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County Offices
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Lincoln
LN1 1YL

26 September 2018

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 4 October 2018** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Keith Ireland

Keith Ireland
Chief Executive

Membership of the Pensions Committee
(8 Members of the Council and 3 Co-Opted Members)

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), B Adams, R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-Opted Members

Mr A N Antcliff, Employee Representative
Mr J Grant, Non-District Council Employers Representative
Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 4 OCTOBER 2018

11	**Pension Fund External Audit Report** *(To receive a report from Claire Machej (Accounting, Investment and Governance Manager), which summarises the findings from the work undertaken by the Council's External auditors, KPMG, in giving their opinion on the Pension Fund Accounts and Annual Report)*	103 - 148

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Please Note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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www.lincolnshire.gov.uk/committeerecords

Lincolnshire COUNTY COUNCIL
Working for a better future

PENSIONS COMMITTEE
19 JULY 2018

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors R D Butroid, B Adams and Dr M E Thompson.

Co-Opted Members: Mr A N Antcliff (Employee Representative), Mr J Grant (Non-District Council Employers Representative) and Jeff Summers (District Councils Representative).

Roger Buttery (Chairman of the LGPS Pension Board), Peter Jones (Independent Investment Advisor) and David Vickers (Scheme Member Representative) were also in attendance.

Officers in attendance:-

David Forbes (County Finance Officer), Yunus Gajra (Business Development Manager, West Yorkshire Pension Fund), Cheryl Hall (Democratic Services Officer), Claire Machej (Accounting, Investment and Governance Manager) and Jo Ray (Pension Fund Manager).

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins.

10 DECLARATIONS OF MEMBERS' INTERESTS

Mr A N Antcliff declared an interest as an employee of Lincolnshire County Council and as a contributory member of the Pension Fund.

11 MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 7 JUNE 2018

Members of the Committee were reminded to complete TPR (The Pension Regulator) Toolkit as soon as possible, and forward their certificates onto the Pension Fund Manager.

RESOLVED

That the minutes of the Pensions Committee meeting held on 7 June 2018 be approved and signed by the Chairman as a correct record.

12 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report by the Independent Advisor, which provided a market commentary on the current state of global investment markets.

The Independent Advisor presented the report to the Committee and in doing so provided detailed information on: preparing for the next global recession – some implications; central bank responsibilities; and the impact on markets.

The potential impacts of Brexit on the UK economy were discussed by the Committee.

RESOLVED

That the report be noted.

13 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report from the Business Development Manager from the West Yorkshire Pension Fund (WYPF), which provided a quarterly update on current administration issues.

The Business Development Manager presented the report to the Committee and in doing so provided detailed information on: performance benchmarking; scheme information; praise and complaints; internal disputes resolution procedures; administration update; and current issues.

The Committee was reminded that it had been previously noted that the Fund's largest employer, Lincolnshire County Council, had developed a backlog in providing detailed leaver information to WYPF. The County Council and its corporate support services provider (Serco) had set out an improvement plan to address the backlog, which was expected to be cleared by 31 May 2018. The backlog of leaver forms had mainly been cleared and currently stood at 543. It was advised that a high proportion of the 543 were old cases, which the current payroll provider had acquired from the previous provider. Following a recommendation received from the Local Pension Board, the County Council had self-reported the breach to the Pensions Regulator.

It was highlighted that the spring newsletter was being issued to all active members with their Annual Benefit Statements. To date 88.9% had been issued to active members and 99.7% to deferred members. A copy of the newsletter was attached at Appendix 4 of the report.

Also appended to the report were the Customer Survey Results – Lincolnshire Members; employer feedback; and employer survey 2018 – priorities for improvement.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- Stage 2 complaints, which had previously been considered by a solicitor at Lincolnshire County Council, would now be processed via the West Yorkshire Pension Fund;
- The Local Government Pension Scheme (Amendment) Regulations 2018 had been updated in April 2018 and a summary of the changes were detailed within the report. It was noted that with effect from 14 May 2018, Members with deferred benefits under the earlier regulations may now take voluntary early retirement from age 55 (rather than having to wait until age 60). However, with early payment come extensive reductions for the employee. It was clarified that no additional costs were incurred by the employer as a result of the early release of pension benefits; and
- The shared service pension administration cost per member of £14.73 had been used to recharge the Lincolnshire Pension Fund for 2017/18, compared to the target cost of £17. It was advised that the target cost of £17 was the amount included within the West Yorkshire Pension Fund's bid during the tendering process.

RESOLVED

That the report be noted.

14 PENSION FUND UPDATE REPORT

Consideration was given to a report by the Pension Fund Manager, which provided an update on Fund matters over the quarter ending 31 March 2018 and any current issues.

The Committee was advised that over the period covered by the report, the value of the Fund had fallen in value by £70.5m (3.1%) to £2,175.4m on 31 March 2018. It was highlighted that fund performance and individual manager returns were covered at Agenda Item 8 – Investment Management Report.

It was highlighted that the Treasury Manager had produced the outturn report detailing the performance of the cash balances managed by the County Council Treasury Team. The outturn report had shown an average cash balance of £15.8m for the financial year to 31 March 2018. The invested cash had outperformed the benchmark from 1 April 2017 by 0.26%, annualised, and had earned interest of £71.5k.

It was also advised that following a meeting of the Local Pension Board on 26 March 2018, the Board had recommended to representatives from Lincolnshire County Council that they should report themselves to the Pension Regulator, rather than the Board reporting the County Council. It was confirmed that the County Council had self-reported on 10 April 2018.

Furthermore, it was highlighted that a special meeting of the Board was held on 7 June 2018, to enable Lincolnshire County Council to update the Board on the progress of the improvement plan and to understand what monitoring had been put in place to ensure that the County Council had met all the requirements of an employer in the LGPS. The Board was satisfied with progress at that point and would receive a further update at its meeting in July 2018.

Members of the Committee were reminded to complete The Pension Regulator Toolkit as soon as possible, and to forward their certificates onto the Pension Fund Manager.

RESOLVED

That the report be noted.

15 ASSET POOLING UPDATE

Consideration was given to a report by the Pension Fund Manager, which updated the Committee on progress of the creation of Border to Coast, the Fund's chosen asset pool.

The Pension Fund Manager advised that the Lincolnshire Fund had been working closely with eleven other partner funds since 2015 to create the asset pool, now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last meeting of the Committee, significant progress had been made to ensure that Border to Coast was operational in July 2018, and ready to commence with the first transition of assets.

It was highlighted that Border to Coast was now live and had completed its first statutory accounts, under the small companies' exemption, for the first period of operation to 31 March 2018. A clean bill of health was given by the external auditors KPMG, and the accounts had been approved by the Border to Coast Board on 24 May 2018. Officers (both fund officers and S151 officers) were now working closely with Border to Coast as assets were being transferred. The Committee was pleased with the significant progress made to date.

Detailed information was provided as part of the report, which covered the following areas: Joint Committee Meetings; Joint Committee Membership; Transitions; Externally Managed Funds – Manager Selection Process; Client Relationship; and Next Steps for Lincolnshire.

It was noted that the Joint Committee had previously considered the issue of employer and/or scheme member representation on the oversight body and had not taken it forward. However, following an amendment to the guidance issued by the Scheme Advisory Board, this matter would be reconsidered by the Joint Committee at its meeting in July 2018. The outcome would be reported to the Committee at its next meeting.

The employee representative advised that it was Unison's preference for the scheme member representative to be represented by a trade union. In response, it was advised that Border to the Coast's preference for the representation was that it should be from a scheme member, who may or may not be associated with a trade union.

RESOLVED

That the report be noted.

16 INVESTMENT MANAGEMENT REPORT

A report by the Accounting, Investment and Governance Manager was considered, which covered the management of the Lincolnshire Pension Fund assets over the period from 1 January 2018 to 31 March 2018.

The Accounting, Investment and Governance Manager presented the report to the Committee and in doing so provided detailed information on the Funding Level Update; Fund Performance and Asset Allocation; Hymans Robertson Manager Ratings; and Individual Manager Update.

The Committee was reminded that the funding update was provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, which was taken on 31 March 2016, to the current quarter end of 31 March 2018. The accuracy of this type of funding update was expected to decline over time, as the period since the last valuation increases.

It was highlighted that the graph on page 74 of the report had shown the funding level at the latest formal valuation, at 76.9%, and its movement to 31 March 2018 where the funding level had increased to 78.6%. It was highlighted that moving to the end of May 2018, the funding level had significantly improved to circa 85%.

It was also highlighted that the Manager Returns were detailed on page 77 of the report. It was noted that it was a poor quarter for the Fund with all but one manager showing negative absolute returns. Two managers, Morgan Stanley Global Brand and Morgan Stanley Alternative Investments had underperformed their benchmark over the quarter. Over the 12 month period, all managers, except Morgan Stanley Global Brands had produced a positive absolute return and had matched or outperformed their benchmark. The Committee had received a manager presentation from Morgan Stanley Global Brands at its meeting on 7 June 2018.

RESOLVED

That the report be noted.

17 ANNUAL REPORT ON THE FUND'S PROPERTY AND INFRASTRUCTURE INVESTMENTS

Consideration was given to a report from the Accounting, Investment and Governance Manager, which outlined the performance of the Fund's property and infrastructure investments for the year ended 31 March 2018.

The Committee was advised that investment exposure to property and infrastructure was achieved via holdings in pooled vehicles. The Fund's strategic allocation of 9.0% to property was slightly higher than the average local authority pension fund, currently at 7%. The market value of holdings in property pooled vehicles at 31 March 2018 was £207.5m (9.5% of the Fund).

The Fund also had a 2.5% strategic allocation to infrastructure and had made commitments to various infrastructure funds. The market value of holdings in infrastructure pooled vehicles at 31 March 2018 was £35.5m (1.6% of the Fund).

Details of the individual property and infrastructure holdings and their performance were set out in the report.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- It was highlighted that Royal London returns had underperformed against the benchmark in the last 12 months, 3 and 5 years annualised, but were well ahead over the ten year period. In response to a question, it was confirmed that officers met with managers on a regular basis and that the Accounting, Investment and Governance Manager would be meeting with all managers as part of her role; and
- It was confirmed that some of the infrastructure managers invested in the research and development of alternative and renewable energy; and new technologies.

RESOLVED

That the report be noted.

18 LINCOLNSHIRE PENSION FUND POLICIES REVIEW

A report by the Pension Fund Manager was considered, which presented to the Committee the main policies of the Pension Fund for review.

It was advised that under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, was required to produce and maintain a number of key policy documents. Policies were brought to the Committee on an annual basis, and the last comprehensive review was undertaken in 2017.

Appended to the report were the documents for review. The Pension Fund Manager highlighted the changes within each of the following documents: -

- the Fund's Investment Strategy Statement;
- the Fund's Funding Strategy Statement;
- the Fund's Communications Policy;
- the Fund's Governance Compliance Statement;
- the Fund's Stewardship Code Statement; and
- the Fund's Breaches Reporting Policy.

RESOLVED

(1) That the report be noted.

(2) That the following documents be approved:

- the Fund's Investment Strategy Statement;
- the Fund's Funding Strategy Statement;
- the Fund's Communications Policy;
- the Fund's Governance Compliance Statement;
- the Fund's Stewardship Code Statement; and
- the Fund's Breaches Reporting Policy.

19 LINCOLNSHIRE PENSION FUND RISK REGISTER

Consideration was given to a report by the Pension Fund Manager, which presented the Pension Fund Risk Register for annual review.

The Committee was reminded of the importance of looking at risk as part of the normal Member training that the County Council provides. Given the size and importance of the Pension Fund, it was recognised that it was best practice to have a separate risk register considering the key risks that could impact the Fund and how they could be mitigated, if at all possible.

It was noted that the risk register was reviewed annually at the Committee, and any additional changes or updates were reported in the Quarterly Fund Update report.

The current Pension Fund Risk Register was attached at Appendix A to the report. 27 risks had been identified, along with the controls in place to mitigate them. Detailed information on the 27 risks could be found as part of the risk register at Appendix A.

It was requested that officers review the risk registers of partner funds in Border to Coast to ascertain if there were any common themes across the registers.

RESOLVED

(1) That the Lincolnshire Pension Fund Risk Register be approved.

(2) That officers be requested to review the risk registers of partner funds to ascertain if there are any common themes across the registers.

20 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

Consideration was given to a report by the Pension Fund Manager, which set out the training policy and the annual training plan for the Pensions Committee members for the year to June 2019.

It was reiterated that there was a high level of complexity involved in managing and making decisions relating to the Local Government Pension Scheme. It was therefore essential that those involved have the appropriate knowledge and skills to do so. Furthermore, it was advised that the introduction of the new Markets in Financial Instruments Directive (MiFIDII) in January 2018 had made it even more important for the Committee to be appropriately trained to ensure that the Fund retained its Professional investor status.

The Lincolnshire Pension Fund Training Policy and Annual Plan were detailed at Appendix A to the report.

The Chairman stressed the importance of members of the Committee completing The Pension Regulator Toolkit and as soon as possible. It was requested that Members forwarded on their certificates to the Pension Fund Manager.

RESOLVED

(1) That the Training Policy, as detailed at Appendix A, be approved.

(2) That the areas for training at the September and February 2018 meetings, as detailed in the report, be approved.

(3) That the Annual Training Plan, as detailed at Appendix A, be approved.

21 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

A report by the Pension Fund Manager was considered, which presented and sought approval of the draft Annual Report and Accounts for the Pension Fund. A copy of the draft Annual Report and Accounts 2018 was attached at Appendix A to the report.

It was highlighted that the Pension Fund Annual Report and Accounts for the year ended 31st March 2018 had been completed and was being independently audited by the Council's external auditors, KPMG. The accounts formed part of the Lincolnshire County Council's Statement of Accounts.

It was also highlighted that the Pension Fund Accounts, alongside the Council's Statement of Accounts, would be presented to the Audit Committee on 23 July 2018. An unqualified opinion was expected from KPMG, and no concerns had been raised as part of their audit process. The processes and procedures governing an audit were explained to the Committee.

It was noted that there would be no separate ISA 260 Governance report for the Pension Fund accounts but any comments would be included in the Council's ISA 260 Governance report. This report would be presented to the Committee at its meeting on 4 October 2018.

The Committee was advised that following a national tender process conducted by the Public Sector Audit Appointments in 2017, Mazars had been awarded the contract to provide external audit services in the East Midlands. It was reported that officers would be meeting with representatives of Mazars in September 2018.

RESOLVED

That the draft Pension Fund Annual Report and Accounts be approved.

22 EXCLUSION OF PUBLIC AND PRESS

RESOLVED

That, in accordance with Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that if they were present there could be disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

23 VOTING SERVICES

Consideration was given to an exempt report which asked the Committee to introduce a recommendation on the future of voting services in light of asset pooling.

The Pension Fund Manager presented the exempt report to the Committee and responded to the questions raised.

RESOLVED

That the recommendations, as detailed in the exempt report, be approved.

The meeting closed at 12.00 pm.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

<u>Investment Commentary – October 2018</u>

<u>Economics, politics and Brexit.</u>

Whilst the weather this summer has been quite extreme – unusually hot and dry, at least in the UK – the same cannot be said for global investment markets. On the whole these have been pretty uneventful, with the exception of emerging equity markets. The US equity market has done well across the summer – up about 10% - whilst most others have traded sideways to slightly down. The fixed interest markets have been moribund, with yields hardly changing.

<u>Economics</u>

As far as economies are concerned, the USA has powered ahead. The recent data shows growth of close to 4% per annum and inflation approaching 3%. This scenario leads to rapid growth in earnings per share, with many companies revealing increases of well over 10%. This sort of economic environment amply justifies the "bull market" we are seeing in US equities. It is leading to increases by the US Federal Reserve in its short term interest rate in order to try to keep inflation from running out of control. US unemployment is below 4%, nationally, which in the past would have provoked the fear in equity investors of excessive inflation. So far, the equity market has continues on its merry – even euphoric – way. But wage inflation is showing signs of resurgence (having previously been surprisingly well behaved, in spite of the low level of unemployment). If wage increases rise further, some adverse market reaction is probable.

Elsewhere, outside the US, economic growth has been much less robust. In most places the optimism of the early part of 2018 has given way to a slight slowing of growth and a damping down in prospects. There is a growing sense of anxiety about the health of non-US equities among investors. Excessive inflation is not, so far, seen as likely to cause a problem.

Politics

And yet, the political scene has been far from quiet. Most are well known to members of the committee. President Trump and his trade war with China; his long running rows with Congress and his own party ahead of elections this autumn. There is the increasingly acrimonious debate within the EU about immigration. Relationships between Russia and the rest of the world have been deteriorating. And there are the long running wars in the Middle East, Syria in particular. All of these have had the capacity to unhinge markets – but have shown no signs of doing so. On the other side of the coin, there has been a dramatic improvement in the previous legitimate concerns over North Korea and its nuclear arsenal.

We should not forget the global liquidity situation, which in my view overwhelms everything else by its magnitude. I refer to the programme of Quantitative Easing embarked upon by all the world's central banks after the financial crash and which has led to interest rates at levels so low as to be barely comprehensible. Some of the central banks are now raising short term interest rates and slowly withdrawing the liquidity – "Quantitative Tightening" – to use the jargon, but only very slowly and cautiously. I expect the US economy to continue to expand well into 2019 and to provide some buoyancy elsewhere around the globe.

To summarise, I think excessive liquidity and economic expansion will keep equity markets close to their current high levels. As before, statistically both equities and bonds are overpriced (especially bonds) but I do not expect this to change anytime soon.

Brexit

Brexit dominates the headlines here in the UK, but elsewhere, including within Europe, barely raises a yawn. It is not a significant factor in influencing global equity prices. Nor, perhaps perversely, in UK equities. A "no deal Brexit" could well send sterling lower, but because of the huge overseas influence on most FTSE 100 companies has the effect of strengthening UK equities.

I find it difficult to conceive that there will be a "no deal Brexit" – for a number of reasons. Are EasyJet and Ryanair really going to stop flying between the UK and Europe on 29th March 2019? And are the exporters of Germany and France (cars and foodstuffs including wine, respectively) going to surrender their markets in the UK? Above all, there is the European Commission's budgetary problem. The UK is the second or third largest contributor to the EU budget and without us, Germany and France must contribute more – which is politically verging on the impossible. There is a story that Mrs May agreed the infamous €39 billion unconditionally. Can the UK government be that naïve a negotiator? So I expect a short term agreement by late March 2019 and an extended transition period to sort out other less time sensitive issues.

We can talk more about Brexit when we meet on 4th October.

Conclusion
Peter Jones
18th September 2018.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Peter Jones, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Regulatory and Other Committee

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Pensions Administration Report**

Summary:

This is the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund.

Yunus Gajra, the Business Development Manager from WYPF, will update the committee on current administration issues.

Recommendation(s):

That the Committee note the report.

Background

1.0 Performance and Benchmarking

1.1 WYPF uses workflow processes developed internally to organise their daily work with target dates and performance measures built into the system. The performance measures ensure tasks are prioritised on a daily basis, however Team Managers have the flexibility to re-schedule work should time pressure demand.

1.2 The table below shows the performance against key areas of work for the period 1 June 2018 to 31 August 2018.

LPF - KPI's for the Period 1.6.18 – 31.8.18					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	76	10	75	85	98.68
Age 55 Increase LG	4	20	4	85	100
Change of Address LG	259	5	247	85	95.37
Change of Bank Details LG	88	5	85	85	96.59
DG Nomination Form Received LG	1465	20	990	85	67.58
DWP request for Information LG	20	10	20	85	100
Death Grant to Set Up LG	30	5	29	85	96.67
Death In Retirement LG	156	5	148	85	94.87
Death In Service LG	3	5	3	85	100
Death on Deferred LG	14	5	12	85	85.71
Deferred Benefits Into Payment Actual	256	5	249	90	97.27
Deferred Benefits Into Payment Quote	301	35	297	85	98.67
Deferred Benefits Set Up on Leaving	752	20	704	85	93.62
Divorce Quote LG	41	20	40	85	97.56
Divorce Settlement Pension Sharing order Implemented	1	80	1	100	100
General Payroll Changes LG	54	5	50	85	92.59
Initial Letter Death in Service LG	3	5	3	85	100
Initial letter Death in Retirement LG	156	5	152	85	97.44
Initial letter Death on Deferred LG	14	5	13	85	92.86
Life Certificate Received LG	1	10	1	85	100
Monthly Posting	930	10	835	95	89.78
NI Modification LG	10	20	10	85	100
Pension Estimate	397	10	351	75	88.41
Refund Payment	258	10	255	95	98.84
Refund Quote	576	35	562	85	97.57
Retirement Actual	169	3	164	90	97.04
Set Up New Spouse Pension LG	63	5	54	85	85.71
Spouse Potential LG	6	20	1	85	100
Transfer In Actual	28	35	25	85	89.29
Transfer In Quote	41	35	41	85	100
Transfer Out Payment	4	35	4	85	100
Transfer Out Quote	136	20	118	85	86.76

Reasons for underperforming KPI's:

DG Nomination Form Received LG	Large volumes received as a result of issuing ABS. Forms are scanned onto records (and available if needed) but treated as low priority.
Monthly Posting	Queries on returns from Employers

2.0 Scheme Information

2.1 Membership numbers as at Sept 18 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	25,239	27,061	1,636	20,758	2,271
Councillors	0	39	0	43	-
Totals nos	**25,239**	**27,100**	**1,636**	**20,801**	**2,271**
Change	-1,579	+18	+380	+282	+389

2.2 Age Profile of the Scheme:

	Age Groups												
Status	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	TOTAL
Active	361	1706	1659	2142	2750	3221	4423	4146	3027	1502	234	66	25237
Beneficiary Pensioner	95	33	3	2	9	12	38	80	146	231	302	1585	2536
Deferred	4	466	1384	2213	2350	3083	5270	6048	4880	1285	34	3	27020
Deferred Ex Spouse	0	0	0	0	4	1	8	15	11	0	0	0	39
Undecided	19	154	177	168	230	253	257	184	103	61	19	11	1636
Pensioner	0	0	1	1	4	9	46	129	1169	4474	5105	7260	18198
Pensioner Deferred	0	0	0	0	0	0	0	1	2	0	0	0	3
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	1	12	5	6	24
Preserved Refund	32	318	192	177	180	238	286	320	221	153	109	46	2272
Councillors													82
Total													**77,047**

2.3 **Employer Activity**

Academies and Prime Account Schools

Between 1 June 2018 to 31 August 2018, 1 academy became a Scheme employer in the Fund.

WYPF are currently working on 15 schools that are in the process of converting to academies or Prime Account Schools.

Town and Parish Councils

Between 1 June 2018 and 31 August 2018 no Town or Parish Councils became Scheme employers.

Admission Bodies

Between 1 June 2018 and 31 August 2018 there was one new Admission Body in the Fund.

WYPF are currently working on the admissions for 4 Admission Bodies.

Employers ceasing Participation

Between 1 June 2018 and 31 August 2018 no employers ceased their participation in LPF.

Number of Employers in LPF

These changes to employers bring the total number of employers in LPF as at 31 May 2018 to 262.

3.0 Praise and Complaints

3.1 Over the quarter April to June we received **3** online customer responses.

Over the quarter April to June **205** Lincolnshire member's sample survey letters were sent out and **26 (12.69%)** returned:

Overall Customer Satisfaction Score:

April to June 2017	July to September 2017	October to December 2017	January to March 2018	April to June 2018
78.63%	89.62%	91.74%	87.34%	72.1%

Appendix 1 shows full responses.

3.2 **Employer Training**

Over the quarter April to June one Employer session was held in Lincolnshire, Pensionable Pay. One session was cancelled due to lack of numbers.

Feedback from the event is attached at Appendix 2.

3.3 **Employer Survey**

An Employer Survey was recently carried out to identify areas of WYPF/LPF service with employers that could be improved.

The survey was emailed, and made available on the employer blog, to all authorised users notified to use by the scheme employers of WYPF/LPF.

These are the Finance, Administration and Strategic contacts as well as additional Authorised users of the system.

Appendix 3 shows full responses.

4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDRP. The LGPS has a 2-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by WYPF.

Stage 1 appeals against the fund

One appeal decision in this period. No appeals currently outstanding.

Stage 1 appeals against scheme employers

One appeal currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
28/11/2017	8040391	LCC LCC have confirmed they have extended the deadline.	Appeal against being refused an ill health pension.			LCC have confirmed they have extended the deadline.

Stage 2 appeals

1 appeal turned down in current period. 3 appeals currently outstanding.

