing stabilisation policy.

**Key decisions or outcomes:**

- The outcomes were discussed at the PFC's meeting on 14 March 2025, and it was agreed that the employers would benefit from the maximum reduction permitted under the existing stabilisation approach. This is 2% of pay p.a. over the 3-year period.
- It was also agreed to permit the 6% of pay immediate reduction in year 1, ie front loading the contribution rate reductions scheduled to take place over the following 3-year period.

**2. Review of assumptions**

The Fund Actuary reviewed the funding assumptions as part of the valuation (as set out in a paper entitled 'Advice on assumptions', dated 28 April 2025). All assumptions are the Fund Actuary's 'best estimate' except for:

- a) the discount rate assumption which includes a margin of prudence required by the LGPS Regulations.
- b) the CPI inflation assumption which includes an inflation risk premium allowance of 0.2% pa.

Based on the analysis and wider factors, the Fund officers considered an appropriate prudence level to reflect the current funding and economic environment.

**Key decisions or outcomes:**

- The Fund adopted a prudence level of 80% (previously 75% at the 2022 valuation) for 'ongoing' funding to reflect the increased uncertainty and volatility in markets. This change was provisionally agreed by the PFC on 27 June 2025. The PFC formally agreed to the change in prudence level on 29 November 2024. The Fund believes this strikes an appropriate balance between managing longer-term risk and shorter-term affordability for employers in the current environment.
- The Fund elected to retain an inflation risk premium (IRP) of 0.2% above the best estimate CPI inflation assumption from Hymans' ESS model (consistent with the IRP adopted at the previous valuation).
- All other assumptions were adopted in line with the Fund Actuary's best estimate assumptions set out in the analysis.

**3. Review of funding strategy (all other employers)**

To set contributions for all other employers, the Fund Actuary carried out risk-based contribution rate modelling to project each employer's asset share over a range of future economic scenarios. The contribution rate depends on the following factors:

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

The Fund (with advice from the Fund Actuary) carried out a review of the funding strategy for the other employers to assess appropriate factors for setting contributions to be paid over the next 3 years (as set out in a paper entitled '2025 Valuation – Review of funding framework', dated August 2025). This was discussed between the Actuary and Officers at a subsequent meeting. These factors include the modelling parameters (as set out above) and any broader qualitative factors such as surplus management considerations to meet intergenerational fairness, long-term cost efficiency and stability objectives set out in the Regulations.

**Key decisions or outcomes:**

- The *minimum likelihood of success* (used to set employer contribution rates) was updated to 80% to align with the agreed prudence level at 2025. The *minimum likelihood of success* was updated to 90% for closed CAB's alongside the funding basis to the Fund's low-risk exit basis.
- *Time horizons* for each employer group remain unchanged from 2022, aside from the TAB employers whose time horizons were brought in line with their awarding authorities (since they act as ultimate guarantors) and Universities whose time horizon was updated to 17 years to align with the Fund's other open employers.
- *Target funding level* of 120% was proposed to remain for all employer groups, aside from the TAB employers where this was set at 100%.
- A corridor approach for the likelihood of success was introduced for the Universities (80% to 85%) to reflect increased employer risk. Annual checks are scheduled to ensure this parameter remains suitable during the intervaluation period and the Fund carried out detailed employer covenant analysis of this employer group to aid the overall funding strategy decisions.
- A contribution floor was proposed for Academies, Colleges, Universities and the Parish and Town Council Pool (i.e. the minimum contribution rate that an employer is allowed to pay). This floor was set equal to the employer's Primary Rate less 3% of pay to manage stability. The floor aims to support shorter-term employer affordability (by recognising the surplus position and allowing employers to pay less than the ongoing cost of future service benefits i.e. the Primary Rate), while striking a balance with longer-term principles such as stability and inter-generational fairness. The floor is subject to contribution rates being no higher than current rates in payment.
- Rates for TABs and CABs, which typically have short term time horizons, were permitted to be as low as 0% of pay (if supported by contribution modelling outcomes). However these are subject to annual checks to ensure they remain appropriate for employers approaching exit should markets change.