Date of appeal	Member no	Employer	Reason for appeal	Date of decision	Decision	Outcome / comments
8/6/18	8019981	Compass Point Business Services	Appeal against refusal to pay ill health pension.			LCC Legal have confirmed they have extended the deadline subject to receiving further documentation from the employer.
11/6/18	8047032	LCC	Appeal against refusal to authorise early payment of deferred benefit.	10/8/18	Turned down.	Satisfied that LCC had made their decision taking into account financial implications and matters of a compassionate nature.
23/7/18	8079811	LCC	Appeal against refusal to pay ill health pension.			Review of decision in progress.
16/8/18	8043598	LCC	Appeal against decision not to allow early access to deferred benefits on health grounds.			Awaiting consent form from member authorising access to information used to make decision.

Ombudsman

4.2 One appeal outstanding against being turned down for early release of pension on ill health grounds.

5.0 Administration Update

5.1 Annual Benefit Statements

20,506 ABS have been produced by the statutory deadline of 31 August. This represents 99.20% of the active membership.

25,960 Deferred Benefit Statements have been produced by the statutory deadline of 31 August. This represents 100% of the deferred membership.

5.2 New Clients

Since March 2018 WYPF have taken on 6 additional Fire clients to provided pensions administration for. This brings the total number of Fire clients to 13. One further Fire client will go live on 1 October. In addition, the London Borough of Hounslow has joined the WYPF/LPF shared service partnership from 1 August 2018.

As a result of the extra business recruitment of additional staff is currently underway to appoint additional pensions administration staff in Bradford. This will be followed later in the year by a recruitment exercise in Lincoln. In addition, the IT teams at WYPF are being strengthened to maximise automation and efficiencies.

6.0 Current Issues

6.1 TPR 2017/18 Scheme return – conditional data

On 3 August 2018, Bob Holloway, secretary of the Scheme Advisory Board (SAB) informed administering authorities that, despite there being general support and agreement for a standardised basis for scoring conditional data for the purposes of the forthcoming scheme return; it has not proved feasible or cost effective for the first year.

Accordingly, administering authorities have been advised to adopt their own approach for scoring their 2017/18 conditional data. TPR has issued guidance on how to complete the 2018 pension scheme return, including the new questions on record keeping and measuring data. We understand TPR will issue the survey in September with a six-week window for completion.

The LGA intend to re-engage with administering authorities and stakeholders later in 2018, to re-open discussions about formulating a standardised basis for scoring conditional data for 2018/19 and beyond.

6.2 Equitable Life

On 15 June 2018, Equitable Life announced that they have entered into an agreement to transfer the Society and all its policies to Reliance Life. As a result, they hope to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%. However, for this to take place eligible policyholders will be asked to vote (expected to take place mid-2019) in favour of removing policy guarantees as well as on the arrangements to transfer to Reliance Life. 5.

Equitable Life's proposal (which is to be reviewed by an independent expert whose report will be made available to policyholders before voting) is as follows, to:

- increase the current 35% capital distribution to a level expected to be between 60% and 70%
- close the with-profits fund, which means the guaranteed investment return would end
- convert with-profits policies to unit-linked
- transfer all policies to Reliance Life

Following the vote, the proposal will be put before a High Court judge for approval. There is currently no action for policyholders to take. Equitable Life will provide more information in October 2019. The full background to this change can be found on Equitable Life's website.

6.3 HMRC

Launch of Manage and Register Pension Schemes service
On 4th June, HMRC launched the first phase of their new Manage and Register Pension Schemes service. This service will eventually replace Pension Schemes Online for the ongoing management and registration of all UK registered pension schemes.

At the launch of the service, HMRC issued a newsletter explaining what its plans are for the service. This followed a previous newsletter about Manage and Register Pension Schemes which was published in April.

After seeking clarification from HMRC regarding the new service, the LGPC Secretariat's understanding is that the new service is currently only operational for 'registering new schemes, and for registering new administrators who want to register a new scheme'.

A second release of phase one is planned for later in 2018. This will introduce new features for users of the new service. The rollout of Manage and Register Pension Schemes to existing users of Pension Schemes Online is due to take place in 2019 and 2020 as part of phase two. More details on HMRC's plans for the rest of phase one and for phase two are contained in the two newsletters linked above.

On 8th June, the LGPC Secretariat circulated an email to LGPS administering authorities inviting them to volunteer to attend two workshops on the development of the new service. The deadline for responding was Wednesday 20th June.

6.4 The Pensions Regulator

Proactive engagement with LGPS funds planned for 2018 and 2019
The Pensions Regulator's (TPR) Corporate Plan for 2018-2021 at page 18 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes. Following the publication of these new KPIs TPR has chosen the Local Government Pension Scheme as a cohort for proactive engagement throughout 2018 and 2019.
TPR has chosen Local Government schemes because, in their view, the results of the 2017 Governance & Administration Survey show that improvements in governance & administration standards have slowed when compared to other public service pension schemes.

Over the coming months, all LGPS scheme managers will receive written communications from TPR (and others involved with LGPS may also hear from TPR).

These will cover governance & administration matters including:

- the main risk areas scheme managers should already be focusing on
- what TPR's expectations are
- how those responsible for managing and running schemes can identify and mitigate such risks

The message from tPR is:

"We highly recommend that scheme managers and pension board members carefully consider the messages given. It is essential to have robust governance and administration in place for your scheme. However, it must be noted that there are no new expectations from us. All of the areas are already covered in TPR's Code of Practice 14 for Public Service Pension Schemes, and the associated guidance.

If you haven't already, we recommend that you complete TPR's Public Service toolkit to learn about managing public service pension schemes and to increase your knowledge and understanding.

We will engage further with a small number of scheme managers to undertake deeper regulatory engagement into each risk area, to understand what the current status is, the challenges scheme managers face, the extent of mitigation and improvement plans and how they are being implemented.

Good scheme governance & administration is a key factor to achieving positive outcomes for members. TPR will use its discretion in deciding whether it is appropriate to carry out further investigations and use its powers in situations where failings are identified."

6.5 <u>Burgess and others v BIC UK Ltd judgment – time limits for recovering overpayments</u>

LGPS administering authorities should be aware of a judgment handed down by the High Court in April 2018, which clarifies that pensions overpayments recovered by way of adjustments to future payments are not subject to the statutory six year time limit on recovering overpaid amounts.

Whilst much of the Court's findings in the *Burgess and others v BIC UK Ltd* case were case-specific and without general relevance to the LGPS, this point is novel and was not addressed in the 2016 *Webber v Department for Education* case. It also goes against a determination from the Pensions Ombudsman on the matter, which found that time limits did apply.

The judgment goes on to state that where a pension scheme seeks to adjust future benefits to take into account prior overpayments and this approach is disputed by the recipient, an order by the County Court would be necessary to enforce the pension scheme's approach. This is in accordance with s91 of the Pensions Act 1995.

6.6 Consultation on protecting defined benefit pension schemes

In addition, DWP have commenced a consultation on improving the Pensions Regulator's powers with a view to better protecting private sector defined benefit schemes. The Government hope the proposals will create a stronger Pensions Regulator which can be more proactive and get involved earlier when employers make changes which could affect their pension scheme.

The consultation closes on 21st August 2018.

6.7 European Court of Justice ruling on transgender rights

The European Court of Justice has ruled in favour of a transgender woman who was refused payment of her UK state pension in 2008 at age 60 (on the grounds that she did not have a Gender Recognition Certificate (GRC)).

The woman was refused payment of her pension because, on changing her gender, she had not annulled her marriage. Under the Gender Recognition Act 2004, it was not possible to obtain a GRC unless the applicant had annulled their marriage (where applicable) upon changing their gender.

This was changed by the Marriage (Same Sex Couples) Act 2013, meaning that transgender people no longer need to annul their marriage to obtain a GRC. However, the change was not introduced retrospectively. The ruling by the Grand Chamber of the European Court of Justice found that this meant UK legislation (in relation to individuals who changed gender prior to the introduction of the 2013 Act) treated a person who changed gender after marrying less favourably than it treated a person who had retained his or her birth gender and was married. On this grounds, it was found that the UK legislation constituted direct discrimination based on sex.

The LGPC Secretariat will provide further information regarding the impact of this case for the LGPS in a future bulletin.

6.8 PSIG publishes updated version of code of practice on scams

The Pension Scams Industry Group (PSIG) has published version 2.0 of its code of practice on combatting pension scams.

The first version of the voluntary code was published in 2015 and set out key steps trustees, providers and administrators could take to identify possible scams.
The new version builds upon the content of the first but now:

- includes guidance on how schemes can talk to members about their transfer,
- recommends schemes refer insistent members to The Pensions Advisory Service (TPAS),
- makes it easier for schemes to report suspected scams to Action Fraud, and
- includes case studies portraying real cases.

In a recent determination, the Pensions Ombudsman (TPO) found a public authority (Northumbria Police) guilty of maladministration when, in 2014, transferring the member's savings out of the Police Pension Scheme (PPS). The authority did not carry out adequate checks on the receiving scheme and failed to provide the officer with the official TPR literature. The authority was ordered to reinstate the member's benefits in the PPS (or provide equivalent benefits) and to pay £1,000 damages for distress.

On 14 August, TPR announced that, in conjunction with the FCA they have launched a new ScamSmart TV advertising campaign to raise awareness of pension fraud and the most common tactics used by scammers.

6.9 Pensions dashboard – results of feasibility study delayed

It has been previously reported that DWP were conducting a feasibility study to explore the options for delivering the dashboard and that this was due to be published at the end of March 2018.

At the time of writing, the findings of this feasibility study have still to be published. Given it is now less than a year until the dashboard was originally due to launch (in April 2019), this would appear to make these timescales increasingly difficult to achieve.

7.0 Finance

7.1 Cost per member

Shared service cost per member 2017/18 £14.35 (£14.91 for 2018/19 initial budget)

The 2017/18 annual cost of administering WYPF is £14.35 per member. This is the amount that has been used to recharge LPF. The projected outturn for Pension Administration will result in shared services charge of £14.03, although this is likely to increase with the appointment of additional staff. The reduction in charges is due to increased member number from new partners. Our projected cost per member is therefore below our target cost of £17.

8.0 Other News

LAPF Investment Awards
WYPF has been shortlisted under two categories at this year's LAPF Investment Awards which are recognized throughout the industry as a mark of excellence in the field of pensions fund investment/administration.

LGPS Fund of the year (assets over £2.5 billion) – Scheme Administration Award
The winners will be announced at a special gala evening taking place at the Savoy Hotel in London on Thursday 20th September, 2018.

Conclusion

WYPF and LPF continue to work closely as shared service partners to provide an efficient and effective service to all stakeholders within the Lincolnshire Pension Fund.

Appendices

These are listed below and attached at the back of the report	
Appendix 1	Customer Survey Results
Appendix 2	Feedback Summary
Appendix 3	Employers Survey

Consultation

a) Have Risks and Impact Analysis been carried out??

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Yunus Gajra, who can be contacted on 01274 432343 or Yunus.gajra@wypf.org.uk.

Customer Survey Results - Lincolnshire Members
(1st April to 30th June 2018)

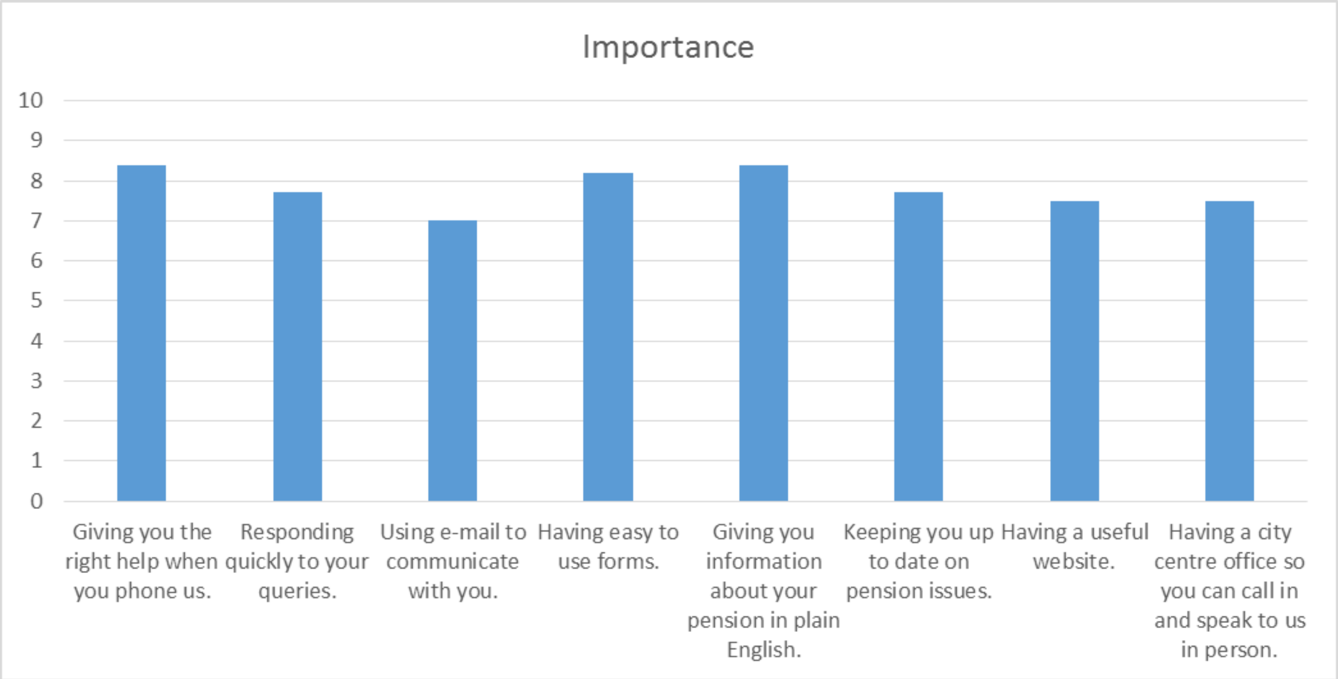
Over the quarter April to June we received **3** online customer responses.

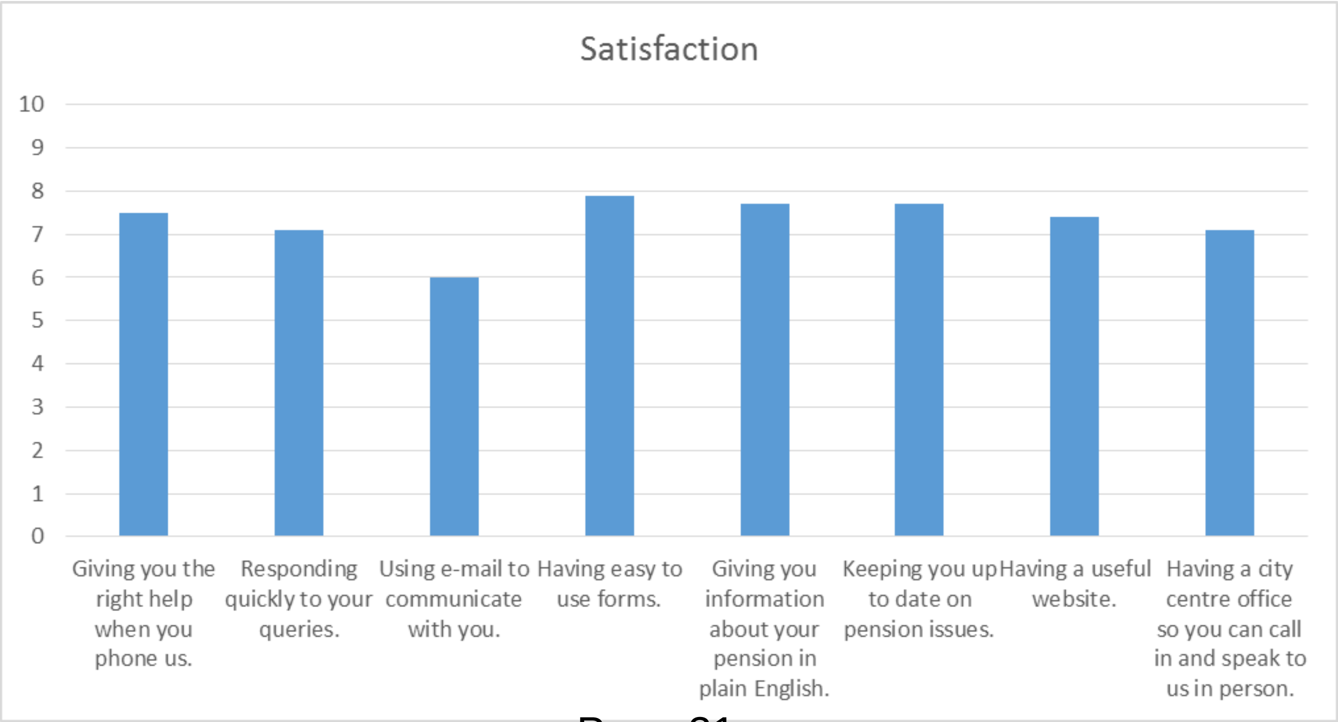
Over the quarter April to June **205** Lincolnshire member's sample survey letters were sent out and **26 (12.69%)** returned:

Overall Customer Satisfaction Score;

April to June 2017	July to September 2017	October to December 2017	January to March 2018	April to June 2018
78.63%	89.62%	91.74%	87.34%	72.1%

The charts below give a picture of the customers overall views about our services;





Sample of positive comments:

Member Number	Comments
8059215 (Member phoned)	Compliment for Hannah - Member stated she have provided him excellent service and thanked her so much for her help, he said the service he has received has been spot on and we have done everything he asked of us in a timely manner.
8048302 Online	Excellent. I sent an e-mail in the middle of Friday night, got an acknowledgement on the Monday and a hard copy reply in the post on Thursday. Most impressive. Thanks to Suki and her colleagues.
Online	WYPF officers have continued to provide very helpful and balanced, unbiased professional information so I could arrive at an informed decision regarding my best option. Thank you for your continued input to help clarify pension options available through WYPF and for your patience in discussing matters towards a final decision.
8029977	Helpful / efficient, issues were quickly resolved. It is good to have personal contact with staff that know what they are doing. When I phoned it was answered promptly and in a helpful manner.
8026264	Excellent and reported to enquiries a timely manner. Very helpful. Made me feel nothing was too much trouble. Excellent service. Just need to be a clear about how rises can affect pension the final year of employment

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8121744	Automatic opt in and then needed opt out, so unwanted payment paid which reduced my monthly pay. Still waiting for a refund, following opt out. Seems to be taking a while to sort out. I started work in November 17.	Response sent by Naheed Thank you for taking time to complete and return our customer survey. On the 15th June we received confirmation from Lincolnshire that you had opted out of the scheme and they confirmed that they refunded your contributions in January 2018. Our scheme rules state if a member opts out within 3 months of joining, then the employer must refund the contributions paid. I am concerned that you have said you are still waiting for your refund. Please contact your HR department if this is still the case as the form they have sent us implies that it has already been refunded. Please contact me if you have any further problems.

APPENDIX 2

Employer Feedback (LPF)

Quarter 2 April – June 2018

One workshop was delivered and one was cancelled.

Pensionable Pay – 27 June 2018

Feedback score: 97.86%

Comment	Action taken
None received	

A summary of the compliments

- A very useful course

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LPF employer survey 2018
Priorities for improvement (PFIs)

Purpose

To identify areas of WYPF/LPF service with employers that could be improved.

Sample

The survey was emailed, and made available on the employer blog, to all authorised users notified to use by the scheme employers of WYPF/LPF.

These are the Finance, Administration and Strategic contacts as well as additional Authorised users of the system.

Results

Replies received: 55
Overall result: 84.73%

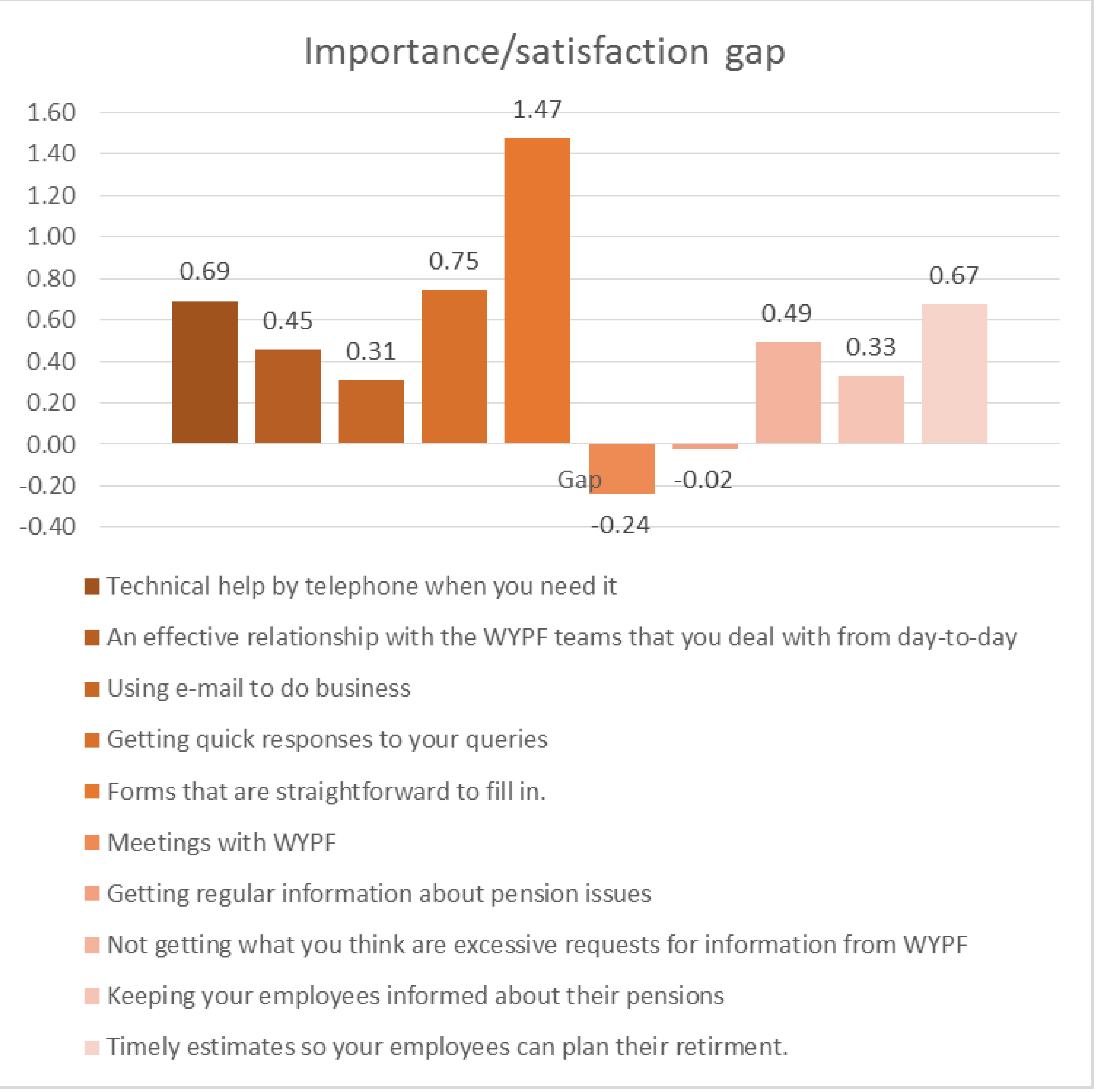
A summary of previous year's results are in appendix A

Importance/satisfaction gap

Ploting the gap between the score for how important an area is to the customer against how satisfied they are with our performace allows the identification of the largest gaps quite easily.

Normally a greater gain in customer satisfaction will be achieved by closing a large gap rather than a small gap.

On a 10 point sclae any satisfaction gap above 1 is a point of concern and action should be taken and gaps in excess of 2 are serious.



Comments

Any comments you would like to add?

Very impressed with affinity half day workshop for pre-retirement and the ongoing service offered.

I don't find the forms at all easy to complete, and yes I have been to the training.

Regarding employees, most need to make more effort to understand their pension provision and not expect it on a plate.

I am unable to answer the last question because as yet I haven't ever requested an estimate but have always been happy with other information requested.

Some more technical advice would be helpful - such as queries relating to contracted out NI where customer systems do not quote those figures. I have been asked several times for C/O NI values with e-mails going backwards and forwards but no advice or guidance offered as to how to arrive at the C/O values. E-mails saying 'does not agree with previous e-mails' or 'can you look at this again' aren't helpful! We do receive duplicated requests for the same information for individual Members so we are not sure if the information we originally send is uploaded onto a central database to avoid these multiple requests being received from other employees of WYPF.

Disappointed that a recent training session was cancelled due to lack of uptake as these are so beneficial. The training is excellent and very important, so hope that the workshops continue.

No experience of areas where one star granted as unable to leave blank. Pensions are administered on our behalf by a third party but any queries raised have been dealt with knowledgeably and efficiently. I have attended two training courses - both were helpful but I would suggest that it is recommended to attendees that they attend the basic introduction course before attending any others unless they have prior experience of pension’s administration.

Working on my own I do need support as some information requested is difficult to understand. However I have a list of people to ring and they are always helpful.

Thank you,

I find the staff extremely helpful and knowledgeable, who do their very best to sort out complicated issues.

Staff always very helpful, meetings very informative and able to be accessed by people with very different pension knowledge.

The monthly returns seem to be behind several months and this has a knock on effect to our processing. As if issues are found on the January return but these are not being processed by WYPF until June it means that the correction cannot be made by our self until June return, therefor 4 months returns contain the same error this has to be discussed each month for it to be resolved.

How would you sum up WYPF/LPF's service in one sentence?

Accessible, friendly and willing to help

Average

Useful helpful service with speedy responses

Contact with named person is very good but contact with WYPFEmail can be VERY repetitive.

Good

Efficient

A most efficient and customer focused service provider.

Great level of service, the team are very knowledgeable.

Very efficient

Excellent

Quite good but some email requests could be made a little clearer

Great efforts are made to explain the complexities of the LGPS scheme and employer obligations.

Always very willing and helpful and never make me feel a fool for questions I may ask!

Good but the computer system could be easier to use. Not very customer friendly.

All queries are dealt with quickly & confidently- giving us confidence in WYPF/LPF

Knowledgeable, friendly, professional

Developing into a stronger working partnership

Excellent

Good help and useful advice always at the end of the telephone

Very Good, thank you.

Very helpful and efficient

Good but with a little more could be excellent!

Overall service is good

Prompt and helpful

Our contact at LPF (KP) has been a pleasure to work with

Both professional and helpful at all times.

Very good

Helpful and to the point.

Doing OK.

Very good service

Very informative, helpful and reliable

Very helpful team who are always willing to support.

Great service and good day to day relationship with the team - keep doing what you're doing!

Good overall service to both us as an Employer and our Employees

Appendix A – Summary of results Lincolnshire Pension Fund

Summary of results Lincolnshire Pension Fund	2016		2017		2018	
	Rank	Score	Rank	Score	Rank	Score
Technical help by telephone when you need it	8	-0.08	5	0.70	3	0.69
An effective relationship with the WYPF/LPF teams that you deal with from day-to-day	4	0.23	7	0.45	6	0.45
Using e-mail to do business	9	-0.15	8	0.24	8	0.31
Getting quick responses to your queries	3	0.31	4	0.73	2	0.75
Forms that are straightforward to fill in.	***1***	***0.85***	***1***	***1.58***	***1***	***1.47***
Meetings with WYPF/LPF	10	-1.00	10	-0.28	10	-0.24
Getting regular information about pension issues	2	0.38	8	0.24	9	-0.02
Not getting what you think are excessive requests for information from WYPF/LPF	5	0.23	2	1.14	5	0.49
Keeping your employees informed about their pensions	7	0.00	6	0.66	7	0.33
Timely estimates so your employees can plan their retirement.	6	0.08	3	1.03	4	0.67
Satisfaction Score (%)	91.47		83.42		84.73	
Number of replies	12		71		55	

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**4 October 2018**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th June 2018 and any current issues.

Recommendation(s):

That the Committee notes the report.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £124.6m (5.4%) to £2,300.5m on 30th June 2018. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 30th June. Across the asset classes, Fixed Interest is slightly below the agreed tolerance weighting, at 11.5% compared to a lower tolerance of 12%. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3.3%

UK Equities underweight by 0.8%
Global Equities overweight by 4.1%

Underweight Alternatives by 1.2%

Neutral Property

Underweight Infrastructure by 0.8%

Underweight Bonds by 2%

Overweight Cash by 0.6%

Movements in weight are due to the relative performance of the different asset classes. In light of the impending change of asset managers as we move towards the transition of assets into Border to Coast, it is not expected that any rebalancing would be undertaken, unless it is funded by reinvestment of cash.

1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.

1.4 Appendix C shows the market returns over the three and twelve months to 30th June 2018.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 10.5% of the Fund, compared to 10.1% in the last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website (www.wypf.org.uk), and updated on a quarterly basis.

	Company	**Total Value £M**	**% of Fund**
1	ROYAL DUTCH SHELL	39.9	1.7
2	MICROSOFT	28.7	1.3
3	UNILEVER	26.3	1.1
4	BRITISH AMERICAN TOBACCO	25.9	1.1
5	HSBC	25.6	1.1
6	RECKITT BENCKISER	22.7	1.0
7	BP	20.	0.9
8	VISA	18.7	0.8
9	APPLE	17.3	0.8
10	JP MORGAN	16.2	0.7
	TOTAL	**241.5**	**10.5**

1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 367 company events and cast votes in respect of 5,086 resolutions. Of these resolutions, the Fund voted 'For' 3,296, 'Against' 1,602, abstained on 45 and withheld votes on 143.

1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the voting template last reviewed and approved at the 22nd March 2018 meeting of this Committee.

2 Local Authority Pension Fund Forum

2.1 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.

- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.

- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.

- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.

- **Consultations** – to respond to any relevant consultations.

2.2 The latest LAPFF engagement report can be found on their website at www.lapfforum.org. Some of the highlights during the quarter included:

- During the last quarter, LAPFF has engaged with 17 companies on issues ranging from climate change reporting to human capital management and board composition.

- In this busy AGM season, the Forum issued several climate related voting alerts at a range of oil and gas, mining and transport companies. These related to climate change risk analysis, alignment with the Paris Agreement goals, disclosure of public policy advocacy on energy and climate change and fuel efficiency standards. Other voting alerts covered remuneration, proxy access and support for appointing an independent Chairman.

- Concerned over reports of poor human capital management, LAPFF engaged with Banco Santander on practices at its US subsidiary, as well as progressing engagement with Tesla Inc. A LAPFF executive member had a call with a Tesla representative to discuss a range of governance issues, including board composition, health and safety and employment standards. In addition, the Forum also organised a webinar to discuss the Company's most pivotal problems and issued voting advice to members.

- LAPFF has substantially contributed to the debate on the future of the Financial Reporting Council (FRC). Following the announcement of the Kingman Review, the LAPFF chair met with Sir John Kingman in May and put its view that the FRC should be disbanded. In June, the Kingman Inquiry issued a call for evidence, including an option that would result in the break-up of the FRC's functions and asking for structural solutions.

- The Forum has co-signed a letter to the US Securities and Exchange Commission (SEC) over new regulations that make it more difficult to file shareholder resolutions in the US. The letter sets out concerns, including that their staff's new analytical approach increases uncertainty and inefficiency, a new interpretation of micromanagement undermines investor engagement and a new approach to the applications of the rules encourages gamesmanship. A meeting is being sought to explore these concerns further.

2.3 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3 Treasury Management

3.1 At the April 2010 meeting, the Pensions Committee agreed a Service Level Agreement with the Treasury team within Lincolnshire County Council, for the continued provision of cash management services to the Pension Fund.

3.2 The Treasury Manager has produced the outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £15.4m for the year financial year to 30th June. The invested cash has outperformed the benchmark from 1st April 2018 by 0.17%, annualised, as shown in the table below, and earned interest of £26.3k.

3.3 A weighted benchmark (combining both 7 day and 3 month LIBID) has been adopted by the Council, which is more reflective of the investment portfolio maturity profile.

Pension Fund Balance – Q1 to 30th June 2018				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
15,381.4	26.3	0.69	0.52	0.17

4 TPR Checklist Dashboard

4.1 To assist in the governance of the Lincolnshire Fund, it assesses itself against the requirements of the Pension Regulator's (TPR's) code of practice 14 for public service pension schemes, as set out in a check list attached at Appendix E. This is presented to the Committee and Board at each quarterly meeting, and any non-compliant or incomplete areas are addressed. This is seen as best practice in open and transparent governance.

4.2 No areas have changed since the last quarter's report.

4.3 The Areas that are not fully completed and/or compliant are listed below.

B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?
Amber – It is the intention that all PB and PC members carry this out, and provide copies of the completion certificate to the Pension Fund Manager however, whilst all Board members have completed this training, certificates have not been received for all Committee members.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?
Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submissions and employer training are improving data accuracy, however there are a number of historical data issues that are in the process of being identified and rectified.

F5 - Maintaining Accurate Member Data - Are records kept of decisions made by the Pension Board, outside of meetings as required by the Record Keeping Regulations?
Grey – not relevant as we do not expect there to be decisions outside of the PB. This will be monitored.

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?
*Amber - New starter information is issued by WYPF, **when they have been notified by employers**. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns and employer training are improving this process.*

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.
Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Self-assessments were carried out in March, however no personal training plans have been put in place, as the assessments have been used to identify training areas required across the Board.

5 Breaches Reporting - update

5.1 In line with the Breaches reporting policy, any breaches that are reported to the Pensions Regulator (TPR) are brought to the attention of the Pensions Committee and Pension Board. Breaches reporting is included in the standard quarterly update paper of the Board, however this includes all non-material breaches that are not reported to TPR.

5.2 As the Committee are aware, LCC reported itself to the Pensions Regulator in April, following concerns raised by the Pension Board.

5.3 Since the last meeting of the Board in July, LCC have held regular meetings with WYPF and Serco and have kept officers and the Board updated on progress in clearing the backlogs. LCC have also kept the Pensions Regulator updated. Monthly monitoring meetings are now a standard part of the process put in place to ensure that LCC is aware of the performance of Serco in respect to the pensions responsibilities that it undertakes on LCC's behalf.

5.4 The Board will continue to monitor progress to ensure that LCC is meeting the standards required as an employer in the Pension Fund.

6 Risk Register Update

6.1 At the July meeting of this Committee it was requested that officers compare the Fund's risk register to other partner funds across Border to Coast. This is brought to the Committee in agenda item 8, therefore an update is not provided in this report.

7 Custodian Review

7.1 The October 2017 Committee approved an extension to the current custodian's contract for an additional three years, to allow for the new requirements of a monitoring service under asset pooling to be understood. It was reported to the January 2018 Committee that following discussion with JPMorgan, the current custodian, the extension would only run to 31st March 2019. This was due to the expected value of segregated assets that would remain under custody following the initial transitions into a global equity sub-fund with Border to Coast, and the fee floor that JPMorgan would have to implement.

7.2 To ensure that a custodian is in place for 1st April 2019, officers will be calling off from the National LGPS Custody Framework. This is a reasonably short and simple process, as the initial OJEU procurement to appoint suppliers to the framework has already taken place. The call off process requires a short request for tender document, specific to our requirements, to be issued to those suppliers on the framework that can meet our needs. Following completion of the call off process and appropriate due diligence, a recommendation will be brought to the December meeting of this Committee.

Conclusion

8 This reporting period saw the value of the Fund fall, increasing by £82.8m to £2,300.5m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- neutral property;
- overweight equities and cash; and
- underweight fixed interest, infrastructure and alternatives.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Purchases and Sales of Investments
Appendix C	Changes in Market Indices
Appendix D	Equity Voting Activity
Appendix E	TPR Checklist Dashboard

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

APPENDIX A

DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 Jun 2018			31 Mar 2018			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	170,439	0.0%	0.0%	170,228	0.0%	0.0%		
Legal & General	440,924,723	30.3%	19.2%	403,792,800	30.1%	18.6%	20.0%	+/- 2%
TOTAL UK EQUITIES	**441,095,162**		**18.6%**	**403,963,028**		**18.6%**	**20.0%**	
GLOBAL EQUITIES								
Invesco	540,403,488	37.1%	23.5%	500,748,990	37.4%	23.0%	22.5%	+/- 2.5%
Threadneedle	142,627,006	9.8%	6.2%	132,967,366	9.9%	6.1%	5.0%	+/- 1%
Schroder	131,834,349	9.1%	5.7%	123,755,393	9.2%	5.7%	5.0%	+/- 1%
Morgan Stanley	200,632,953	13.8%	8.7%	178,714,621	13.3%	8.2%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	**1,015,497,957**		**44.1%**	**936,186,369**		**43.0%**	**40.0%**	
TOTAL EQUITIES	**1,456,592,795**	**100%**	**63.3%**	**1,340,149,397**	**100%**	**61.6%**	**60.0%**	**+/- 6%**
ALTERNATIVES	**318,485,993**		**13.8%**	**312,348,372**		**14.4%**	**15.0%**	**+/- 1.5%**
PROPERTY	**207,609,624**		**9.0%**	**207,567,169**		**9.5%**	**9.0%**	**+/- 1.5%**
INFRASTUCTURE	**39,220,291**		**1.7%**	**35,420,048**		**1.6%**	**2.5%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	137,282,258	52.0%	6.0%	137,804,169	52.2%	6.3%	6.75%	+/- 1%
Blackrock	126,875,984	48.0%	5.5%	126,292,803	47.8%	5.8%	6.75%	+/- 1%
TOTAL FIXED INTEREST	**264,158,242**	**100%**	**11.5%**	**264,096,973**	**100%**	**12.1%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**14,408,414**		**0.6%**	**16,313,787**		**0.7%**	**0.0%**	**+ 0.5%**
TOTAL FUND	**2,300,475,521**		**100%**	**2,175,895,746**		**100%**	**100%**	

APPENDIX B

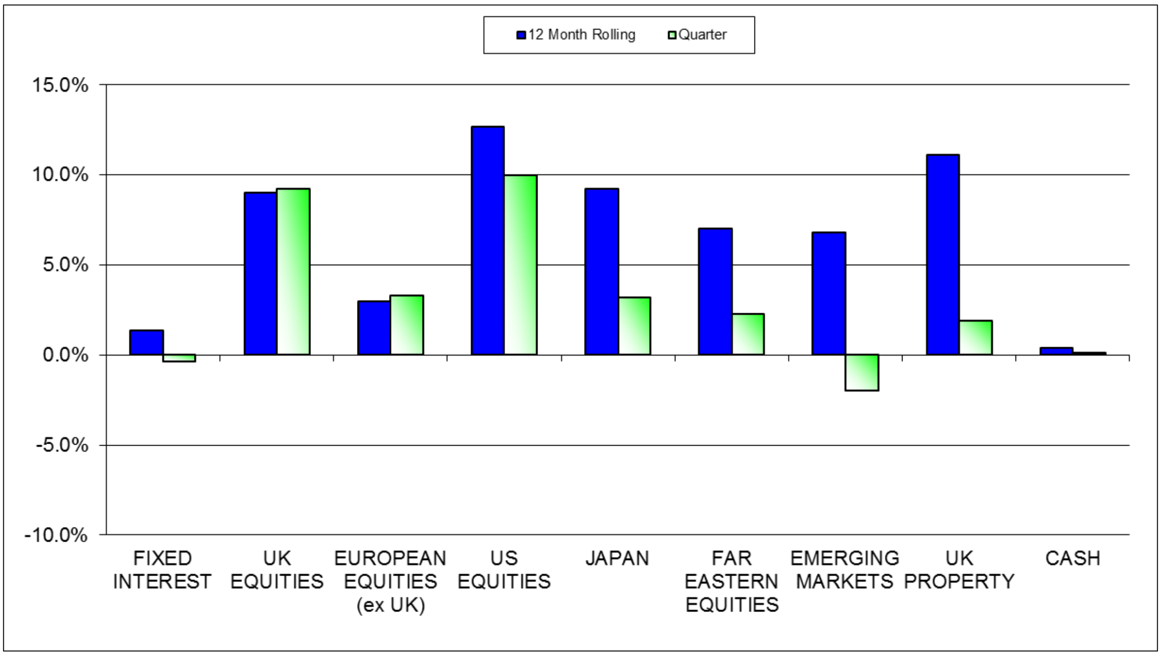
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 30th June 2018

Investment	Purchases £000's	Sales (£000's)	Net Investment £000's
UK Equities			
Legal & General	0	0	0
Global Equities			
Invesco	56,768	(52,981)	3,787
Columbia Threadneedle	21,117	(20,665)	452
Schroders	13,770	(13,375)	395
Morgan Stanley Global Brands	0	0	0
Total Equities	**91,655**	**(87,021)**	**4,634**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**31**	**(1,701)**	**(1,670)**
Infrastructure	**3,613**	**(1,283)**	**2,330**
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**95,299**	**(90,005)**	**5,294**

NB: Blackrock, Morgan Stanley and Legal & General investments are Pooled Funds and therefore Purchases and Sales are only shown when new money is given to the manager or withdrawn from the manager.

APPENDIX C

MARKET RETURNS TO 30th JUNE 2018



INDEX RETURNS	12 Months to Jun 18 %	Apr-Jun 18 %
FIXED INTEREST	1.3%	-0.4%
UK EQUITIES	9.0%	9.2%
EUROPEAN EQUITIES	3.0%	3.3%
US EQUITIES	12.7%	10.0%
JAPANESE EQUITIES	9.2%	3.2%
FAR EASTERN EQUITIES	7.0%	2.3%
EMERGING MARKETS	6.8%	-2.0%
UK PROPERTY	11.1%	1.9%
CASH	0.4%	0.1%

APPENDIX D

Votes Summarised by Votes Cast

Votes Cast at Management Group Level				
Report Period: 01 April 2018 to 30 June 2018				
Voting Guideline Code	**For**	**Abstain**	**Against**	**Total**
Advisory Board aggregate remuneration approval	1	0	0	1
All Employee Share Schemes	21	0	1	22
Alternate Auditor	1	0	0	1
Amend Class of Capital	1	0	0	1
Annual Incentive Plan Metrics	1	0	0	1
Any Other Business	0	0	4	4
Appoint Audit Committee Member	8	0	0	8
Appoint Chairman	7	0	0	7
Appoint Corporate Assembly (Norway)	15	0	0	15
Appoint Independent Proxy	7	0	0	7
Appoint Nomination Committee	3	0	0	3
Appoint Nomination Committee Member	5	0	0	5
Appoint Remuneration Committee Member	28	0	0	28
Approval of Executive's Remuneration Package	1	0	0	1
Approve / Ratify Prior Charitable Donations	0	0	1	1
Approve Agreement	2	0	0	2
Approve Majority Vote Standard for Directors	1	0	0	1
Approve Minutes	3	0	0	3
Approve Report	0	0	1	1
Auditor - Appointment	247	0	66	313
Auditor - Deputy/Secondary	3	0	0	3
Auditor - Discharge	3	0	0	3
Auditor - Removal	0	0	0	0
Auditor - Remuneration	14	0	27	41
Auth Board to Issue Shares	33	0	14	47
Auth Board to Issue Shares w/o Pre-emption	37	0	27	64
Authorise Political Donations & Expenditure	6	0	2	8
Authorised Capital	1	0	0	1
Authorised Capital [DE/CH/AT]	4	0	0	4
Board Alternate	10	0	0	10
Board of Directors aggregate remuneration approval	5	0	0	5
Board Re-election Frequency	4	0	0	4
Board Rem - Approve Bonuses	10	0	0	10
Board Rem - Proposed for Year	1	0	0	1
Board Rem - Special/Retirement Bonuses	1	0	0	1
Board Size for Year	13	0	0	13
Board Size Range	2	0	0	2
'Bons Bretons' Warrants	1	0	0	1

Bundled Resolution	0	0	2	2
Cancel Treasury Shares	30	0	3	33
Capital Raising	2	0	0	2
Chairs Corporate Responsibility Committee	1	0	1	2
Change Board Structure	2	0	0	2
Change of Name	2	0	0	2
Company Objectives	1	0	0	1
Conditional Capital [DE/CH/AT]	3	0	0	3
Convert Type of Company	1	0	0	1
De-classify the Board	4	0	0	4
Delegate Powers	26	0	0	26
Director - Discharge from Liability	95	0	0	95
Director Election - All Directors [Single]	2,408	15	1,028	3,451
Director Election - Candidate List (Italy)	0	0	1	1
Director Election - CEO	1	0	3	4
Director Election - Chairman	51	1	226	278
Director Election - Chairs Audit Committee	220	0	37	257
Director Election - Chairs Nomination Committee	196	1	55	252
Director Election - Chairs Remuneration Committee	187	14	47	248
Director Election - Chairs Risk Committee	33	0	0	33
Director Election - Executives	235	0	467	702
Director Election - Lead Ind. Director/DepCH	127	3	24	154
Director Election - Non-executive/Sup Board	2,171	15	549	2,735
Director Election - PR List System (Italy)	0	0	1	1
Director Election - Sits on Audit Committee	678	3	165	846
Director Election - Sits on Nomination Committee	735	5	133	873
Director Election - Sits on Rem Com	676	0	127	803
Director Election - Sits on Risk Committee	143	0	12	155
Director Election - Slate	4	0	1	5
Director Election - Supervisory Committee (JP)	0	0	18	18
Directors' Pensions	9	0	0	9
Distribute/Appropriate Profits/Reserves	110	0	8	118
Dividend - Approve Policy	2	0	0	2
Dividends - Ordinary	121	0	6	127
Dividends - Scrip	5	0	1	6
EGM Notice Periods	6	0	0	6
Elect Fiscal Council Member (Brazil)	2	0	0	2
Elect Member Audit & Supervisory Board (JP)	37	0	3	40
Executive aggregate remuneration approval	13	0	0	13
Financial Statements	59	2	59	120
Financial Statements - Environmental Issues	41	1	40	82
Greenshoe Option	7	0	0	7
Individual Share Award	1	0	1	2
Individual Total Remuneration - NED Approval	7	0	1	8

Individual Total Remuneration - Past Year Approval	22	0	19	41
Internal Reorganisation	0	0	1	1
Issue Bonds (Other)	1	0	0	1
Issue Bonds with warrants	1	0	0	1
Issue Convertible Bonds	3	0	0	3
Issue Warrants to Directors/Employees	1	0	0	1
Long-term Deferral Systems	3	0	0	3
Long-term Incentive Plans	0	0	67	67
Meeting Formalities	12	0	0	12
NED Remuneration - Fee Rate/Ceiling	9	0	0	9
NED Remuneration - Fees actually paid	7	0	0	7
NED Remuneration - Fees proposed for year	26	0	2	28
NED Remuneration - Policy	6	0	0	6
NED Share Plan	4	0	0	4
Other Capital Structure Proposal	2	0	0	2
Other Changes to Governance Arrangements	55	0	3	58
Other Meeting Procedures	2	0	0	2
Procedure on Nom Com Appointment	2	0	0	2
Ratify Co-option to Board	6	0	8	14
Reduce Nominal Value	1	0	0	1
Reduce or Reclassify Capital or Reserves	1	0	0	1
Reissue (Use) Treasury Shares	6	0	8	14
Related Party Transaction - Approve Report on	18	0	0	18
Related Party Transaction - Specific Transaction	0	0	0	0
Remove Supermajority Provisions	12	0	0	12
Remuneration Policy	6	0	48	54
Remuneration Report	12	0	254	266
Research Pending	0	0	0	0
Resolution Issues	4	0	2	6
Return of Capital	0	0	0	0
Right to Nominate Directors - 'Proxy Access'	1	0	0	1
Say-on-pay Frequency	6	15	0	21
SH: Adopt Diversity & Equality Policies	0	0	0	0
SH: Adopt Sustainable Sourcing Policies	1	0	0	1
SH: Adopt/amend Human Rights Policy	0	0	0	0
SH: Approve Cumulative Voting for Directors	4	0	0	4
SH: Approve Majority Vote Standard for Directors	3	0	0	3
SH: Charitable Donations - Improve Disclosure	1	0	0	1
SH: De-classify the Board	0	0	1	1
SH: Director Election - All Directors [Single]	0	0	0	0
SH: Director with ESG/Sustainability Expertise	0	0	0	0
SH: Disclosure	1	0	0	1
SH: Diversity & Equality Policies	14	0	0	14
SH: Employee Shareholder Reps (France)	0	0	0	0