**4. Review of Funding Strategy Statement and policies**

The Funding Strategy Statement ("the FSS") forms an integral part of the framework that sets employer contributions. The Fund officers reviewed an updated draft FSS and policies in collaboration with the Fund Actuary at an initial meeting on 16 July 2025 and subsequently refined as other key decisions were made throughout the valuation process.

**Key decisions or outcomes:**

- The FSS and policy documents at the 2022 valuation were broadly in line with the new FSS guidance requirements and therefore no fundamental changes have been made to the structure or content of the FSS as part of this review for the 2025 valuation. However, a full review of the Fund's FSS was carried out, with minor changes made to ensure the document is fully compliant with the updated FSS guidance and key principles document.
- Changes in assumptions and employer funding strategy (as set out above in sections 1, 2 and 3) were included in the draft FSS.
- Each policy was reviewed at 2025 to reflect the new guidance and any technical or regulatory changes (with a particular focus on the cessation policy); the content of each policy remains largely unchanged from 2022 with the exception of the cessation policy.

- The Fund have adopted a cessation corridor approach for determining final cessation valuation positions for exiting employers. The Fund Actuary carried out analysis on behalf of the Fund and set out considerations around implementing this approach, this is set out in the advice titled “Cessation corridor approach” dated 10 November 2025. This analysis was noted by PFC on 30 January 2026.
- The draft FSS and policies were agreed by the PFC on 26 November 2025 and put out for consultation in during November 2025 (with a closing date of 11 January 2026). The consultation was sent to all Fund employers and the Department for Education (“DfE”).

• The final FSS was approved at the March 2026 PFC and takes effect from 1 April 2026

#### 5. Valuation of assets and liabilities (whole Fund)

The whole Fund result provides a solvency check to ensure that it continues to meet the objectives set out under Regulation 62. The Fund Actuary valued the Fund’s liabilities at 31 March 2025 using the assumption set agreed at the June 2025 PFC meeting. The liability value was compared to the market value of the Fund’s assets at the valuation date to give a funding level of 140%, as set out in a paper entitled ‘Initial results’, dated 12 September 2025). The paper also provides other funding metrics, experience analysis, risks and sensitivities to inform the Fund’s ongoing risk management framework.

#### Key decisions or outcomes:

- The whole Fund position was noted at the PFC meeting on 26 September 2025.

#### 6. Final valuation report (including Rates & Adjustments Certificate and other appendices)

The final valuation report must be formally signed off by 31 March 2026, in line with the Regulations. This report must include a Rates & Adjustments Certificate setting out the contributions payable by all participating employers. The report should also include further appendices to meet additional reporting requirements for national benchmarking and disclosures, as set out in associated guidance from the Government Actuary’s Department (GAD).

#### Key decisions or outcomes:

- The draft version of the final valuation report was noted by PFC in March 2026
- The final valuation report includes the following appendices:
- Rates and Adjustments Certificate setting out all employer contributions for the next 3 years
- Section 13 dashboard in line with GAD requirements, noting the funding level using national standardised assumptions (known as the SAB basis) was 114%
- Gender Pension Gap reporting in line with requirements
- Climate change scenario analysis which tests the resilience of the Fund’s funding strategy to climate change scenarios (noting further detail was provided to the Fund and discussed with Fund officers in the paper entitled ‘2025 Climate Scenario Analysis Output Report’, dated 8 September 2025)

## Section B: Stakeholder engagement

In addition to setting funding strategy, the Fund has engaged with employers, the PFC and the Local Pensions Board throughout the valuation exercise. A summary of this stakeholder engagement is detailed below.

### 1. Major employers - contribution results

The Fund facilitated a call with the Fund's precepting employers (at a 'Treasurers Meeting' on 21 March 2025) to discuss the results of the contribution rate modelling and the proposed outcomes. The proposals were viewed positively by all parties.

### 2. Employer pre-valuation communication

The Fund issued all employers with a document in August 2025 setting out key themes and provided an early indication of high-level valuation outcomes to provide a platform for future engagement throughout the valuation process.

### 3. Employer results

The Fund issued individual employer results schedules in November 2025, detailing their own funding position and the proposed contribution rates from the next 3 years. Alongside these results, the Fund issued each employer with a copy of the draft FSS for consultation and additional materials to assist their understanding of their results and the process (including a covering letter and FAQ document).