SH: Establish Other Board Committee	4	0	0	4
SH: Improve CSR Disclosure	0	0	0	0
SH: Independent Chairman	17	0	17	34
SH: Introduce Meeting Convene Right	1	0	1	2
SH: Introduce/Amend Multiple Voting Rights	0	0	7	7
SH: Limit Pensionable Earnings	0	0	0	0
SH: Lobbying - Improve Disclosure	17	0	7	24
SH: Methane Emissions	3	0	0	3
SH: Other	0	0	1	1
SH: Other Board-related Proposals	1	0	0	1
SH: Other Executive Pay Proposal	0	0	0	0
SH: Other Natural Resource Management Issue	0	0	1	1
SH: Pay Disparity	1	0	0	1
SH: Performance Conditions - Add ESG Metrics	5	0	0	5
SH: Performance Conditions - Introduce	0	0	1	1
SH: Performance Conditions - Strengthen	1	0	0	1
SH: Pharmaceutical Pricing	0	0	0	0
SH: Political Spending - Improve Disclosure	3	0	6	9
SH: Remove Director - Executive	0	0	0	0
SH: Remove Director [Officers]	0	0	0	0
SH: Remove Majority Vote Standard for Directors	0	0	1	1
SH: Remove Supermajority Provisions	4	0	0	4
SH: Report on Climate Change Risks	0	0	0	0
SH: Report on Human Rights Issues	0	0	0	0
SH: Request CSR/Sustainability Report	3	0	0	3
SH: Request Special Audit	0	0	0	0
SH: Require Clawbacks	3	0	0	3
SH: Restrict Accelerated Vesting of LTIP Awards	5	0	2	7
SH: Restrict Number of Directorships	0	0	0	0
SH: Right to Nominate Directors - 'Proxy Access'	9	0	2	11
SH: Separate Chairman & CEO	2	0	0	2
SH: Setting GHG reduction goals	0	0	0	0
SH: Shareholder Action by Written Consent	12	0	7	19
SH: Special Meetings Lower Threshold	15	0	12	27
SH: Strategy	0	0	0	0
SH: Sustainable Water Supply	0	0	0	0
SH: Taxation Strategies	4	0	0	4
SH: Tobacco	0	0	0	0
SH: Voting Procedures	0	0	4	4
Share Buy-back Authority (inc Tender Offer)	26	0	54	80
Share Consolidation	3	0	0	3
Share Issue - Consideration for Offer	2	0	0	2
Share Issue - Contributions in Kind	9	0	0	9
Share Issue - Employees - Discr Opt/Shares	2	0	0	2

Share Issue - Employees - Free Shares	14	0	0	14
Share Issue - Employees - Savings Plans	19	0	0	19
Share Issue - Other	8	0	0	8
Share Issue - Overall Ceiling	5	0	0	5
Share Issue w/o Pre-emption w Priority Per	0	0	1	1
Share Split	2	0	0	2
Shareholder Action by Written Consent	1	0	0	1
Significant Transactions	0	0	0	0
Sits on Corporate Responsibility Committee	0	0	1	1
Special Meetings - Introduce Right	6	0	0	6
Special Meetings - Lower Threshold	5	0	0	5
Staple Capital Types	1	0	0	1
Termination Provisions (Contract clauses)	5	0	0	5
Treasury Shares - Set Re-Issue Price Range	2	0	0	2
Unclassified	1	0	1	2
Variable Pay Cap Limit (EU)	2	0	0	2
	9,428	**75**	**3,701**	**13,204**

Appendix E

The Pension Regulator’s and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

No	Completed	Compliant
	Reporting Duties	
A1	G	G
A2	G	G
A3	G	G
A4	G	G
	Knowledge & Understanding	
B1	G	G
B2	G	G
B3	G	G
B4	G	G
B5	G	G
B6	G	G
B7	G	G
B8	G	G
B9	G	G
B10	G	G
B11	G	G
B12	A	A
	Conflicts of Interest	
C1	G	G
C2	G	G
C3	G	G

No	Completed	Compliant
C4	G	G
C5	G	G
C6	G	G
C7	G	G
C8	G	G
C9	G	G
C10	G	G
C11	G	G
	Publishing Scheme Information	
D1	G	G
D2	G	G
D3	G	G
D4	G	G
	Risk and Internal Controls	
E1	G	G
E2	G	G
E3	G	G
E4	G	G
E5	G	G
E6	G	G
E7	G	G
E8	G	G

No	Completed	Compliant
	Maintaining Accurate Member Data	
F1	A	A
F2	G	G
F3	G	G
F4	G	G
F5		
F6	G	G
F7	G	G
F8	G	G
F9	G	G
F10	G	G
F11	G	G
	Maintaining Contributions	
G1	G	G
G2	G	G
G3	G	G
G4	G	G
G5	G	G
G6	G	G
G7	G	G
G8	G	G
G9	G	G

No	Completed	Compliant
	Providing Information to Members and Others	
H1	G	G
H2	G	G
H3	G	G
H4	G	G
H5	G	G
H6	G	G
H7	G	A
H8	G	G
H9	G	G
H10	G	G
H11	G	G
H12	G	G
H13	G	G
	Internal Dispute Resolution	
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

No	Completed	Compliant
I8	G	G
I9	G	G
	Reporting Breaches	
J1	G	G
J2	G	G
J3	G	G
	Scheme Advisory Board Requirements	
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	G	G
K6	G	G
K7	A	A
K8	G	G
K9	G	G
K10	G	G
K11	G	G
K12	G	G
K13	G	G
K14	G	G
K15	G	G

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Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1st April 2018 to 30th June 2018.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

1. Funding Level Update

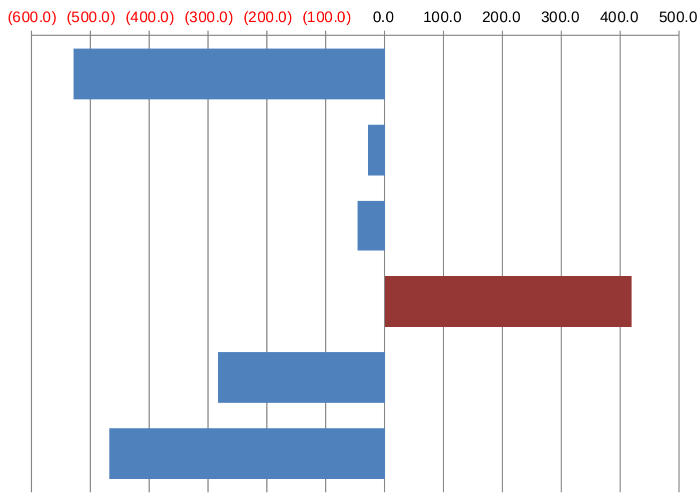
1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31st March 2016, to the current quarter end, 30th June 2018. The accuracy of this type of funding update is expected to decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a 100% funding level.

1.2 The graph over page shows the funding level at the latest formal valuation, at 76.9%, and its movement to 30th June 2018, where the funding level has increased to 83.5%.

Change in funding level since last valuation

1.3 Over the period 31st March 2016 to 30th June 2018 the deficit, in real money, has decreased from £529m to £468m. The chart below shows the main impactors on the deficit. The excess return on assets has more than offset the negative changes in yields and inflation seen over this period.

Surplus/(Deficit)	£'m
Surplus/(Deficit) as at 31st March 2016	(529.0)
Contributions (less benefits accruing)	(28.5)
Interest on surplus/(deficit)	(45.8)
Excess return on assets	418.6
Impact of change in yields & inflation	(283.0)
Surplus/(Deficit) as at 30th June 2018	(467.7)



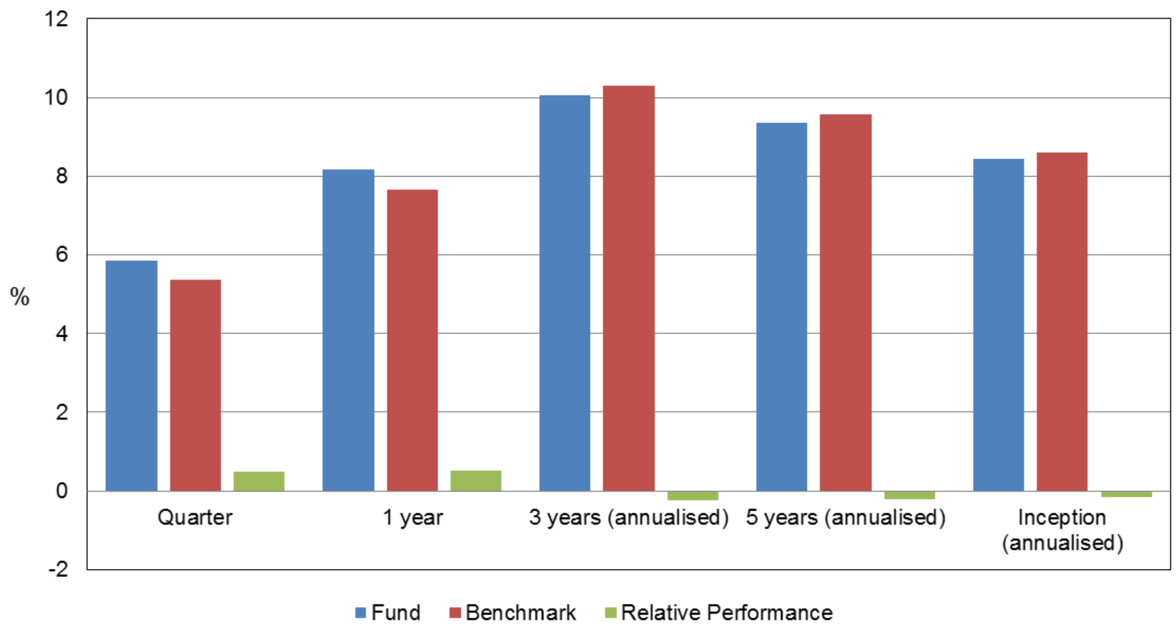
1.4 On a shorter term time horizon, looking at the last quarter, the funding level increased from 78.6% to 83.5% between 31st March 2018 and 30th June 2018, and the deficit reduced from £608.5m to £467.7m.

2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £124.6m during the quarter from £2,175.9m to £2,300.5m, as the table below shows. The most significant movements in the quarter were seen on UK Equities which increased in value by 9.2% or £37.1m, and Global Equities which increased by 8.5% or £79.3m.

Asset Class	Q2 2018 £m	Q1 2018 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	441.1	404.0	19.2	20.0	(0.8)
Global Equities	1,015.5	936.2	44.1	40.0	4.1
Alternatives	318.5	312.3	13.8	15.0	(1.2)
Property	207.6	207.6	9.0	9.0	0.0
Infrastructure	39.2	35.4	1.7	2.5	(0.8)
Fixed Interest	264.2	264.1	11.5	13.5	(2.0)
Cash	14.4	16.3	0.6	0.0	0.6
Total	**2,300.5**	**2,175.9**	**100.0**	**100.0**	

2.2 The graph and table below shows the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 0.75% per annum.



	Fund %	Benchmark %	Relative Performance %
Quarter	5.84	5.36	0.48
1 year	8.18	7.67	0.51
3 years*	10.06	10.30	(0.24)
5 years*	9.36	9.57	(0.21)
Inception**	8.44	8.61	(0.17)

*Annualised from Yr 3. **Since Inception figures are from March 1987

2.3 Over the quarter, the Fund produced a positive return of 5.84% (as measured by JPMorgan), outperforming the benchmark by 0.48%. The Fund was also ahead of the benchmark over the one year period, but marginally behind its benchmark over three and five years, and since inception.

3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meets managers to discuss current issues, management changes and performance. Each manager is then allocated one of five ratings between replace and retain. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 The Fund has nineteen managers. During the quarter there have not been any changes in the manager ratings. Officers continue to monitor managers closely and arrange meetings to discuss any potential issues.

Manager	Rating				
	Replace		Retain – suitable	Retain – positive	Retain – preferred
Invesco Global Equities (Ex-UK)				X	
Columbia Threadneedle Global Equity				X	
Schroders Global Equity				X	
Morgan Stanley Global Brands			X		
Morgan Stanley Alternative Investments				X	
Blackrock Fixed Interest					X
Standard Life European Property				X	
Innisfree Continuation Fund 2					X
Innisfree Secondary Fund					X
Innisfree Secondary Fund 2					X
Franklin Templeton European Real Estate				X	
Franklin Templeton Asian Real Estate				X	
Igloo Regeneration Partnership				X	
Aviva Pooled Property Fund				X	
Royal London PAIF				X	
Standard Life Pooled Property Fund				X	
Blackrock Property				X	
Infracapital Greenfield Partners I				X	
Pantheon Global Infrastructure				X	

3.3 Notification of a key person change at Morgan Stanley Alternative Investments has been received after the end of this reporting quarter. Hymans Robertson is currently reviewing the manager rating in light of this change. A verbal update will be given at the meeting if further information is available.

4. Individual Manager Update

4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.2.

4.2 Over the quarter, all managers showed a positive return relative to their benchmarks, with the exception of Invesco and Schroders. Over the 12 month period, all managers have matched or outperformed their benchmark.

	3 months ended 30th June 2018			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Legal & General (UK Equities)	9.2	9.2	0.0	9.1	9.1	0.0	Match Index
Invesco (Global Equities (ex UK))	7.8	8.0	(0.2)	10.3	9.4	0.8	+1.0
Columbia Threadneedle (Global Equities)	7.3	7.0	0.3	13.7	9.5	3.9	+2.0
Schroder's (Global Equities)	6.6	6.8	(0.2)	9.7	8.9	0.7	+3.0
Morgan Stanley Global Brands	12.2	8.1	3.8	10.2	9.3	0.8	n/a
Blackrock (Fixed Interest)	(0.4)	(0.4)	0.0	1.4	1.3	0.1	Match Index
Blackrock Interim (Fixed Interest)	0.5	0.4	0.0	0.6	0.6	0.0	Match Index
Morgan Stanley (Alternative Investments)	1.1	1.2	0.0	6.5	4.6	1.8	3M LIBOR + 4%

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report June 2018

Investment Process

This portfolio is mandated to track the MSCI World ex UK Index, with a performance target of +1% and a tracking error of 1%. The aim is to achieve long-term capital growth from a portfolio of investments in large-cap global companies. Active performance is generated through a quantitative bottom-up investment process, driven by stock selection and based on four concepts: Earnings Expectations, Market Sentiment, Management & Quality and Value.

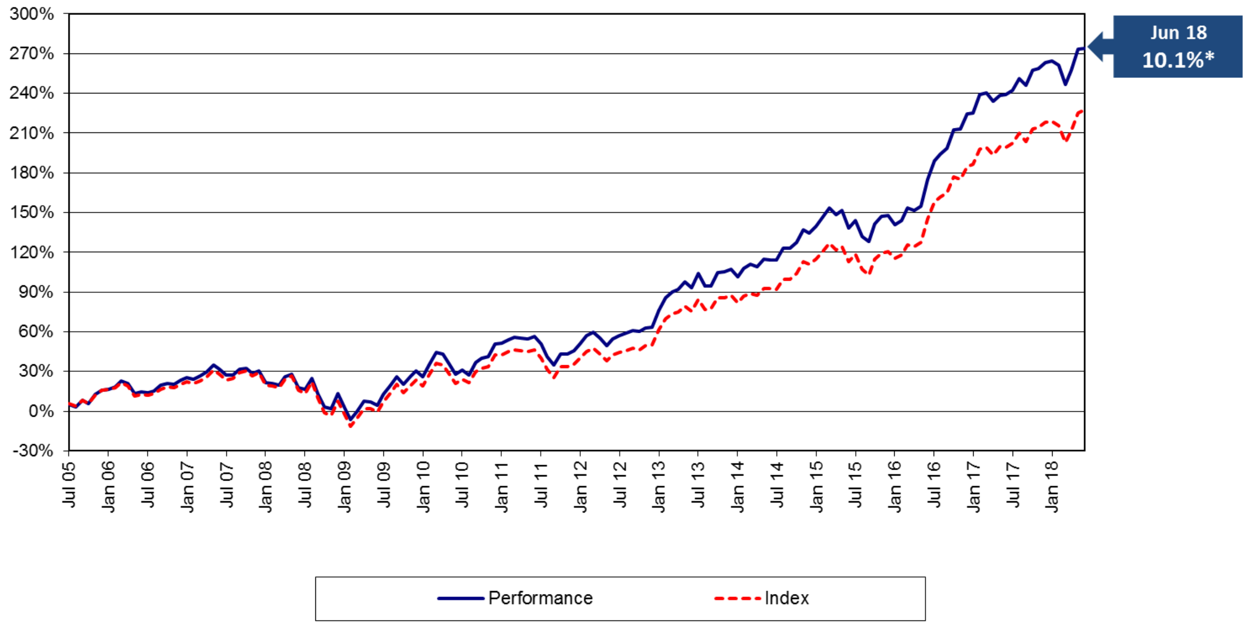
Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£500,748,990	£540,403,488

Performance

Overall during the quarter Invesco's strategy marginally underperformed its benchmark. On a monthly basis it outperformed its benchmark in two out of three months and underperformed in the final month of the quarter. Stock selection was the major influencing factor in all months, making the most positive contribution in the two months of outperformance and was the most significant detractor in the month of underperformance. Performance over the longer term continues to be above the target return of +1%.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	7.8	10.3	16.2	14.1	10.1
MSCI World ex UK	8.0	9.4	15.4	13.3	9.1
Relative Performance	(0.2)	0.8	0.6	0.7	1.0

* annualised, inception date 01/07/2005

Turnover

Holdings at 31.03.18	Holdings at 30.06.18	Turnover in Qtr %	Turnover in Previous Qtr %
453	455	8.8	11.7

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. Top purchases over the quarter included adding Huntmans, Walt Disney and L'Oreal, and increasing their positions in Asahi Glass Co, Host Hotels and Resorts and Hyatt Hotels. Top sales over the quarter came from selling out of positions in Subsea 7, Electrolux B and Taisei Corp and decreasing their positions in Capital Power, Walmart and Comcast.

Largest Overweights

Boeing	0.84%
JPMorgan Chase	0.73%
Citigroup	0.73%
Conocophillips	0.65%
Aflac	0.58%

Largest Underweights

Amazon	(0.64%)
Alphabet	(0.61%)
Netflix	(0.45%)
DowDupont	(0.41%)
Nvidia	(0.36%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£14,313,877
2	Microsoft	£11,093,392
3	JPMorgan Chase	£9,012,727
4	Boeing	£7,143,025
5	Amazon	£6,561,955
6	Facebook	£6,380,369
7	Citigroup	£6,347,043
8	Bank of America	£5,534,527
9	Alphabet	£5,490,075
10	Cisco	£4,839,600

Hymans Robertson View

This is a quantitative global equity strategy run from Invesco’s Frankfurt office. The team aims to implement a factor based strategy in a systematic manner – producing a well-diversified equity portfolio exhibiting a low level of volatility. The portfolio managers carry out a final check on the proposed portfolio/trades but the portfolio construction process is essentially carried out within the model. The strategy has been successful in generating modest levels of outperformance at very low levels of risk.

There were no significant developments over the quarter.

Risk Control

The predicted tracking error of the portfolio slightly increased to 1.06%, compared to a target of 1%, with 94% of the active risk associated with Stock Selection Factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report June 2018

Investment Process

This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. Schroders believe that stock markets are inefficient and they can exploit this by undertaking fundamental research and taking a long term view.

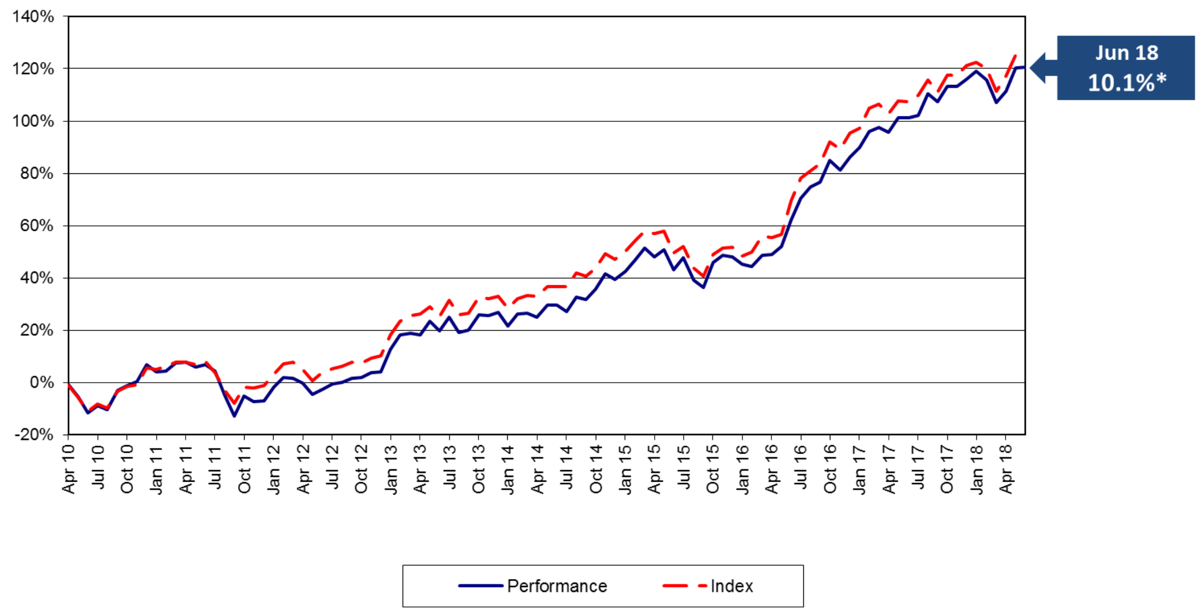
Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£123,755,393	£131,834,349

Performance

The portfolio underperformed against the benchmark over the quarter, reversing some of the gains seen over recent quarters. By sector, stock selection was most challenging in technology, industrials and consumer discretionary, while healthcare holdings were most supportive. From a regional perspective, performance in North America and Japan held back returns, while European holdings were additive.

Schroders Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	6.6	9.7	15.5	13.0	10.1
MSCI ACWI (Net)	6.8	8.9	14.7	12.5	10.4
Relative Performance	(0.2)	0.7	0.7	0.4	(0.3)

*annualised, Inception date April 2010

Turnover

Holdings at 31.03.18	Holdings at 30.06.18	Turnover in Qtr %	Turnover in Previous Qtr %
86	89	9.0	18.5

Purchases and Sales

Several trades were made over the quarter; closing a number of positions as either the investment thesis played out or the stock deviated from the expectations for the business. Proceeds were rotated into higher conviction ideas. Holdings were reduced in TSMC based on Schroders view of the semi-conductor cycle and Heidelberg Cement based on demand in this area. Purchases were made in Continental, a diversified auto supplier and best-in-class tyre manufacturer. Elsewhere, purchases have been made in Bunzl Group, a global leader in non-food consumables. Holdings in Makita have been sold out, as it faces foreign exchange headwinds and rising cost pressures.

Top 5 Contributions to Return

Amazon	0.7%
Estee Lauder	0.6%
Visa	0.5%
United Health	0.4%
Alcoa	0.3%

Bottom 5 Contributions to Return

Comcast	(0.5%)
Reckitt Benckiser Group	(0.5%)
Microsoft	(0.4%)
Proctor & Gamble	(0.4%)
Nestle	(0.3%)

Top 10 Holdings

1	Amazon	£4,329,604
2	Alphabet	£4,219,121
3	Visa	£3,593,571
4	Bank of America	£3,552,805
5	United Health	£3,395,821
6	JPMorgan Chase	£3,350,329
7	Apple	£3,013,564
8	Total	£2,870,136
9	Comcast	£2,773,710
10	Union Pacific	£2,707,376

Hymans Robertson View

Schroder's fundamental equity team has settled down under the leadership of Alex Tedder. We regard his actions in rebuilding the team as being a good foundation for the future and should improve consistency. Although there have been periods in recent years when portfolios focused on fundamental long term growth have struggled in markets dominated by low growth and risk aversion, a more consistent performance record has now been established and we support the broad philosophy of the team. However, Schroders do need to demonstrate more consistent stock selection.

There were not significant changes over the quarter.

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

Lincolnshire Pension Fund
Global Equities – Columbia Threadneedle
Quarterly Report June 2018

Investment Process

The portfolio is designed to outperform the MSCI All Countries World Index by 2% per annum, gross of fees, over rolling three-year periods. The team focus on quality growth companies with high or rising returns on investor capital, and sustained or improving competitive advantage. The focus is on stock selection, with a well-diversified portfolio designed to deliver superior risk adjusted returns.

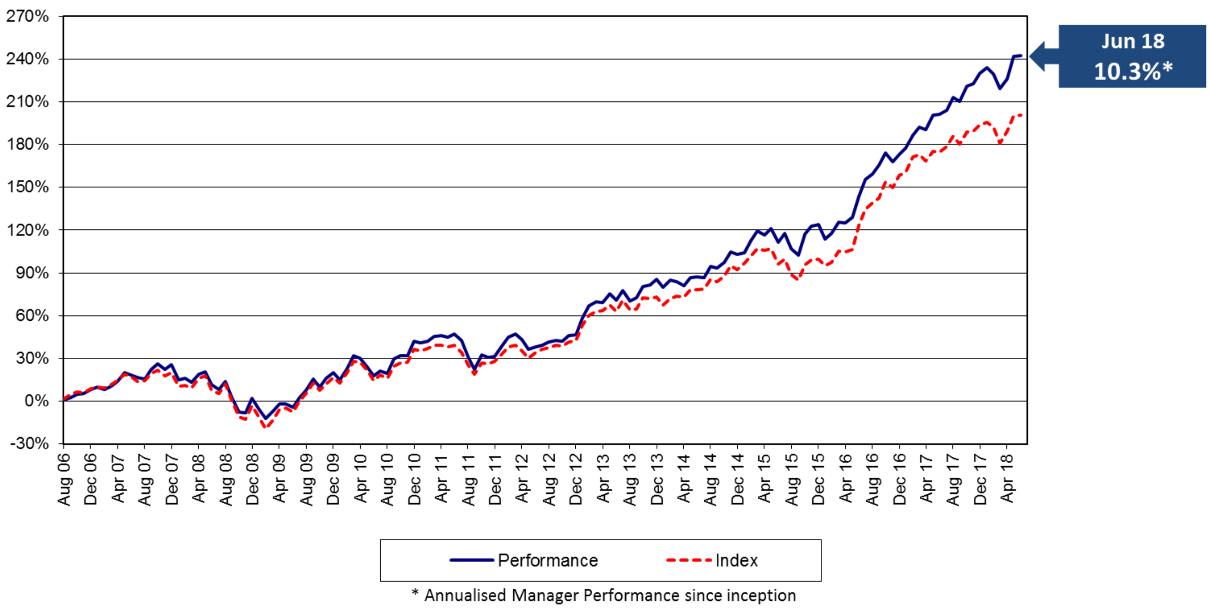
Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£132,967,366	£142,627,006

Performance

Gross of fees, the fund outperformed its index over the quarter, but individually in only one of the three months. Asset and sector selection detracted, owing to the consumer sector being underweight and technology being overweight. Stock selection also detracted, despite strong picks within the materials sector, healthcare and financial stock picks. Top contributors included: e-commerce company Alibaba, gene sequencing specialist Illumina and oil and gas company Diamondback Energy. Detractors included: multinational lighting manufacturer Osram, gaming company Nintendo and Halliburton.

Columbia Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	7.3	13.7	17.4	14.9	10.3
MSCI ACWI	7.0	9.5	15.3	13.1	9.1
Relative Performance	0.3	3.9	1.8	1.6	1.0

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.18	Holdings at 30.06.18	Turnover in Qtr %	Turnover in Previous Qtr %
80	76	12.8	7.8

Purchases and Sales

New positions were initiated in: Adidas, which continues to gain market share and oil field services company Schlumberger due to healthy US pumping and drilling growth. Positions were extended in Lam Research, a semi-conductor equipment manufacturer, who are using technology which is driving share gains. This was funded by the exit from Nike which has seen its valuation becoming rich following a strong run, financial services provider UBS as the company's capital returns are taking longer than anticipated to materialise and Thai bank Siam Commercial as anticipated loans-growth from the improving economic backdrop may be deferred.

Top 5 Contributions to Return

Amazon	0.75%
Alphabet	0.53%
Centene	0.49%
Facebook	0.49%
Mastercard	0.43%

Bottom 5 Contributions to Return

Nintendo	(0.36%)
OSRAM Licht	(0.36%)
PT Bank Rakyat Indonesia	(0.27%)
PagSeguro Digital	(0.26%)
Goldman Sachs	(0.14%)

Top 10 Holdings

1	Alphabet	£5,415,665
2	Amazon	£5,053,992
3	Microsoft	£4,037,315
4	JPMorgan Chase	£3,877,283
5	Alibaba Group	£3,770,350
6	Mastercard	£3,586,061
7	Diamondback Energy	£3,533,779
8	CRH	£3,511,016
9	Centene	£3,418,985
10	Visa	£3,408,973

Hymans Robertson View

The team's investment approach is based on fundamental research with a strong emphasis on inputs from the broader investment research resources at Columbia Threadneedle. The portfolios of around 60 - 70 stocks typically have a growth bias. The team is now well resourced and will hopefully enjoy a period of stability. William Davies is regarded as key to the operation of the team and we will be monitoring whether his expanded role as Head of Equities for EMEA has any detrimental impact in terms of his time spent on portfolio management.

There were no significant developments over the quarter.

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

Lincolnshire Pension Fund
Global Equities – Morgan Stanley Global Brands
Quarterly Report June 2018

Investment Process

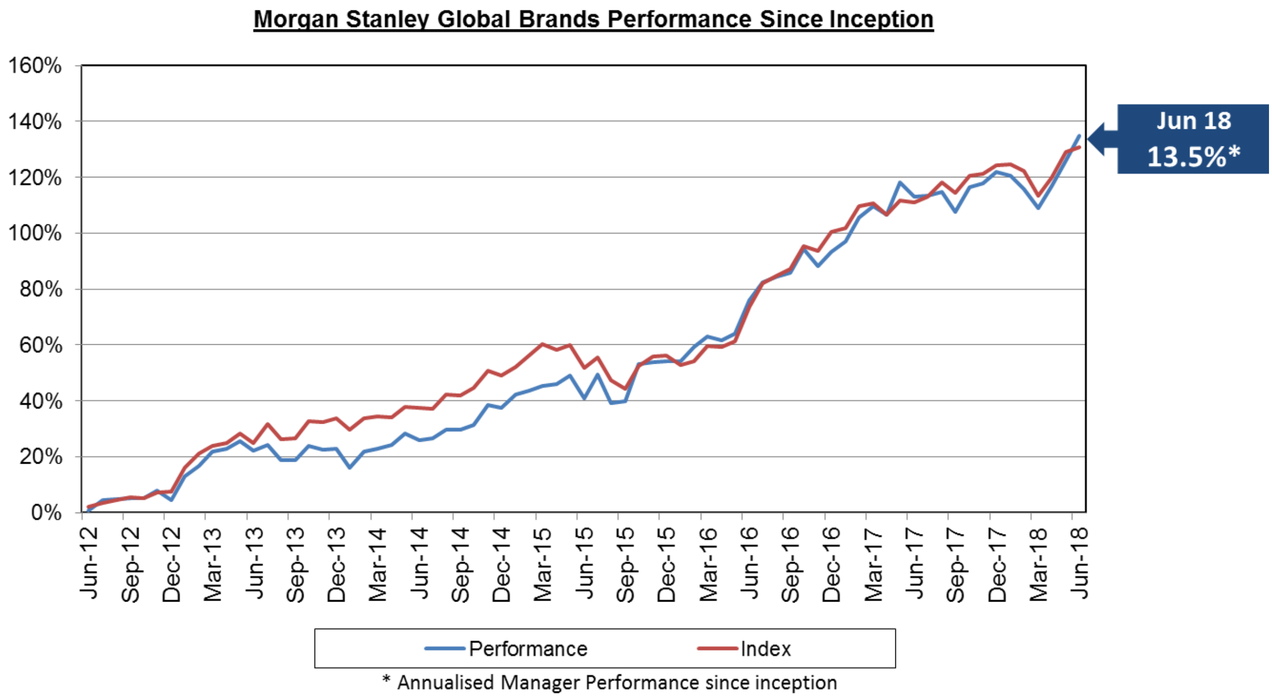
The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong "intangible assets". The Fund is benchmarked against the MSCI World Index. Managers aim to gain an absolute return to the Fund rather than a relative return against their benchmark index.

Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£178,714,621	£200,632,953

Performance

The portfolio outperformed in relative terms over the quarter, returning 12.2% versus 8.1% for the index. Sector allocation was positive as pressure on consumer staples eased off, plus the benefit from being underweight in financials and industrials. Stock selection drove outperformance from the bidding war over Twenty-First Century Fox and from owning the more stable operators in information technology. The largest contributors in absolute performance in the quarter were: Twenty-First Century Fox, Nike and Microsoft. The largest detractors were British American Tobacco, Phillip Morris International and Heineken.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	12.2	10.2	18.6	14.0	13.5
MSCI World Index	8.1	9.3	15.0	13.0	13.2
Relative Performance	3.8	0.8	3.1	0.8	0.3

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter, positions were initiated in Baxter International, a leader in the dialysis and medical solutions business. Holdings in British American Tobacco were reduced from a top 5 to a top 10 holding due to a deterioration in the US market and growth in e-cigarettes. Positions were exited from Intuit, the business and financial software company, due to valuation and International Flavors and Fragrances after the company undertook a major acquisition. Holdings in Disney were completely sold out by the end of the quarter due to bid received from Disney for Twenty-First Century Fox and the cumulative size of holdings in both companies post merger.

Top Contributors to Return

Twenty First Century Fox	2.23%
Nike	1.06%
Microsoft	0.92%

Bottom Contributors to Return

British American Tobacco	(0.60%)
Philip Morris	(0.57%)
Heineken	(0.06%)

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	7.81
Twenty First Century Fox	Media	7.40
Unilever	Personal Products	7.16
Microsoft Group	Software	6.78
Accenture	IT Services	6.62
Visa	IT Services	4.58
British American Tobacco	Tobacco	4.52
Philip Morris	Tobacco	4.42
SAP	Software	4.41
L'Oreal	Personal Products	4.22

Hymans Robertson View

The manager runs concentrated portfolios of 20 - 40 stocks with a strong quality bias, low turnover and low volatility in absolute terms. Companies need to exhibit high returns on capital, be investing to protect their brands and have shareholder friendly management teams. There is a tendency for the portfolio to have large allocations to consumer and technology stocks, often with limited exposure to many other sectors of the market. On a regional basis the strategy is often overweight in UK listed stocks though high levels of revenue earned in emerging markets is a more important feature. The strategy is currently open but with limited capacity available. The long term track record is strong, performing well in relative terms in down markets and generally keeping pace in all but the most extreme up market phases. This provides stability when employed alongside other active equity managers.

There were no significant changes over the quarter.

Lincolnshire Pension Fund
UK Equities – Legal & General (LGIM)
Quarterly Report June 2018

Investment Process

This pooled fund employs a tracking strategy, aiming to replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three. The fund follows a pragmatic approach to managing an index fund, either investing directly in the securities of that index or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£403,792,800	£440,924,723

Performance

Over all periods the portfolio has performed as expected.

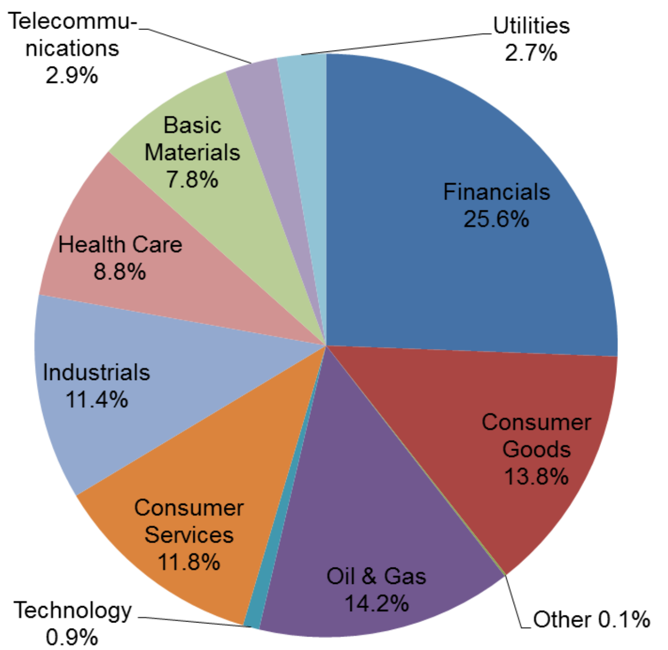
	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	9.2	9.1	n/a	n/a	6.3
Benchmark	9.2	9.1	n/a	n/a	6.1
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised, inception date February 2017

Top Ten Holdings

Company	% Weighting
Royal Dutch Shell A	9.1
HSBC Holdings	5.8
BP	4.6
British American Tobacco	3.6
GlaxoSmithKline	3.0
AstraZeneca	2.7
Diageo	2.0
Vodafone	2.0
Rio Tinto	2.0
Unilever	2.0
Total	**37.5**

Whole Fund Sector Breakdown



Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 2018

Investment Process

Blackrock manage a passive bond mandate for the Pension Fund. The portfolio is made up of three pooled funds; an index-linked bond fund, a corporate bond fund and an overseas bond fund. All three funds are designed to match the return of their relevant benchmarks. The manager uses two methods to manage index-tracking funds; full replication and stratified sampling.

Full replication involves holding each of an index's constituent bonds in exactly the same proportion as the index. This method is used where the number of constituents in an index is relatively low and liquidity is above a certain level.

Stratified sampling is the method used when full replication is not possible or appropriate. This approach subdivides the benchmark index according to various risk characteristics, such as currency/country, maturity, credit rating, sector of issuer etc. Each subset of bonds is then sampled to select bonds for inclusion within the pooled fund.

The table below shows the indexing method for each of the three pooled funds in which the Fund invests.

Pooled Fund	**Indexing Method**
Aquila Life Corporate Bond All Stocks Index Fund	Sampled
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	Full Replication
Aquila Life All Stocks UK Gilt Index Fund	Sampled

Portfolio Valuation

Portfolio	**31.03.18 £**	**30.06.18 £**
Corporate Bond All Stocks Index Fund	68,069,339	67,998,449
Over 5 Years UK Index-Linked Gilt Index Fund	42,252,449	41,744,814
All Stocks UK Gilts*	27,482,479	27,539,092
Cash (residual)	1	1
Total	**137,804,268**	**137,282,356**

*Switched from Overseas Bond Index Fund in February 17

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Blackrock	(0.4)	1.4	7.3	6.7	6.4
Composite Benchmark	(0.4)	1.3	7.2	6.5	6.3
Relative Performance	0.0	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

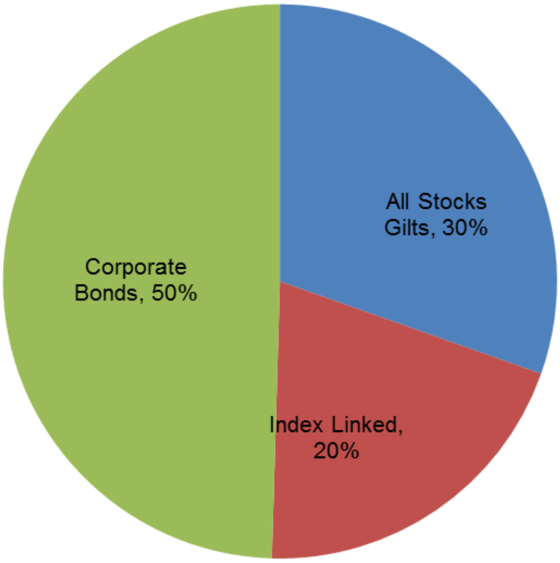
There were no significant developments within the Index Fixed Income team over the quarter.

Allocation

The target allocation between the three funds is:

Aquila Life Corporate Bond All Stocks Index Fund	50%
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	30%
Aquila Life All Stocks UK Gilt Index Fund	20%

The pie chart below shows the allocation as at 30th June 2018.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report June 2018

Investment Process

Since the termination of BMO's Absolute Return bond fund, that element of the Fund's asset allocation has been temporarily housed in an interim Blackrock fund of short dated corporate bonds. The fund is managed passively, and aims to achieve index returns in line with the iBoxx Sterling Non-Gilts 1-5 Year Index.

Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£126,292,803	£126,875,984

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	0.5	0.6	n/a	n/a	1.0
Benchmark	0.4	0.6	n/a	n/a	1.0
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

There were no significant developments within the Index Fixed Income team over the quarter.

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 2018

Investment Process

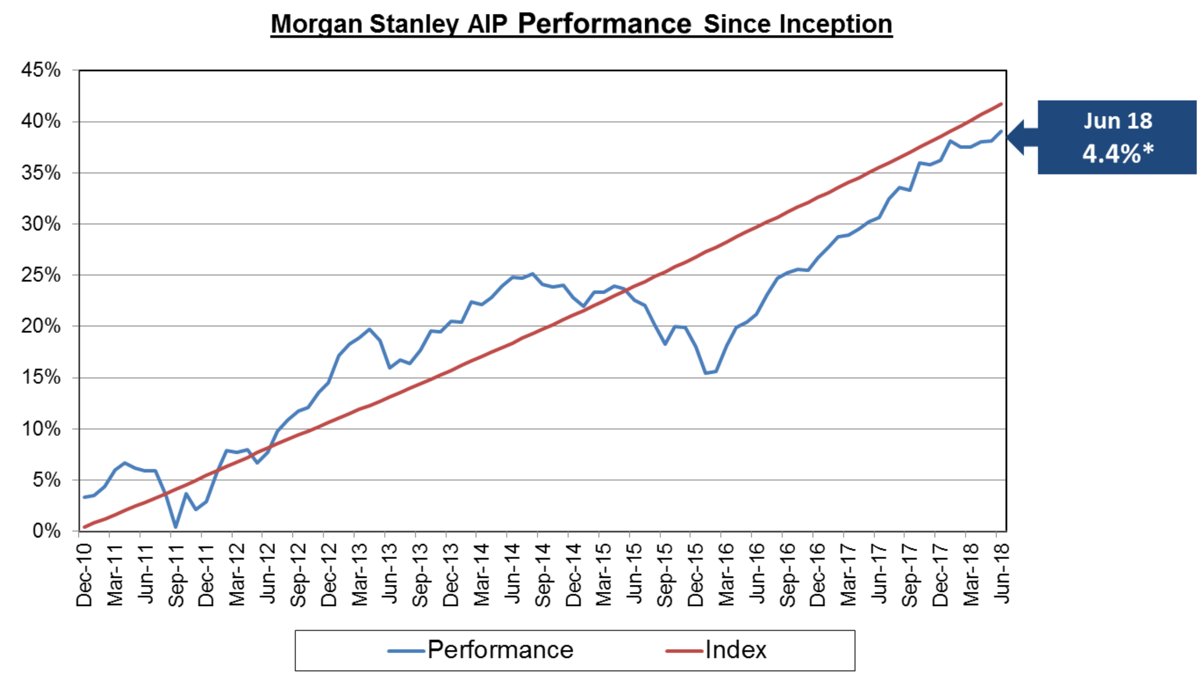
Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement the existing Fund allocation. The manager has a target to beat the return of 3 Month LIBOR + 4%. Morgan Stanley also manage the legacy private equity investments, however they are excluded from this report.

Portfolio Valuation

Value at 31.03.18	Value at 30.06.18
£280,714,740	£288,073,606

Performance

The total alternatives portfolio returned +1.1% during this quarter. Positive contributions from private markets and hedge funds led returns, offsetting declines across frontier/emerging markets assets and catastrophe insurance. Tactical decisions and manager selection modestly added to returns. Within manager selection, frontier equity, inflation linked assets and hedge funds particularly outperformed.



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	1.1	6.5	4.3	3.7	4.4
3 Month LIBOR + 4%	1.2	4.6	4.6	4.6	4.7
Relative Performance	0.0	1.8	(0.3)	(0.9)	(0.3)

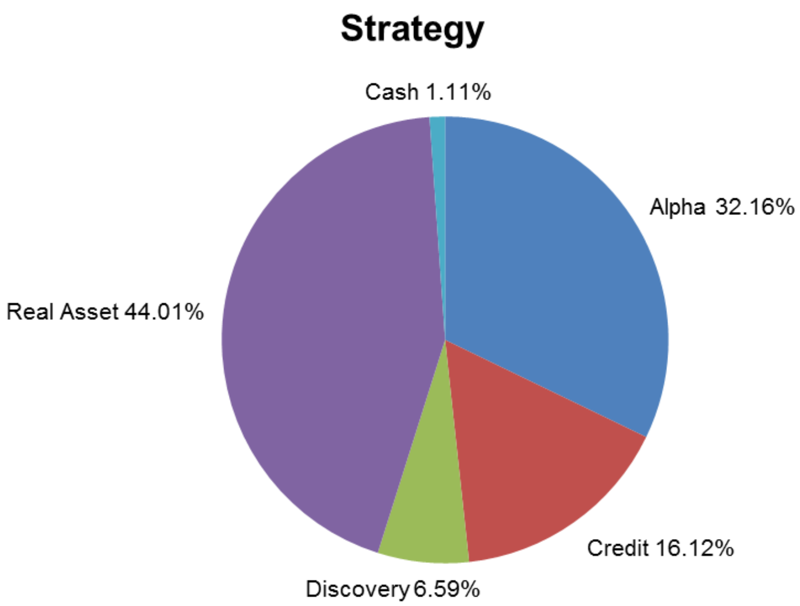
* annualised since inception date 24/11/2010

Allocation

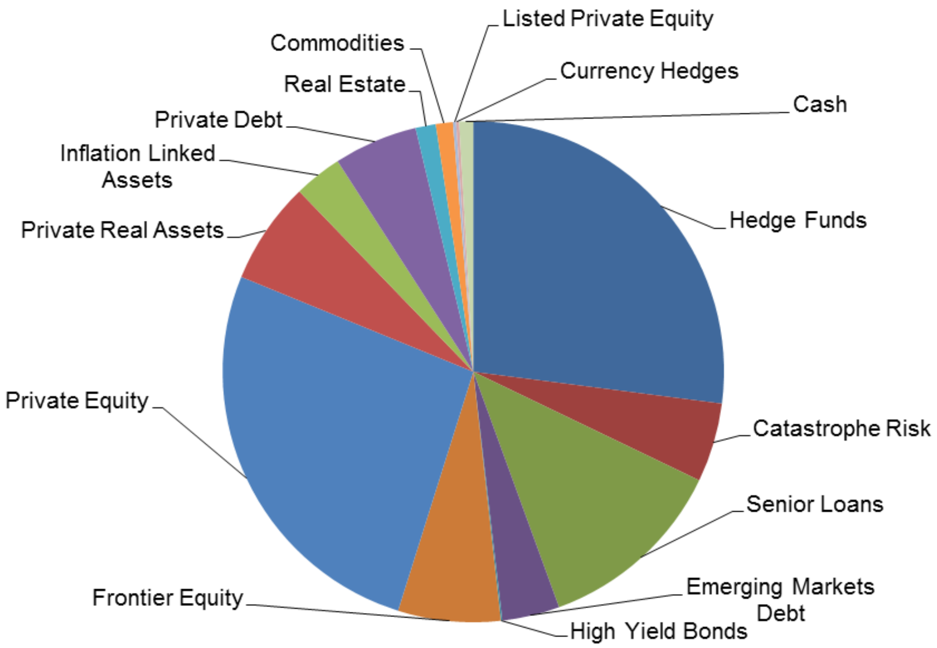
Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising five different asset allocations:

- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.
- **Credit** These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.
- **Discovery** These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

The pie charts below show the strategy and asset class positions of the Morgan Stanley portfolio as at 30th June 2018.



Asset Class



Portfolio Outlook

Until recently, Morgan Stanley's base case for 2018 had been that the global economy would see a continuation of the growth momentum enjoyed in 2017, despite some soft patches outside the U.S. (most notably in Europe) in the first quarter. However, activities struggled to pick up in Europe, and there has also been a further deceleration in indicators in China and emerging markets. It appears that Trump's combative rhetoric on trade has weighed on sentiment and potentially global growth. As the U.S. goes ahead with plans to impose tariffs on an additional $200 billion in Chinese imports and China vowed to take the necessary countermeasures, the probability of a full-blown trade war is much higher and it could undermine the global growth meaningfully. Furthermore, the global economy continues to face an incremental tightening in financial conditions.

Emerging markets suffered broadly in the second quarter on the strengthening US Dollar, rising bond yields and increased trade tensions. These markets are likely to remain under pressure given ongoing trade war concerns and country-specific risks. However, the robust policy response from many countries and cheaper valuations are making many markets look more attractive.

Looking ahead, the second half of the year is likely to remain beset by ongoing uncertainty, and as a result portfolio positioning is more cautious and will rely on value creation from hedge funds and private markets. Morgan Stanley are currently managing a very active pipeline in real assets, including a fund commitment in less developed infrastructure markets and an exclusive negotiation to restructure the ownership of two existing power generation assets in the UK managed by a specialist asset manager. In private debt, they are in the process of finalising a complementary real estate debt commitment that they believe is well placed to benefit from opportunities in the US. Lastly, they are in the process of finalizing a complex but highly attractive restructuring investment for the private equity portfolio that is focused on a private company with significant near term upside potential.

Hymans Robertson View

This strategy offers exposure to a broad range of alternative assets. Morgan Stanley employs an open architecture approach, investing through both internal and external fund managers. For liquidity purposes the portfolio has historically maintained a high allocation to hedge funds. In addition, the strategy is designed to remain fully invested and the manager will not make active use of cash or fixed income to preserve capital during stress periods in markets.

Notification of a key person change at Morgan Stanley Alternative Investments has been received after the end of this reporting quarter. Hymans Robertson is currently reviewing the manager rating in light of this change. A verbal update will be given at the meeting if further information is available.

Risk Control

Portfolio volatility since inception is 3.6%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 5.84%, outperforming the benchmark which returned 5.36%.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a Risk Register which can be obtained by contacting the author of this report.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Pension Fund Risk Register Review Report**

Summary:

This report brings back to the Committee a copy of the Lincolnshire Pension Fund's Risk Register along with an analysis of the risk registers of other partner funds within Border to Coast Pensions Partnership and a comparison to the Lincolnshire register.

Recommendation(s):

That the Committee note report and consider if there are any further risks which should be incorporated into the Lincolnshire Pension Fund risk register.