### 4. Employer forum

All employers were invited to attend an employer forum on 15 December 2025 hosted by the Fund (alongside the Fund Actuary) to discuss the valuation, employer results, funding strategy and next steps (including the consultation process).

### 5. AGM

All employers were invited to attend an Annual General Meeting on 15 December 2025 hosted by the Fund. The Fund Actuary presented the key results from the 2025 valuation, including the whole fund and employer level results, funding strategy and next steps (including the consultation process). The Actuary also held short 'valuation surgeries' with a few employers after the AGM had finished.

### 6. FSS consultation

All employers (and the DfE) were invited to comment on the draft FSS during the consultation period which ran from mid November 2025 to 11 January 2026. To help meet expectations set out in new [guidance](#) on running an effective FSS consultation, the Fund has actively sought out engagement from all stakeholders using an employer engagement portal hosted by the Fund Actuary.

### 7. Officer meetings

Throughout the valuation, Fund officers and the Fund Actuary participated in regular meetings (at least once a month) to ensure that the governance of the valuation and the key decisions were duly considered, with supporting analysis where necessary.

#### 8. Pension Fund Investment Sub-Committee

Key decisions on funding strategy have been approved by the PFC throughout the valuation to ensure best practice and robust governance of decision making (as set out in Section A above). Committee training has been provided where necessary to improve committee skills and knowledge on technical subject matter. This helps members to be equipped to make informed decisions or challenge outcomes if required.

#### 9. Local Pension Board

The Local Pension Board (LPB) provides additional governance oversight throughout the valuation. The key decisions have been taken to the LPB for additional scrutiny and challenge (although noting the LPB is a non-executive function of the overall governance process).

#### **Summary & next steps**

The Fund has carried out the formal valuation in line with Regulation 62 and has sought to meet best practice guidance throughout, with robust decision making and effective stakeholder engagement. A summary of this Governance Audit Trail timeline is contained in the Appendix below.

The formal valuation process concludes on 31 March 2026, and the employer contribution rates (and new FSS) will take effect from 1 April 2026.

The next formal valuation will take place as at 31 March 2028, although the Fund will begin to prepare for key decisions and outcomes in advance of this date.

The Fund will seek to maintain (and increase, where necessary) on the level of disclosure of governance at future valuations to ensure best practice and transparency of key decisions.

Tom Hoare FFA C.Act

Fund Actuary

For and on behalf of Hymans Robertson LLP

## Appendix – Governance audit trail timeline

The timeline of key decisions and governance process throughout the valuation is below:

Item	Date	Decision makers	Key decision(s)
<b>Precepting employer contribution rates (proposed)</b>	19 February 2025	Fund officers & Fund Actuary	Allow maximum reductions permitted under stabilisation mechanism (effective from 1 April 2026 for 3 years)
<b>Precepting employer contribution rates (proposed)</b>	14 March 2025	Pension Fund Committee	Contributions approved (2%% of pay pa or 6% immediate reduction in year 1)
<b>Assumptions (proposed)</b>	28 April 2025	Fund officers & Fund Actuary	Increase prudence to 80% (from 75%)
<b>Assumptions (approved)</b>	27 June 2025	Pension Fund Committee	Assumptions approved (80% prudence provisionally agreed)
<b>Funding strategy (other employers)</b>	16 July 2025	Fund officers & Fund Actuary	Minimum likelihood of success updated (80-90%) depending on employer type  Contribution floor of Primary less 3% of pay  Likelihood of success corridor for universities (80-85%)
<b>Whole Fund results (draft)</b>	26 September 2025	Fund officers, Fund Actuary & Pension Fund Committee	Funding level of 140% was noted
<b>Draft FSS and employer results (approved)</b>	26 September 2025	Pension Fund Committee	Draft FSS noted
<b>Draft employer results issued</b>	November 2025	Fund officers, Fund Actuary & Employers	n/a
<b>Consultation period</b>	Mid November to 11 January 2026	Fund officers & Employers	n/a
<b>Final valuation report (incl. R&amp;A certificate) and final FSS</b>	20 March 2026	Fund officers, Fund Actuary & Pension Fund Committee	<b>Final report (incl. R&amp;A) noted and final FSS approved. Governance audit trail and FSS Consultation Summary noted.</b>

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