Background

1. At the Committee meeting in July members of the Pensions Committee undertook the annual review of the Pension Fund Risk Register. As part of this review the Pensions Committee asked officers to consider the Lincolnshire Pension Fund risk register in comparison to the eleven other partner funds within Border to Coast Pensions Partnership.

2. This review has been requested to provide the Committee with assurances that the risks captured for the Lincolnshire Pension Fund are in line with those of other similar organisations. It is also an opportunity for the Committee to consider, if there are any variances, whether any further risks should be added onto the Lincolnshire risk register.

3. **Appendix A** is the current Pension Fund risk register. Twenty-seven risks have been identified, along with the controls in place to mitigate them. The significant and moderate risks from the risk register have been compared to the other eleven funds. A commentary on the findings is set out in paragraphs 4 to 9 below.

Significant Risks

4. The Lincolnshire Pension Fund Risk Register identifies just one significant risk. This relates to:

    - Economic uncertainty due to the UK leaving the EU. This may lead to volatility of markets, lower gilt yields and increasing inflation leading to higher liabilities (risk 22).

5. This has been identified by a number of the other funds as a significant risk, and as a moderate risk by other funds.

6. Other funds have also identified the following areas as posing a significant risk for them:

    - The transition to asset pooling (ranging from loss in asset value to the ability of the new asset pooling companies to deliver value for money/savings). *Lincolnshire has this as a moderate risk (risks 19 & 27).*

    - Solvency issues arising from reduced asset returns which would force an increase in employer contributions. *Lincolnshire has this as a moderate risk (risks 6-8).*

    - Inaccuracies in actuarial assumptions (including pay increases, prices inflation and pensioner longevity varying significantly from the assumptions used by the actuary), again leading to an increase in employer contributions. *Not included within Lincolnshire risk register.*

    - The impact of Markets in Financial Derivatives Directive II (MIFID II) and the ability of funds to demonstrate they meet the new requirements on an ongoing basis. *Lincolnshire has this as a low risk (risk 26).*

    - Appropriately qualified and experienced staff. *Lincolnshire has this as a moderate risk (risk 3).*

Moderate Risks

7. The Lincolnshire Pension Fund Risk Register identifies sixteen moderate risks. In addition to the above moderate risks the Lincolnshire Risk Register also includes:

    - Risks associated with pension's administration. Including:

        - The inability to deliver an effective pensions administration service in accordance with statute and the agreement in place with West Yorkshire Pension Fund (risk 2);

- Contributions from employers are not collected, miscoded or not paid. Impacting on employer accounting reports, valuations and pension fund accounts and cashflows (risk 1); and

- Incorrect calculation and payment of pensions, damaging the pension fund reputation and incurring financial loss (risk 4).

- Custodian bank goes bust, with the consequence of the fund not being able to settle trades and having no accounting or performance services (risk 5).

- Fraud risks not effectively managed leading to financial losses and damaged reputation (risk 14).

- Increasing employer numbers and/or reducing convenient strengths, will increase workloads which could lead to incorrect rates being paid (risk 16).

- Maturing fund, effecting cashflow and the pension funds ability to pay pensions which may cause contribution rates to rise (risk 17).

- Employer data issues – specifically relating to the fund's largest employer, Lincolnshire County Council. Data not submitted on time or accurately could lead to: missing statutory deadlines, calculating members pensions and accrued benefits incorrectly and possibly setting an incorrect contribution rate for the employer (risk 21).

- Cyber security breach, including pension's admin system data and third party service provider data (risk 23).

- Non-compliance with new information governance legislation – General Data Protection Regulation (GDPR) (risk 24).

8. These risks have also been identified by a large number of the other funds within their risk registers.

9. In addition to the significant and moderate risks already identified in the Lincolnshire Pension Fund risk register above. Other funds have also identified the following areas as posing a moderate risk for them:

- Pension fund committee members having insufficient knowledge and advice to make correct decisions. *Not included within Lincolnshire risk register.*

- Inability to implement changes to the scheme design within statutory time requirements. *Not included within Lincolnshire risk register.*

- Failure to complete the reconciliation between pension fund and Department of Work and Pensions records for the Guaranteed Minimum Pension within the deadline set by government (GMP rec). *Not included within Lincolnshire risk register.*

- Conflicting work priorities for both fund and administration leading to lack of direction and missed opportunities. *Not included within Lincolnshire risk register.*

10. Generally the risks identified in the Lincolnshire Pension Fund Risk Register are in line with the other Border to Coast funds. The significance of the risks may vary between funds, although this is to be expected as the sizes, maturity and geographic location of funds also vary.

11. The review also identified a small number of risks which do not currently form part of the Lincolnshire Pension Fund risk register (highlighted in paragraphs 6 and 9 above). The Committee may wish to consider if any of these risks pose a threat to the Lincolnshire Fund and should be added to the risk register.

Conclusion

12. A review of the Lincolnshire Pension Fund Risk Register in comparison to the risk registers of the eleven other Border to Coast Pension Funds has been undertaken. Although the format and detail contained within the risk registers varies between funds the overarching themes and content are broadly similar. Variances have been brought to the Pensions Committees attention for consideration.

13. This review should provide the Committee with reasonable assurance that the Lincolnshire risk register is appropriate and fit for purpose.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Risk Register

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

APPENDIX A

Pension Fund
RISK REGISTER
Jo Ray

Areas covered

Pension Fund Governance & Strategy
Pensions Administration
Pension Fund Investments

Service Objectives

1	Ensure there are enough assets to cover liabilities in the long term
2	To prepare the final accounts for the Pension Fund to the agreed timetable
3	To monitor all investments to ensure they are fit for purpose and within the targeted risk and return levels
4	To monitor the external investment managers and service providers to ensure they are acting within their IMA and/or SLA
5	To work in partnership with WYPF to ensure an effective and efficient Pensions Administration Service is provided
6	To ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due

Sort by Risk ID

Refreshed July 2018

Sort by Current Overall Risk Score

ID	Date added	Linked to Objective	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score: L	Current Risk Score: I	Overall Current Risk Score
1		5	Contributions of payments of pensions ● Non-collection ● Miscoding ● Non-payment	If it doesn't get discovered it effects employers accounting report and Valuation,final accounts and cashflow in pension fund	Jo Ray	Employer contribution monitoring Additional monitoring at specific times Reconciliations Improved employer contribution data Monthly returns checks UPM employer module Ongoing employer training	Good	Jo Ray	1	3	3
2		5	Inability to deliver the service either resource or finance in accordance with the agreement	Members of the pension scheme not serviced Statutory deadlines not met	Jo Ray	Performance Indicators General management indicators Bi-monthly meetings with WYPF Horizon Scanning Internal Audit Service Level Agreement Response to Audit Reports in the form of action plans Benchmarking & performance data Process management Error reporting Complaint reporting Customer Surveys	Good	Jo Ray	2	3	6
3		2,3,4,5	Loss of key staff and loss of knowledge & skills	Inability to deliver service Statutory requirements not met Damaged reputation Pensioners not paid Inability to make investment/administration decisions Loss of professional investor status under MIFIDII	Jo Ray	Diversified staff / team Look at other authorities with best practices to ensure LCC positions still desirable Attendance at pensions user groups, both WYPF and LCC Procedural notes which includes new systems as and when (LCC & WYPF) Section meetings / appraisals (LCC & WYPF) Regular team building (LCC & WYPF)	Fair	Jo Ray	2	2	4
4		5	Calculating and paying pensions correctly	Damaged reputation Financial loss	Jo Ray	Internal control through audit process Constant monitoring / checking Quality standard at WYPF Process management NFI and Tracing services Data Cleansing	Good	Jo Ray	2	2	4
5		4	Custodian bank (J P Morgan) goes bust	Inability to settle trades No reconciliation, accounting or perfoemance service Loss of access to cash accounts	Jo Ray	Service level agreement with termination clause Regular Meetings Regular control reports Other Custodian options - review markets	Good	Jo Ray	1	3	3

ID	Date added	Linked to Objective	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score: L	Current Risk Score: I	Overall Current Risk Score
6		1,3,4	Poor investment performance from managers	Lower funding level Increase in employer contributions	Jo Ray	Performance measurement Managers report monthly Reporting to pensions committee Diversification across managers Manager meetings	Good	Jo Ray	2	3	6
7		1	Assets not enough to meet liabilities	Lower funding level Increase in employer contributions		Valuation Asset Liability Study Quarterly reporting of funding level Professional advice	Good	Jo Ray	2	3	6
8		1	Required returns not met due to poor strategic allocation	Damaged reputation Increase in employer contribution	Jo Ray	Professional advice Triennual review Performance monitoring Monthly Members letter Reporting to Pensions Committee	Good	Jo Ray	2	3	6
9		4	Non compliance of external managers	Damaged reputation Financial loss	Jo Ray	FSA regulated Manager due diligence Investment Management Agreements Manager monitoring Report quarterly to team Review every 3 years Qualified officers Additional managers meetings Termination clause	Good	Jo Ray	1	2	2
10		1,3,4	Financial regulations (e.g LCC / CIPFA) and statutory requirements not adheared to / legal guidelines not followed	LCC may incur penalties Damaged reputation Intervention from Secretary of State Intervention from the Pensions Regulator	Jo Ray	Underlying regulation of Fund Managers FM control reports Contracts in place setting out parameters LCC staff appropriately qualified and aware of policies and procedures Pension Fund managed in line with statutory regulations Membership of CIPFA Pensions Network, PLSA etc. Pension Board	Good	Jo Ray	1	2	2
11		1,3,4,5	Financial or administration decisions challenged	Ombudsman report reported to TPR	Jo Ray	Performance monitoring and reporting Monthly and quarterly reporting Admin processes and procedures	Good	Jo Ray	1	1	1
12		3,4	Personal gain (internal or external) through: • Fraud or misappropriation of funds • Manipulating share price	Financial loss Damaged reputation	Jo Ray	Declaration of interests Investment Management Agreements with Fund Managers Vetting of new Fund Managers through tender process Access restricted regarding transfer of funds - authorised signatories required Regulation of Fund Managers Insurance arrangements Code of Conduct Separation of duties	Good	Jo Ray	1	1	1
13		2	Financial Statements of Pension Fund incorrect or late	Damaged reputation Qualified accounts	Jo Ray	Agreed timetable Externally audited Qualified and trained staff Closedown procedures	Good	Jo Ray	1	2	2
14		1,3,4,5	Fraud risk not managed	Financial loss Damaged reputation	Jo Ray	Separation of duties Internal & external audit Monthly reporting Reconcilliation procedures	Good	Jo Ray	1	3	3

ID	Date added	Linked to Objective	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score: L	Current Risk Score: I	Overall Current Risk Score
15		1,2,3,4,5	Governance requirements not met	Financial loss Damaged reputation Legal issues	Jo Ray	Governance compliance statement Pension Committee reporting Monthly member letter Investment Strategy Statement Funding Strategy Statement Trained Committee members and officers Pension Board	Good	Jo Ray	1	2	2
16		2,5	Increasing employer numbers and/or reducing covenant strengths	Increased workload Incorrect rates paid	Jo Ray	Admission agreements Bonds Employer covenant monitoring Contribution monitoring Employer communication and PFR roles	Good	Jo Ray	3	2	6
17		1,6	Maturing Fund	Cashflow issues to pay pensions or commitments Increasing employer rates	Jo Ray	Investment strategy Cashflow monitoring Discourage opt outs 50/50 scheme option Communication	Fair	Jo Ray	3	2	6
18		1,5	Pension Freedom and Choice rules	Impact on cashflow Process not followed	Jo Ray	Value of transfers monitored	Good	Jo Ray	1	2	2
19		1,3,4,6	Asset pooling - management of relationship with BCPP	Inability to implement asset allocation decisions Increased costs Reduced returns	Jo Ray	Joint Committee Officer operation group Senior officer group	Fair	Jo Ray	2	3	6
20		5	Employer breaches	Reporting to TPR Fines to employers Reputational risk to LCC and WYPF	Jo Ray	Make employers aware of responsibilities through Admin Strategy and training Reporting breaches procedure Contribution monitoring	Good	Jo Ray	1	2	2
21		5	Data issues with LCC	Data not submitted on time or accurately Statutory deadlines missed Members missing starter/leaver information Incorrect pensions paid/accrued to members Incorrect contribution rate for LCC calculated	Jo Ray	Monthly meetings with County Finance Officer Concerns reported to Pensions Committee and Pension Board Concerns raised directly to employer	Fair	Jo Ray	3	2	6
22		1,6	Economic uncertainty due to UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Jo Ray	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	Poor	Jo Ray	4	3	12
23		4,5	Cyber security breach	Systems hacked Loss of Admin system leading to being unable to calculate and pay pensions Loss of data from third party service providers and managers	Jo Ray	WYPF and Bradford Council policies LCC policies External provider control reports	Good	Jo Ray	2	3	6
24		4,5	Non-compliant in Information Governance - incl. GDRP compliance	Risk of fines Reputational risk Personal/sensitive data in the wrong hands	Jo Ray	WYPF policies Reporting to Committee LCC policies	Fair	Jo Ray	2	3	6
25		1,3	Failure to meet requirements as a responsible investor - across all ESG risks	Reputational risk, loss of Fund value	Jo Ray	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	Good	Jo Ray	1	2	2

ID	Date added	Linked to Objective	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	Owner	Current Risk Score: L	Current Risk Score: I	Overall Current Risk Score
26		1,3,4	Failure to maintain professional investor status following the implementation of MIFIDII	Fire sale of assets, inability to implement investment strategy	Jo Ray	Use of LGA/SAB templates and letters, trained Committee, professional officers, use of investment advisors and consultants	Good	Jo Ray	1	2	2
27		1,3,4,6	Asset pooling - transition of assets	Inability to implement asset allocation Impact on performance of costs	Jo Ray	Officer operations group Workstreams within Border to Coast Communicate to Committee regularly S151 meetings	Fair	Jo Ray	2	3	6

Lincolnshire COUNTY COUNCIL
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Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Performance Measurement Annual Report**

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2018.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

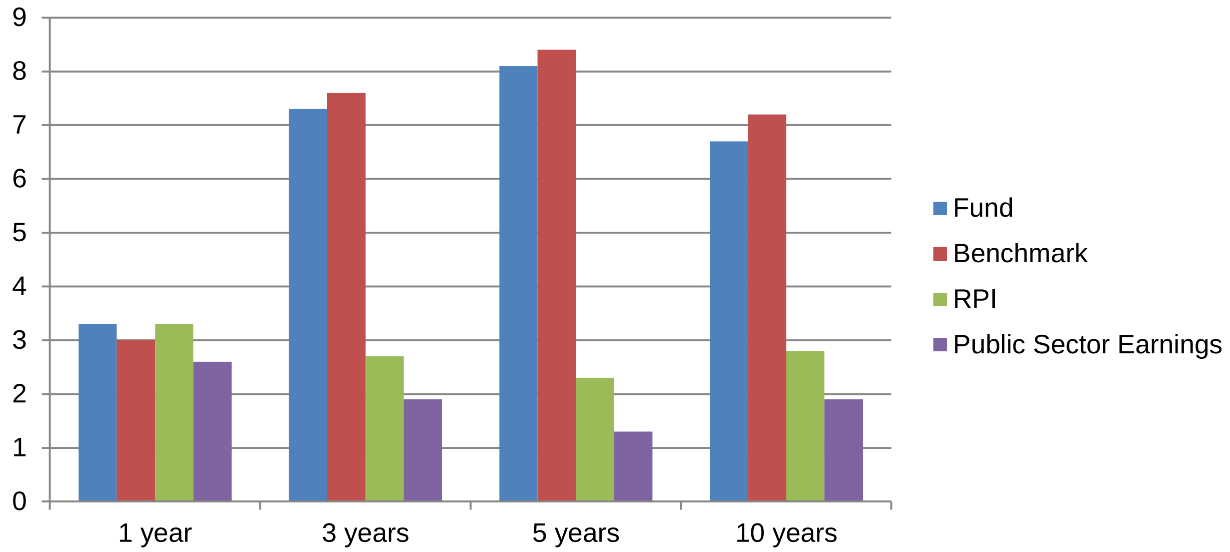
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance: JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary) and PIRC compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 0.75% per annum.

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2018

2.1 The short term performance of the Fund and the performance of its managers are reported in the quarterly Investment Management report. This report focuses on the longer term performance of the Fund overall, compared to its strategic benchmark and the pay and price increases that impact the liabilities of the Fund. At the latest valuation, as at March 2016, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.0% over the long term.

2.2 The graph and table below shows longer term Fund and Benchmark performance, along with the increases in consumer prices and public sector earnings.

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2018



	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	3.3	2.7	2.3	2.8
Public sector average Earnings increases	2.6	1.9	1.3	1.9
LCC Fund performance	**3.3**	**7.3**	**8.1**	**6.7**
LCC Benchmark Performance	**3.0**	**7.6**	**8.4**	**7.2**
Relative Performance	**0.3**	**(0.3)**	**(0.4)**	**(0.3)**

2.3 **10 Year Returns**

The Fund's performance over ten years, at 6.7%, is slightly behind the Fund's Benchmark return of 7.2%, with the gap having closed since last year. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 2.8% and 1.9% p.a. respectively. The biggest impact on performance over this period is from 2010. This was a result of a number of asset allocation change made over the year and those changes not reflected in the benchmark until they were all complete. This drift from the benchmark over the year negatively impacted the performance as can be seen in the table at paragraph 3.4.

2.4 **5 Year Returns**

Five year returns of 8.1% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 8.4%. This reflects the underperforming active managers over the period.

2.5 **3 Year Returns**

Three year returns, at 7.3%, are again ahead of both inflation and average earnings, but behind the strategic Benchmark return of 7.6%. This reflects underperformance by the active global equity manager, Neptune and the absolute return bond manager, BMO, both of whom were terminated in 2016.

3 ATTRIBUTION ANALYSIS

3.1 The attribution of the return over any period can be split between asset allocation and stock selection.

3.2 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted from performance, compared to the benchmark.

3.3 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.

3.4 The Fund's annual performance over each of the last ten years compared to the Benchmark is set out in the table below. There is an equal split between stock selection and asset allocation in terms of detractors across the ten year period. This table highlights the impact of the benchmark drift in 2010, mentioned in paragraph 2.3, which resulted in an under performance of over 5%. Since the termination of the two managers in 2016, stock selection (i.e. managers' performance against their benchmark) has been positive.

3.5 The underperformance on asset allocation in 2018 is solely attributable to the active currency overlay program. Both managers were terminated in February 2017, however the outstanding currency positions were unwound over the following year, fully closing in February 2018.

3.6 Under asset pooling, the Pensions Committee will remain responsible for the asset allocation, however Border to Coast will be accountable for the stock selection element of the Fund's performance.

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2009	(18.6)	(20.0)	**1.7**	2.1	(0.4)
2010	29.7	36.7	**(5.1)**	(3.1)	(2.1)
2011	7.9	7.8	**0.1**	0.1	0.0
2012	1.5	2.4	**(0.8)**	(0.2)	(0.6)
2013	12.6	11.3	**1.2**	0.1	1.1
2014	6.3	6.2	**0.1**	0.2	(0.1)
2015	12.3	12.4	**(0.1)**	(0.1)	0.0
2016	0.0	1.4	**(1.4)**	(0.6)	(0.8)
2017	19.8	19.3	**0.3**	0.0	0.3
2018	3.3	3.0	**0.3**	(0.4)	0.7

4 PIRC LOCAL AUTHORITY UNIVERSE

4.1 The PIRC Local Authority (LA) Universe is an aggregation of 61 funds covering £177bn of assets within the LGPS sector, and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar two of the London Pool, and with funds from all other pools except Central.

4.2 Despite a relatively difficult environment for investors the average local authority fund produced a return of 4.5% for the year. This was below the long term average but the return was ahead of inflation and broadly in line with actuarial assumptions, and most funds outperformed their benchmarks by a small margin. Asset returns were tightly grouped with bonds, equities and alternatives returning 1%, 4%, and 6% respectively for the year.

4.3 Since the 1990's, Funds have been using specific strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. This means that comparison across the Universe can be misleading, as funds are trying to meet their own return requirements rather than compete for the highest return. The asset allocation of the Fund was last formally considered at the January 2017 meeting of this committee following the 2016 triennial valuation results, and the high level growth/low risk asset allocations agreed. This was reconsidered at the training session on 11th September (and detailed in paper 10 on this agenda), in light of the transition of assets across to Border to Coast, as a result of asset pooling.

4.4 The table below shows how the strategic asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2018 and 2017.

Asset Class	**Lincolnshire**	**LA Average**	
		2018	**2017**
Equities	60.0	55	62
Bonds	13.5	18	15
Property	9.0	8	8
Infrastructure	2.5	3	2
Alternatives	15.0	8	8
Cash	0.0	3	2

4.5 Within the LA Universe, there has been a reduction in equities, a decrease across other asset classes.

4.6 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. Strategic benchmarks, and the overall return requirement, is linked to the individual liability profiles of each fund, and their funding levels. The most important performance comparison is actual performance against the individual funds strategic benchmark.

4.7 The performance of the Fund against the average of those Funds subscribing to the Local Authority universe ranked at the 63rd percentile over three years, moving up slightly from 65th percentile last year.

4.8 The table below shows the improving position of the Lincolnshire Fund in the LA Universe over 3, 5 and 10 years.

	3 years annualised %	5 years annualised %	10 years annualised %
LCC Fund performance	**7.3**	**8.1**	**6.7**
Universe Average	**8.3**	**8.8**	**7.7**
Ranking	**63**	**70**	**84**

Conclusion

5.1 The Pension Fund's investment performance of 6.7% over the 10 year period ended 31st March 2018 was slightly behind the strategic benchmark of 7.2%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.0% per annum.

5.2 Looking at the individual years, there was a positive contribution from stock selection in the year ended March 2018, and a negative contribution from asset allocation, however overall performance was positive.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**4 October 2018**
Subject:	**Asset Pooling Update and Investment Strategy**

Summary:

This report updates the Committee on activity within Border to Coast Pensions Partnership, and considers how the Fund's investment strategy may be implemented in the asset pool.

Recommendation(s):

That the Committee:

1) notes the report;
2) considers the recommendations on asset allocation and investment strategy as follows:
   a) as the opportunities arise, to reduce UK equities by 5% in favour of diversifying assets, to be allocated following further discussion at a future committee meeting.
   b) to commit to the transition of the current Global Equity (high conviction active) assets to the Global Equity Alpha sub-fund within Border to Coast.
3) delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree the transition of Fund assets following appropriate due diligence.

Background

1. As the Committee are aware, the Lincolnshire Fund has been working closely with 11 other partner funds since 2015, to create the asset pool now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last update given at the July meeting of this Committee, when Border to Coast had become fully operational, progress continues to ensure that the company is fully resourced to manage the assets of the partner funds. This paper will summarise the key progress points to date, and outline the current expectations for the transition of the Fund's assets and any potential asset allocation changes for consideration.

Border to Coast Update

2. Border to Coast now has £7bn of assets under management, following the transition of a large part of the internally managed assets of three of the partner funds. Work is also continuing on the externally managed fund capability, with the planned launch of the UK Equity fund in Q4 2018, and a Global Equity fund in Q1 2019. The process for selecting and monitoring managers, developed with input from the partner funds and Mercers, was also approved by the Board and reported to the Joint Committee.

3. Recruitment has continued to build the structure required to manage the partner fund assets. The key role of Chief Investment Officer had been undertaken by John Harrison in an interim basis, but has now been filled permanently, after the appointment of Daniel Booth, who started in early September. Daniel has significant experience across all asset classes and markets as well as in building investment functions for asset owners. He was previously responsible for leading the investment team responsible for pensions, insurance and endowment portfolios at Saudi Aramco (the Saudi Arabian Oil Company).

Joint Committee Meetings

4. The Joint Committee (JC) last met on 10th July 2018, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the highlights:

- Shareholder Director appointment – following nominations and voting, Cllr John Weighall and Cllr Sue Ellis were selected as Shareholder Directors. This will be put to the Board for ratification and to shareholders for consent.

- Chairman and Vice Chairman of JC - following nominations and voting, Cllr Doug McMurdo (Bedfordshire) and Cllr Tim Evans (Surrey) were selected as Chairman and Vice Chairman respectively.

- Project and strategic updates – the JC were updated on progress to date, the governance charter, possible performance measures, the conflicts of interest policy, transition planning, the UK equity sub-fund launch, and the capability build of the alternatives platform.

- Scheme member representation on the JC – representation of scheme members using the current representatives on local Boards was approved, with a paper to be brought to the November meeting to agree process and number of representatives.

5. The next JC meeting is being held on 21st November and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

Advisor Days

6. An advisor day was held in September for the partner fund's investment consultants and advisors to enable them to meet the senior management team and to provide an update on the sub-funds being.

Transitions

7. One of the initial principles in creating Border to Coast was that costs of the initial transitioning assets into the pool would be done in an equitable way. Opinion from Legal Counsel regarding the sharing of transition costs was received and Border to Coast has been liaising with MHCLG regarding options for the Partner Funds.

8. The simplest way to avoid any potential issues is for asset changes to be transitioned from the initial portfolios to the model portfolios within the sub-fund ACS. When actioned in here, all funds take a proportionate cost of transition relative to the assets they will have under management in the new sub-fund. In some instances, particularly in some overseas markets, it is more tax efficient for assets to be transitioned outside of the ACS, but this does not currently allow for transition costs to be shared across partner funds. As part of the transition planning process, Border to Coast will provide analysis of potential costs and benefits of transitioning inside or outside of the ACS before any transitions are made into each sub-fund.

Workshops

9. Officers are working closely with Border to Coast to ensure that the sub-fund offerings and the strategic asset allocations of the Partner Funds are aligned. A number of workshops have already been held, and more are diarised over the coming months, covering alternative investments, global equites, responsible investment, the triennial valuation and fixed income. These will continue as the sub-fund offerings are developed.

Investment Strategy

10. The training session held on 11 September in County Offices covered the current investment strategy and how it might be mapped across to the Border to Coast sub-funds.

11. The Fund's asset allocation can be split into three areas; equity assets, diversifying growth assets and protection assets. The equity and the diversifying growth assets (at 86.5%) make up the return-seeking part of the Fund, and the protection assets (at 13.5%) make up the low risk element. The funding level, rolled forward to the end of August, shows an increase from the 2016 Valuation to around 86%. A full review of the investment strategy and the asset allocation will be undertaken alongside the next triennial review in 2019, however as the assets are being moved across to Border to Coast it is worthwhile to check that the overall split is still appropriate.

12. The Investment Consultant's view, as discussed at the training event, is that the 86.5:13.5 split is still appropriate, however there may be some room for manoeuvre between the equity assets and the diversifying growth assets, to marginally reduce the volatility. This is detailed further in paragraph 14.

13. A summary is shown below of the asset allocation across the three areas, with the potential destination for them within Border to Coast, and any asset allocation or investment strategy decisions that the Committee may wish to consider. This is not set in stone, merely a direction of travel. Decisions will be required from the Committee as each Border to Coast sub-fund is created, ahead of any commitments to transition assets.

Equity Assets

Current Mandate	Manager	Current allocation %	Potential plan under pooling	Target allocation %
UK Equities - passive	Legal & General	20.0	Retain with Legal and General	15.0
Global Equities ex UK (low risk active)	Invesco	22.5	Options: 1) Border to Coast active factor based fund 2) Border to Coast internal low risk active mandate 3) Index tracking against as alternative factor-based index	22.5
Global Equities (high conviction active)	Columbia Threadneedle Schroders Morgan Stanley	17.5	Border to Coast Global Equities Alpha Fund – Q1 19	17.5
Total		**60.0**		**55.0**

14. Comments and points for consideration/decision:

a. UK equities – it was agreed at the January 2017 meeting of this Committee to reduce UK equities by 5% in favour of Global Equities. Given the increase in funding level since the valuation, the recommendation is to instead move that 5% to diversifying growth assets instead. If the Committee approve this recommendation (at 2 a), then further information on potential options will be brought to a future Pensions Committee. If the Committee would prefer to follow the original decision, then this transition would be done as part of the move to the Global Equity Alpha fund in Q1 2019, assuming approval is given for investment in that sub-fund.

b. Global Equities ex UK (low risk active) - there is not currently a sub-fund directly equivalent to the current mandate. Discussion is still underway with Border to Coast on whether an active factor-based sub-fund will be offered. Until there is further clarity on the Border to Coast offering, and/or a track record for the internal team's low risk active mandate, the mandate will continue to be managed by Invesco.

c. Global Equities (high conviction active) – the Border to Coast Global Alpha externally managed sub-fund closely matches the mandates the Fund has across Columbia Threadneedle, Schroders and Morgan Stanley. It will be a blended product of a number of complementary managers, with a target return of 2% net above the benchmark. The current target the Fund has across the current managers is between 1.5% and 3% net of fees. Discussion on the final details of the sub-fund and the procurement process is still underway, however commitments to transition assets, subject to final due diligence, are required before Border to Coast can go out to tender for managers. Should the Committee approve the recommendation to move the assets into this sub-fund (at 2 b), then delegated authority is requested to agree the transition of Fund assets following appropriate due diligence (at recommendation 3).

Diversifying Growth Assets

Current Mandate	Manager	Current allocation %	Potential plan under pooling	Target allocation %
Diversified Alternatives	Morgan Stanley	15.0	Options: 1) Aggregate 2) Specific allocations to sub-funds across private equity, private debt, infrastructure, multi-asset credit and other alternatives (split as yet to be determined)	21.0 or 17.5
Property	9 funds	9.0	Direct and with some specialist funds	10.5 or 9.0
Infrastructure	5 funds	2.5	Included in Diversified alternatives above	-
Total		**26.5**		**26.5 or 31.5**

15. Comments and points for consideration:

a. The target allocation is shown with and without the potential additional 5% from UK equities (recommendation 2 a).

b. Diversified alternatives – Border to Coast is building a structure that will allow allocations across private equity, private debt, infrastructure and other alternatives, and will also have a multi asset credit fund. The current approach of delegating full discretion to apportion the overall mandate may be an option at Border to Coast in the future. Should the recommendation at 2a be approved, the target allocation to diversified alternatives would be increased by 3.5%, and also includes the current 2.5% allocation to infrastructure.

c. Property – the fund currently has allocations across a number of UK commercial property funds, and some specialist or regional funds. The intention is for Border to Coast to build a fund of direct property holdings, however this will take some time, and transacting in property is always very expensive. Given the complexity of unwinding existing property holdings, this is further down the sub-fund creation timetable for Border to Coast. Work will be undertaken to ensure that the implementation of the transfer of property assets is done in the most cost effective way.

d. Infrastructure – the Fund currently has a separate allocation to infrastructure and some additional investments with the diversified alternatives mandate managed by Morgan Stanley. Border to Coast will be offering an Infrastructure sub-fund, however until the decision has been made as to how to manage the overall allocation to alternatives, the current arrangements will continue.

Protection Assets

Current Mandate	Manager	Current allocation %	Potential plan under pooling	Target allocation %
Composite bonds (Gilts, index linked, corporate bonds)	Blackrock	6.75	Retain index linked gilts and corporate bonds	tbc
Short dated corporate bonds	Blackrock	6.75	Potentially the Border to Coast Investment Grade Corporate Bond Fund – Q2 19	tbc
Total		**13.5**		**13.5**

16. Comments and points for consideration:

a. The 13.5% allocation to protection assets is unchanged, however the split between the options will be decided once there is further clarity on the bond offerings at Border to Coast.

Next steps for Lincolnshire

17. The initial transition of any assets from the Lincolnshire Fund is not expected until early next year. Upon receipt of delegated authority (assuming recommendations are approved), officers and advisors will continue to work closely with Border to Coast to ensure that the Global Equity Alpha sub-fund is fit for purpose and meets the investment strategy objectives of the Fund.

18. As detailed above, much work is still to be done on the final sub-fund offerings, and it will be a number of years before all assets are transitioned into the management of Border to Coast. Officers will continue to update the Committee on progress through the quarterly meetings and monthly letters as appropriate.

Conclusion

19. Border to Coast Pensions Partnership is now live and managing assets. Officers (both Fund officers and S151 officers) are working closely with Border to Coast as sub-funds are created and assets are transitioned.

20. The first potential transition to Border to Coast will be in Q1 2019, if recommendation 2b is approved. The actual transition of assets will only happen once all due diligence has been completed and the Fund is satisfied that the sub-fund offered is an appropriate vehicle. Officers will continue to update the Committee on progress through the quarterly meetings and monthly letters as appropriate.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**04 October 2018**
Subject:	**Pension Fund External Audit Report**

Summary:

This report summarises the findings from the work undertaken by the Council's External Auditors, KPMG, in giving their opinion on the Pension Fund Accounts and Annual Report. Their findings were initially reported to the Council's Audit Committee in the ISA 260 – Report to Those Charged with Governance in July 2018 and is summarised here for the Pensions Committee.

Recommendation(s):

That the Committee note this covering report and the ISA 260 report prepared by the Council's External Auditors, KPMG.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2018 have been completed and were approved by this Committee at its meeting on 19th July. These have now been independently audited by the Council's external auditors, KPMG. A copy of the ISA 260 Report to Those Charged with Governance is attached to this report at **Appendix A** (note this report covers both the Pension Fund and County Council's audits). This details the findings from their work on the Pension Fund Annual Report and Accounts.

2. In previous years, KPMG have produced a Completion Report for the Pension Fund Audit to give reassurance to the Committee about the quality and accuracy of the Pension Fund accounts. Due to the change in auditors from KPMG to Mazars this report is not available for the 2017/18 audit, however, the information previously contained in this Completion Report can be gleaned from the ISA260 report, and is summarised in the paragraphs below.

3. The key points to note from the external auditors work on the Pension Fund Accounts are:

Planning:

4. Three specific risks were identified from KPMG's initial risk assessment for the 2017/18 Pension Fund Accounts:

   - Faster accounts close. The statutory deadline for preparing accounts moved forward to the end of May from the end of July in previous periods;

   - Agresso upgrade. A significant update was required to the Agresso system during 2017/18; and

   - Valuation of hard to price investments. These assets are inherently harder to value as they do not have publicly available quoted prices and require professional judgement or assumptions to be made at year end.

5. No audit adjustments or differences were identified in relation to the planning risks identified by KPMG.

Financial Statements Audit:

6. In addition to the specific planning risks identified for the pension fund audit there are a number of risks which KPMG must address in their audit work from the International Standards on Auditing. Details of these risks and the outcome from their work is set out below:

   - Pension fund investments fair value disclosures. Detailed disclosures are required which can involve difficult judgements in categorising the investments held correctly;

   - Other matters – pension fund. The pension fund auditor is required, if requested, by other auditors of admitted bodies, to support their audit under the protocol put in place by the Public Sector Appointments Limited (PSAA) for this purpose; and

   - Judgements – valuation of pension assets and liabilities. The pension fund auditor assesses if the valuation judgement appears balanced. There have been no significant changes in approach from previous years and the pension fund relies on the independent expert actuarial valuation for these estimates.

7. There were no matters directly arising from their audit work on the significant risks that apply to the Pension Fund that they needed to report.

8. Overall, the audit of the Pension Fund accounts did not identify any material misstatements and there are no adjusted or unadjusted audit differences that they need to be reported.

Audit Completion:

9. An unqualified audit opinion was issued on the Pension Fund accounts as part of the Lincolnshire County Council Statement of Accounts by the end of July 2018. A copy of the annual report has been published on the Pension Fund website and all Fund employers have been notified. In addition, the link has been emailed to all County Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations. A summary of the annual report will be sent to all scheme members in the Autumn newsletters sent by WYPF, as the Fund's scheme administrator.

Conclusion

10. The audit of the Pension Fund Accounts for the year ended 31st March 2018 has been completed. The external auditor, KPMG, issues an unqualified audit opinion and a copy of the Pension Fund Annual Report and Accounts have been distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	External Audit ISA 260 Report 2017/18, covering Lincolnshire County Council and Lincolnshire Pension Fund

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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KPMG

External Audit ISA260 Report 2017/18

Lincolnshire County Council and Lincolnshire Pension Fund

—

July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Lincolnshire County Council ('the Authority') and Lincolnshire Pension Fund.

This report covers our on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Financial statements

Subject to completion of the remaining work and all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

The remaining audit work includes the following matters:

- Final audit Director review;
- Addressing any remaining audit queries and any further matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the working papers and amended accounts.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing) relating to the Authority:

— **Valuation of PPE** – the Authority operates a cyclical revaluation approach and we considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;

— **Pensions Liabilities** – we reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used by the Actuary in determining the valuation.;

— **Faster Close -** the timetable for the production of the financial statements has been significantly advanced and we worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

— **Agresso Upgrade** – the Authority has carried out a significant upgrade to Agresso during 2017/18 and we considered the Authority's arrangements for ensuring this upgrade process was managed effectively

There are two non material unadjusted audit differences arising from our work that we need to report to you (Appendix 3).

Based on our work, we have raised 1 recommendation. Details of our recommendation can be found in Appendix 1.

Control Environment

We have determined the overall control environment is adequate. We have included our findings at Section 1 of this report.

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Summary for Audit Committee (cont.)

Accounts Production	The Authority's overall process for the preparation of the financial statements is effective. We have though identified continuing areas for improvement in the quality of the Authority's working papers for specific areas of the accounts, We have included our findings at Section 1 of this report.
Pension Fund financial statements	**We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.** Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 9: — **Faster close** – although the draft Pension Fund accounts have normally been available earlier than the Authority's statements the 31 May deadline was still expected to be challenging. As with the Authority's statements we worked with managers in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work Pension Fund audit work. — **Agresso Upgrade** – The risk identified for the Authority and our response also applied to the Pension Fund audit. — **Valuation of hard to price investments** – The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. We verified the existence of a selection of investments and considered the reliability of valuations reported by investment managers for harder to price investments. There are no audit adjustments or audit differences arising from our work on the Pension Fund financial statements that we need to report to you.
Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We therefore anticipate issuing an unqualified value for money opinion** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Financial standing and medium term financial planning** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. — **Corporate Support Services Provider's performance** – the Authority's management continues to work with the Corporate Support Services provider to strengthen the arrangements for managing the contract and ensure consistent performance to the expected standards across the full range of services provided. See further details on page 22.

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Summary for Audit Committee (cont.)

Whole of Government Accounts	The national audit deadline for reporting on authorities' 2017/18 Whole of Government Accounts (WGA) return is 31 August 2018. We have started the work required but it is unlikely that the information needed to complete the testing (including the 'matches' report from the Ministry of Housing Communities and Local Government) will be available in time to allow us to issue our report before 31 July 2018. We expect to complete the required audit work on the return in August 2018. We will update the Audit Committee if there are any significant audit matters arising from this work.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Audit Certificate	The later deadline for the WGA audit work means that we expect to defer the issue of the Audit Certificate until that work is complete. There are no other audit matters at this stage that impact on the Audit Certificate.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help

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Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's control environment and consider that the overall arrangements that have been put in place are adequate.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the financial system control framework informs the substantive testing we complete during our final accounts visit.

We have assessed the effectiveness of your key financial system controls, on which we rely as part of our audit. We found that the financial controls on which we planned to place reliance are operating effectively.

In our ISA 260 Report 2016-17 we identified issues and made recommendations relating to:

- Agresso General IT controls; and
- Payroll controls.

We have considered these areas again this year and provided further comments on the control deficiencies below:

- **Agresso General IT Controls** - in 2016-17 we carried out a range of procedures to assess controls around Agresso in respect of access to programs and data and program change control. The Authority was unable to provide us with sufficient evidence to demonstrate that adequate controls were in place in these areas. In particular, we noted that governance processes and the definition of responsibilities between the Authority and their supplier had yet to fully mature as the operation of the system moved from implementation project to business as usual. We have included at Appendix 2 management's update on the areas we highlighted for improvement. Although progress has been made in some areas we were again not able to rely on these controls for the current year and carried out the planned alternative procedures.
- **Payroll Controls** – in 2016-17 we carried out a range of procedures to assess the controls at the payroll provider and within the finance team surrounding payroll. These controls were not found to be designed or operating effectively which was consistent with the matters reported by Internal Audit during the year. We planned not to test payroll controls for 2017-18 as they had not be designed and operating for the full financial year and again adopted a fully substantive approach to testing. It is understood that finance and payroll have now adopted several controls which are now part of 'normal business' which should make the payroll process more robust going forwards.

Further details on the Authority's progress on these recommendations is included in Appendix 2.

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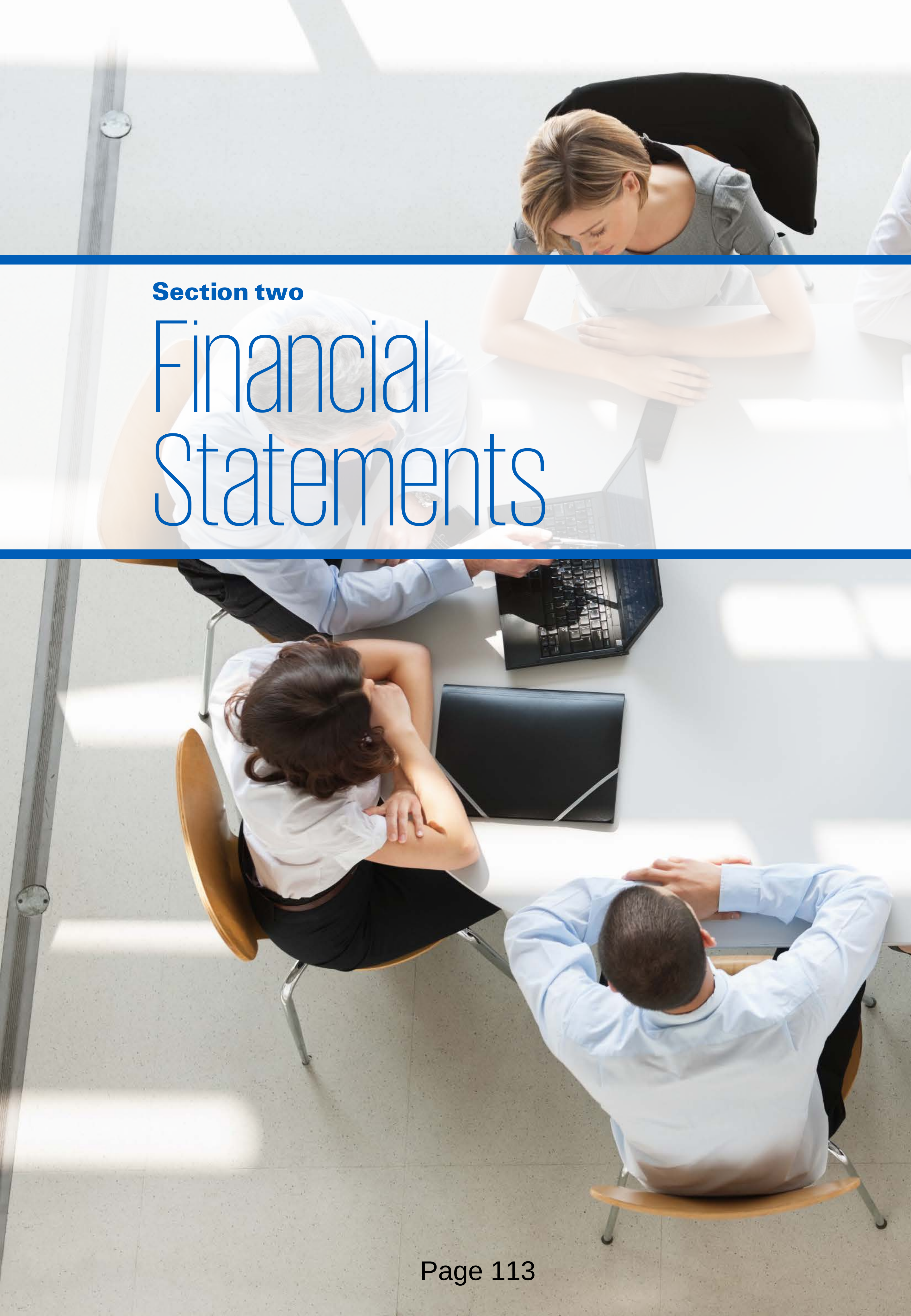
Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is effective.

The Authority has made progress in implementing the recommendations from our 2016-17 ISA Report but there are still some areas for improvement.

Accounts practices and production process

The Authority published a complete set of draft accounts by 31 May 2018. We consider that the overall process for the preparation of your financial statements is effective. We have though identified continuing areas for improvement in the quality of working papers, as set out below.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of both the Authority and the Pension Fund have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority or Pension Fund to continue as a going concern.

Implementation of recommendations

We raised three recommendations in our ISA 260 Report 2016-17 relating to the Authority's financial statements audit. Further details on the Authority's progress on these recommendations is included in Appendix 2.

Completeness of draft accounts

The Authority published a complete set of draft accounts on 31 May 3018, which is the statutory deadline.

Quality of supporting working papers

Our Accounts Audit Protocol sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority and the Pension Fund to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

We found issues in relation to certain working papers for the Authority's financial statements, with the quality of audit evidence initially provided not meeting the requirements set out in our Accounts Audit Protocol 2017-18. This lead to delays in completing our work and placed additional pressures on the audit. The quality of audit papers has been reiterated as a continuing recommendation in Appendix 2.

Response to audit queries

The weaknesses in working papers and other matters identified during the audit resulted in a relatively high number of queries needing to be raised with officers. We appreciated the hard work carried out by our lead contact in processing this heavy workload, in keeping us informed on progress and trying to keep the delayed responses to a minimum. Inevitably some our queries took longer to fully resolve than others, particularly when responses or supporting evidence for our sample testing were required from officers outside of the core finance team. This delayed the audit process although we expect though to resolve any remaining queries by the date of giving the audit opinion.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters regarding the accounts production and audit process to bring to your attention relating to this.

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Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements and those of the Pension Fund.

01 Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02 Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over the required five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
Our assessment and work undertaken:	We reviewed the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and considered the robustness of that approach. In relation to those assets which had been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations and considered the methodology used. Subject to completion of any remaining work and any outstanding queries being resolved to our satisfaction we have determined that the assets which had not been revalued in year were not materially misstated. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 15.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. As part of this work we assessed the controls with respect to the management review of assumptions used in the valuation report and accounts.. We also evaluated the competency, objectivity and independence of the Fund's Actuary. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by the Scheme's Actuary. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies. Subject to completion of any remaining work and any outstanding queries being resolved to our satisfaction we have determined that the net pension liability had been properly accounted for and disclosed in the financial statements. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously been required to work to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers and the Pension Actuary) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

Although the draft Pension Fund accounts have normally been available earlier than the Authority's statements the 31 May deadline will still be challenging. As with the Authority's statements we will work with managers in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work Pension Fund audit work.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines and the accounts and supporting working papers were of the required quality. We confirmed that there was no increased reliance on estimates as part of the closedown process. We confirmed that the Authority and the Pension Fund published a complete set of draft financial statements on 31 May 2018.

As a result of this work we determined that the earlier financial reporting requirement had been met.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Agresso upgrade** The Authority has made progress in addressing the difficulties experienced in operating Agresso following its implementation in 2015/16, although there are continuing issues relating to the processing and reconciliation of the Authority's payroll. The Authority is carrying out a significant upgrade to Agresso during 2017/18. This upgrade needs to be effectively managed to ensure the system operates properly and to minimise the impact on in-year processing and the year-end reporting. This risk applied to both the Authority and the Pension Fund.
Our assessment and work undertaken:	We considered the arrangements established to manage the upgrade, liaised with Internal Audit to take into account their findings and reports on the process, and discussed the progress made and outcome of the upgrade with management. The upgrade was completed ahead of the year end and the changes did not have a significant impact on the accounts production or our audit..

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Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:	**Valuation of hard to price investments** The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end.
Our assessment and work undertaken:	As part of our audit of the Pension Fund, we independently verified a selection of investment existence and prices to third party confirmations. We also considered to what extent the Pension Fund management has challenged the valuations reported by investment managers for harder to price investments. As a result of this work we determined that these investments had been properly valued.

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Specific audit areas (cont.)

Other areas of audit focus

In our *External Audit Plan 2017/18* we identified the following as those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

- **Schools cash balances** – the Authority's 2016/17 accounts included around £2.5m relating to the 2014-15 year-end balances for three prime account schools which have since converted to academy status. The relative amounts due to and from these schools were under dispute and there had been difficulties and delays in the Authority and the schools determining an agreed position. We have followed this up as part of our current year audit and confirmed that this issue has now been resolved.
- **Pension Fund investments fair value disclosures** – these disclosures are detailed and can involve difficult judgements to confirm the investments are correctly categorised and properly presented. We have audited the fair value disclosures as part of the Pension Fund audit and not identified an material misstatements

Other matters – Pension Fund

In addition to the risks set out above, if we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. We have completed the audit work requested by the other auditors and reported our findings to them.

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Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Property, Plant and Equipment (PPE) valuations	3	3	Valuations are consistent with information provided by the independent expert valuers. We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.
Valuation of pension assets and liabilities	3	3	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used. The reported balance, together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary.
Provisions	3	3	We have reviewed the Authority's approach to estimating its provisions and not identified any material misstatement or further issues of concern for the Authority's attention.
Investments	3	3	We have reviewed arrangements for determining the accurate values for the Authority and Fund's investments and financial instrument disclosures. We did not identify any concerns regarding the valuations recorded.
Disclosure of Retirement Benefit Plans (Pension Fund)	3	3	IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed (the liability is not included within the Net Assets Statement). There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.

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Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 23 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see [Appendix 4]) for this year's audit was set at £12 million. Audit differences below £600k are not considered significant.

We did not identify any material misstatements. We identified two misstatements above our reporting threshold that have not been adjusted by management. We have provided more information on these items and the misstatements which have adjusted at Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. None of the audit adjustments agreed during our audit impact on the Authority's movements on the General Fund or the year and balance sheet as at 31 March 2018.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). These presentational adjustments were not significant and there are none that we are required to bring to your attention in this report.

Annual governance statement

We have reviewed the Authority's final 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

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Pension Fund financial statements

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 23 July 2018.

Pension Fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £19 million. Audit differences below £900k are not considered significant.

There are no adjusted or unadjusted audit differences that we need to report to you.

Annual report

We have reviewed the Pension Fund Annual Report and confirmed that:

— It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lincolnshire County Council and Lincolnshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Lincolnshire County Council and Lincolnshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in [Appendix 5] in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to management for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

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Section three

Value for Money Arrangements

Specific value for money risk areas

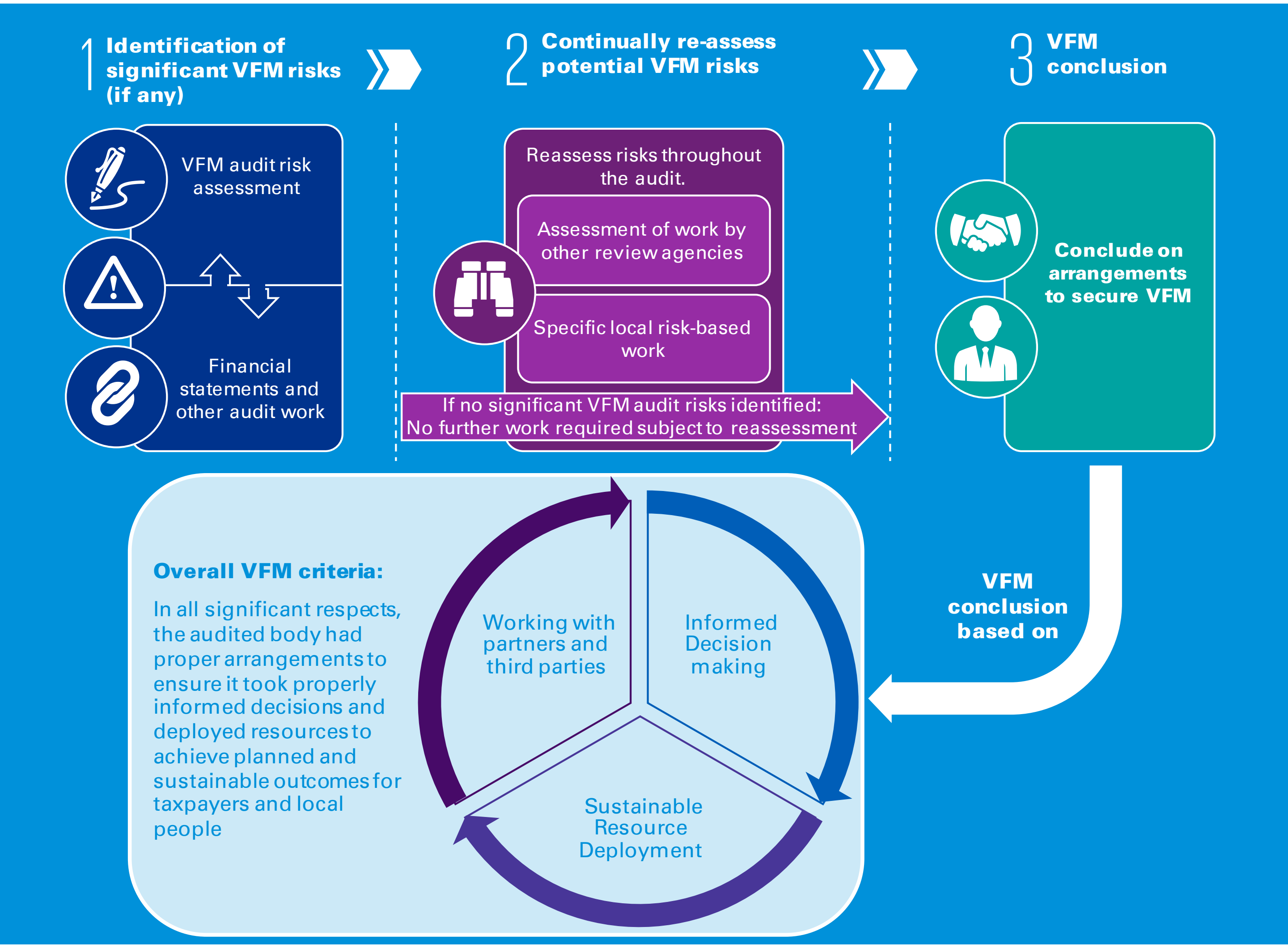
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



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Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Financial standing and medium term financial planning	✓	✓	✓
Corporate Support Services Provider's performance	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

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Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, and as updated throughout the audit, we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk: ***Financial standing and medium term financial planning***

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

Our work undertaken and assessment

As part of our additional risk based work, we reviewed the arrangements the Authority has in place in these areas and for ensuring its continuing financial resilience. We have considered the Authority's arrangements for managing its annual revenue and capital budgets, the 2017/18 outturn and the medium term financial plan. The 2017/18 revenue budget (excluding schools was underspent by £27.7m. The Authority had forecast the underspend during the year with the largest variance being in capital charges (£8m) and other budgets. The capital charges underspend reflects the slippage in the capital programme in the year and the lower than budgeted borrowing requirement. The reasons for the slippage in the capital programme are included in the July 2018 outturn report to the Authority's Executive.

In February 2018, the Authority approved a balanced 2018-19 budget. The budget included the required S.151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves, but acknowledged the continuing risks around the delivery and timing of savings initiatives and the need to address the budget shortfall in future years. The budget was based on a balanced two year financial plan (including 2019-20) for revenue and capital budgets, taking the Council to the end of the current four year funding deal agreed with Central Government. This is a step forward from recent previous years when, given the uncertainty over funding and spending requirements, the Authority only published a financial plan for the next financial year. The 2018-19 budget again reflects a mixed approach to addressing the cost pressures identified (£26.9m), the reduced level of central grant funding and the estimated impact of the Lincolnshire Council's Business Rates Pilot introduced for 2018-19 (an overall increase of £7.5m in the Council's resources was estimated). The Authority approved:

- a 4.95% increase in Council Tax (3.99% in previous year), including 2% for the 'social care precept';
- savings of £23.1m (£39.5m in previous year) in Commissioning Strategy and Other Budgets; and
- A total transfer from reserves of £2.5m, which was much lower than the previous year budgeted transfer of £17.9m from the earmarked Financial Volatility Reserve. The 2019-20 budget does though see an increased reliance on this reserve, with nearly £34m expected to be transferred in that year.

The budget also reflects a further £8m funding support for continuing service transformation through the Flexible Use of Capital Receipts Strategy. The budget setting was informed by an October 2017 risk assessment which took into account a full assessment of the financial risks facing the Council, and challenged the underlying estimates, assumptions and contingencies. The budget acknowledges the need for continuing close monitoring of of savings and the further strengthening of financial management arrangements. The risks highlighted in the budget are consistent with those faced by others in the sector, particularly in relation to the demands on adult care services, and the medium term outlook for remains challenging. We are satisfied though that there were adequate arrangements in place at 31 March 2018 and there are no significant matters relating to this risk area which prevent us from giving an unqualified VFM conclusion.

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Specific value for money risk areas (cont.)

Risk: ***Corporate Support Services Provider's performance***

The Authority's management continues to work with the Corporate Support Services provider and there is a significant level of resource aimed at strengthening the arrangements for managing the contract and ensuring consistent performance by the contractor to the expected standards across the full range of services provided. Given the general pressure on the Authority's resources it is important that the expected improvements in the contractor's performance are achieved and maintained

Our work undertaken and assessment

We considered:

- the key arrangements the Council had in place during 2017-18 and to date for managing this support services contract - there are wide-ranging formal arrangements in place and we confirmed they were in place.
- the Contractor's reported performance and the Authority's arrangements for scrutiny and challenge – the Authority has continued to apply and develop the framework, has regularly monitored performance and, if necessary, claimed service credits. The reported performance has improved during the year, particularly in the 2nd half with target service levels being achieved for virtually all services over that 6 month period.

The Authority has maintained its focus on the key areas of difficulty, most significantly relating to HR/Payroll and IT services, and has worked with the provider to try and address matters of continuing concern. Although progress has been mixed and in some areas not at the pace the Authority expected we are satisfied that overall there were adequate arrangements in place at 31 March 2018 and there are no significant matters relating to this risk area which prevent us from giving an unqualified VFM conclusion. We are aware that in May 2018 the Authority's Executive considered a report on the current support services contract, which is due to expire at the end of March 2020. The Executive approved a series of recommendations relating to the re-provision of the services included with the current contract by alternative providers. The Authority is currently engaging with the market and likely alternative provider organisations.

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Appendices

Key issues and recommendations

We have set out in this appendix the recommendations arising from our audit work on the Authority's 2017-18 financial statements, together with management's responses. The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 1	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 0

Risk	Issue & Recommendation	Management Response
1	**Related Parties** ***Risk*** In the course of our work we tested the completeness and accuracy of the disclosures relating to councillors by cross checking their year end declarations to the Register of Interests and other information, including Companies House records. We identified some inconsistencies relating to one Councillor's return included in our sample. These findings have been shared with officers for follow up and we are satisfied the specific matters identified do not materially affect the accounts. ***Recommendation*** Managers should ensure there are robust arrangements for ensuring the Councillors' related party disclosures and other records (such as the Register of Interests) are complete and accurate.	The Finance Team has shared the auditor's findings with Committee/Member Services and the Council will look to improve the arrangements in preparation for the 2018/19 year end process. ***Responsible Officer*** Technical and Development Finance Manager ***Implementation Deadline*** For 2018/19 financial statements.

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Appendix 2:

Follow-up of prior year recommendations

The Authority has made progress in relation to the recommendations we raised in the ISA 260 2016/17 but there are some areas which need to be improved further.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	7
Implemented in year or superseded	2

Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	**Working Papers** Virtually all of the required working papers were available by the agreed date and met the expected quality standards. There were some specific weaknesses in the working papers to support the staff cost notes in the accounts. Changes were required to both the working papers and these notes during the audit. ***Recommendation*** We recommend that the Authority ensure there are effective quality assurance arrangements in place for the production of the 2017-18 supporting working papers.	The Finance team had already identified various issues relating to this and external audit's other observations. Early training of Finance team is already planned in order to highlight and address the issues we have encountered in 2016-17.One of the planned training sessions will address the issue relating to the working papers and preparation of notes. There are various points that a preparer has to be aware in order to satisfy the requirements of the auditors and this will be communicated to the team to improve further the quality of the notes. Included in the planned work within Finance, we are currently looking at the various payroll reports we have used to prepare the notes to the accounts to identify the required changes in order to produce the notes. We are also putting in place a more robust process in reviewing the work when producing these notes. Further audit requirements by the auditors from Serco will continue to be managed through their Business Relationship Manager as we have found this to be effective.	The quality of the working papers was not consistently good across all areas for 2017-2018 and we have provided specific feedback to officers where required. This is an area where the finance team should continue to improve its arrangements. Management has provided the following response to this continuing recommendation: *The planned training of the Finance Team had taken place however following the audit, this identified further gaps and issues in our working papers. We will review the proformas we currently use and any changes will be communicated to the Finance Team through further training sessions.* *In order to ensure that the year-end timetable was met, various tasks had been allocated to those who were not previously involved in preparing working papers for audit. Whilst it helped us achieve the deadline, some of the working papers had fallen short on the expected quality. Therefore we will further strive to share best practices across the whole of the Team in order that the quality is consistent in all areas.* ***Recommendation continuing***

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Follow-up of prior year recommendations

Risk	Issue & Recommendation	Management Response	Status as at July.2018
2	**Production of 2017-18 draft accounts and external audit** The draft financial statements were prepared and published by 30 June 2017. The Authority is in a relatively good position to meet the 31 May 2018 deadline for the publication of the 2017-18 draft financial statements. Nevertheless it needs to continue to ensure its arrangements are effective. The audit opinion deadline has also been brought forward to 31 July 2018 meaning that there will be much less time for the accountancy team to respond to and process any audit queries or changes to the draft financial statements. There was a relatively small number of audit queries this year and presentational errors in the 2016-17 draft financial statements identified during our audit, and these are to be corrected by management ***Recommendation*** The accountancy team should critically review its closedown arrangements and the format and likely content of the Statement of Accounts before the 2017/18 year-end and discuss its proposals with KPMG before the statements are produced.	We are now working on the closedown timetable in order to meet the early deadline. Early training of the Finance team to highlight and address the issues we have encountered in 2016-17 is already planned. Additionally, training is also being planned for budget holders to engage them and be aware of their role in the closedown process.	The draft accounts were prepared and published by the deadline. ***Recommendation implemented***
3	**School cash balances** Included within the total Cash and Cash Equivalents balance in hand is around £2.5m relating to the 2014-15 year-end balances for three prime account schools which have since converted to academy status. There are corresponding creditor balances in the accounts which off-set this balance. The relative amounts due to and from these schools are under dispute and there have been difficulties and delays in the Authority and the schools determining an agreed position. ***Recommendation*** We recommend the Authority progress this matter during 2017-18 and ahead of the year-end accounts.	The balance sheet review process will be strengthened this year. This will pick up any outstanding issues that will need resolving, like the School cash balances. We will continue to work with the auditors on any changes we will be making for the contents of the Statement of Account for 2017-18.	We have been informed by Irene Smith and our testing performed that this issue has been resolved and no longer appears as an issue in the 2017-2018 Statement of Accounts. ***Recommendation implemented***

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Appendix 2:

Follow-up of prior year recommendations

Risk	Issue & Recommendation	Management Response	Status as at July.2018
4	**User Administration** We inspected documentation describing the existence of user administration processes; however the authority was unable to provide evidence to support the appropriateness of access provided to a sample of new starters. Furthermore, we identified a number of active user accounts associated with staff who had left the authority. Upon further investigation, it was established that there were weaknesses in the leavers' process due to reliance upon line manager notification and the absence of complimentary detective controls. ***Recommendation*** We recommend that the authority maintains a searchable record of user access requests in order to support accountability and provide an audit trail for statutory audit purposes. Furthermore, the authority should make improvements to the leavers' process to reduce reliance upon line manager notification as the primary control point and to eliminate the possibility of account re-use after an employee has left.	Agreed. From an IT perspective: The control of access to software systems and the management of Active Directory accounts is undertaken by the Council's IT Service Provider, Serco. There are technical controls which meet ISO27001 and PSN Co-Co obligations in place and Serco have processes and procedures to meet these obligations. All user access requests are managed via the IT Provider's IT Service Desk tool, Remedy On Demand (RoD) and therefore a log of all requests for audit purposes is available for audit purposes. At the point that the Serco IT Team are made aware of a Leaver, the process works well. However, the processes employed by the Serco HR Admin Team were historically poor and this has caused some issues.The data within Agresso, which should act as the trusted source for staff information is inaccurate and this has led to inaccuracies in the corresponding IT systems. A number of initiatives have been instigated to reduce this impact including a complete review of the starters, leavers and movers process across both HR and IT; unfortunately, these initiatives stalled. To mitigate these risks the Council has invested in Microsoft Identity Manager to streamline and workflow the changes in the HR system to system access, however this project is currently running in excess of two and a half years late due to delivery issues within Serco. From an Agresso System Administration perspective: The internal reporting for Agresso(LAGAN) requires further development to provide the information required for the Leavers process. This will be raised with the People Management Portfolio Board, however it is hoped that the current MIM project will address some of these weaknesses. However, the Council has a deliberate policy of not closing users on Agresso when people leave the Authority. This is because there may well be transactions in the system part-way through workflow, which need to be actioned by a nominated substitute. If the user record is closed, these transactions cannot be completed. Because access to the system is by single sign-on through the person's network logon, the risk of unauthorised access is very low, subject to the efficient working of the Leavers process (see comments and actions above).	The following update has been provided by management: *From an IT Perspective: Serco have recently re-started the Identity Management Project and a Project Manager and Technical resource has been assigned with build orders for the required servers in flight.* *Regarding the leaver process, an interim manual process to perform a rollup once a month upon leavers information from the Serco HR Function was agreed at the instruction of our Information Assurance Manager, David Ingham. This process is in place until a more automated process is enabled by delivery of the Identity Management Project.* *The current method of manually maintaining this process is still being completed by the Service Desk, and will continue until the Microsoft Identity Manager (MIM) is in place (the project is currently active). Cross checking will continue to validate AD accounts not active past 30 days once identified through HR leaver reports.* *From Agresso System Administration perspective: No changes have occurred. Liaison with LAGAN Administrators is expected to be an on-going liaison function.* Management's response confirms that the work to address the original recommendation is still in progress. ***Recommendation continuing***

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Follow-up of prior year recommendations

Risk	Issue & Recommendation	Management Response	Status as at July.2018
5	**Change Management** We inspected documentation describing the existence of a change management process based upon ITIL principles; however, despite multiple requests to the authority and its supplier, we were not provided with any evidence to support the effective implementation or operation of this process. ***Recommendation*** The authority should maintain adequate records to demonstrate the effective operation of their change management processes in order to provide accountability for actions undertaken. This will support effective operational processes and the ability to roll-back in the event of a failed change, as well as providing an audit trail for statutory audit purposes.	Agreed. From an IT perspective: The IMT team manages the Change Advisory Board (CAB) process which protects the infrastructure and systems from ungoverned technical change; this is aligned with ITIL. Changes which are only impacting a single system is governed by the Governance Procedures within that user-group and would not be subject to CAB. From an Agresso System Administration perspective (for those changes which are not approved via CAB):This will be raised with the Agresso Governance Board (where all none CAB approvals are made), and more formal processes established for agreeing these changes.	The following update has been provided by management: *From an IT Perspective:* *ICT Quality Manager, David Rose – Allen has been working with the BW On Team to improve this process and can confirm that a satisfactory governance model is now being followed. It is not a mature model at this stage, but it is now widely accepted by the business and is an area that has been targeted for continual improvement. This will be continued to be reviewed and improved over the coming months.* *All changes, both technical and application level, are now presented to a governance board on a weekly basis. The board controls all change and acts a guardian to the system and its infrastructure. Application changes are reviewed and approved by this board whilst technical changes are reviewed and passed to formal CAB for approval.* *This board works in two capacities, one to approve change and one to manage the upcoming pipeline and control the business areas to ensure that they are planning and completing work as expected.* *From Agresso System Administration perspective: The BW governance Board process has been further strengthened, with revised processes and paperwork. Corporate IT involvement is also now increased, which ensures a strong link to data governance.* Management's response confirms that the work to address the original recommendation is still in progress. ***Recommendation continuing***

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Appendix 2:

Follow-up of prior year recommendations

Risk	Issue & Recommendation	Management Response	Status as at July.2018
6	**Segregation of Duties** We established that there is no segregation of duties between development staff and those responsible for migration of changes into to the live environment. Whilst an informal system of management checks / peer review is used to check that actual changes to the live system has been carried out according to the approved configuration document, this check is not documented or evidenced. We were unable to establish any relevant monitoring or compensating controls to mitigate the associated risks and further noted that formal definition of appropriate access to change and development staff (including respective responsibilities of the authority and their supplier) is still under development. ***Recommendation*** We recommend that, where practical, access to undertake development and migrate changes to the live environment should be assigned to separate roles. Roles and responsibilities for the management of the live system, including the respective responsibilities between the authority and their supplier, should be agreed and documented.	Agreed. In terms of the comments on documentation this will be raised with the Agresso Governance Board, and more formal processes established for agreeing changes. Due to the size of the team it is feasible to have a division of duties between development of changes and application in the live environment. However, there is a process of peer review where work is developed and reviewed by different team members. There is also an established process of developing, building and testing before changes are migrated into the live environment to reduce the risk of manual error.	The following update has been provided by management: *The BW governance has been further strengthened. Otherwise there have been no changes made.* Management's response confirms that the work to address the original recommendation is still in progress. ***Recommendation continuing***

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Follow-up of prior year recommendations

Risk	Issue & Recommendation	Management Response	Status as at July 2018
7	**Payroll Control Weaknesses** We have tested key opinion controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit. Payroll system controls continue to be a area of concern our audit approach to this was again largely substantive. There is overlap between these recommendations and the much broader set of recommendations raised in Internal Audit's reports to the Audit Committee. The areas of weakness identified during our testing included: • Payroll Exception Reporting –there have been no consistent and robust control throughout the year. The arrangements were unclear and the exception reports have been inconsistently run, saved and annotated. • Starters and leavers -from the testing carried out we identified a number of control deficiencies These included weaknesses in evidence to support authorisation of new starters or processing of leavers, and a number of employees' Agresso Accounts still being 'active' despite having left the organisation (a result of Payroll not properly terminating the employee on the Agresso System). The continuing weaknesses in the Payroll system controls are an area of concern and our audit approach to this was again largely substantive. ***Recommendation*** The authority should maintain adequate records to demonstrate the effective operation of their change management processes in order to provide accountability for actions undertaken. This will support effective operational processes and the ability to roll-back in the event of a failed change, as well as providing an audit trail for statutory audit purposes.	None requested	This has continued to be a concern in 2017-18 and highlighted again as a continuing recommendation. It is understood that finance and payroll have now adopted several controls which are now part of 'normal business' which should make the payroll process more robust going forwards. ***Recommendation Continued***

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Appendix 3:

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee].

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Adjusted Audit Differences – Authority and Pension Fund

There are no adjusted audit differences to the Authority or Pension Fund financial statements that we are required to report to you. During our audit a number of amendments were identified as required to the supporting notes to the Authority 2017-18 draft financial statements, to correct errors or to comply with the Code requirements. We understand the Finance team is to amend the statements for this matters and to update the Audit Committee on the changes made. We will review these amendments as part of our closing procedures and checks on the final set of the financial statements. The main audit differences related to notes 34 (Exit Packages) and note 35 (Termination Benefits) and these were amended to include £1.6m of redundancy expenditure which had omitted from the disclosure..

Unadjusted audit differences – Authority and Pension Fund

The following table sets out the uncorrected audit differences identified by our audit of the Authority financial statements for the year ended 31 March 2018. There are no unadjusted audit differences identified by our audit of the Pension Fund financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £12m. We have considered the impact of these unadjusted audit differences on the Authority’s financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£’000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	-	-	Cr Short Term Debtors £679k Dr Short Term Investments £679k	-	-	Acrrued interest of £679k on Short Term Investments has been included in Short Term Debtors, rather than with Short Term Investments.
2	Dr Expenditure (Cost of Services) £4,777	-	Dr PPE £2,063	Cr Accruals £6,840	-	Our testing identified a number of creditor transactions which had not, in error, been included in the year end accruals. This included one for £3,152k. The finance team further reviewed payments made in April and May 2018 to identify any additional payments made which related to 2017-18 and where an accrual had not been made. Further items over the year end de-minimis levels (revenue £25k, capital £50k) were identified, totalling £3,688k.
	Dr £4,777	**-**	**Dr £2,063**	**Cr £6,840**		**Total impact of adjustments**

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Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.14 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £19 million which is approximately 0.88 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £0.9 million for 2017-18.

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Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted audit differences above out reporting threshold for the Authority and the Pension Fund financial statements. See Appendix 3 for further details.
Unadjusted audit differences	The net impact of the two unadjusted audit differences arising from the Authority audit would be to increase the deficit on provision of services by £4,777k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 3 for further details. We have identified no unadjusted audit differences above out reporting threshold for the Pension Fund financial statements..
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of any significant deficiencies identified, in Section one of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

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Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

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Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LINCOLNSHIRE COUNTY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to the Lincolnshire Pension Fund audit engagement [and that the safeguards we have applied are appropriate and adequate] is subject to review by an engagement quality control reviewer, who is an Audit Director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

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Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	107,325	111,101
Audit of the Pension Fund	24,350	25,344
Total audit services	**131,675**	**136,445**
Allowable non-audit services	Nil	50,000
Audit related assurance services	14,600	3,000
Mandatory assurance services	Nil	nil
Total Non Audit Services	**14,600**	**53,000**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The relevant non-audit fees were 11.1% of the total fee for all audit work.. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below.

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification and controls report – Teachers Pensions Agency (TPA) Return, S31 Transport Grant and SFA Subcontracting return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	TPA 5,500 S31 4,100 SFA 5,000	nil

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Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

John Cornett

Director, KPMG LLP

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Appendix 7:

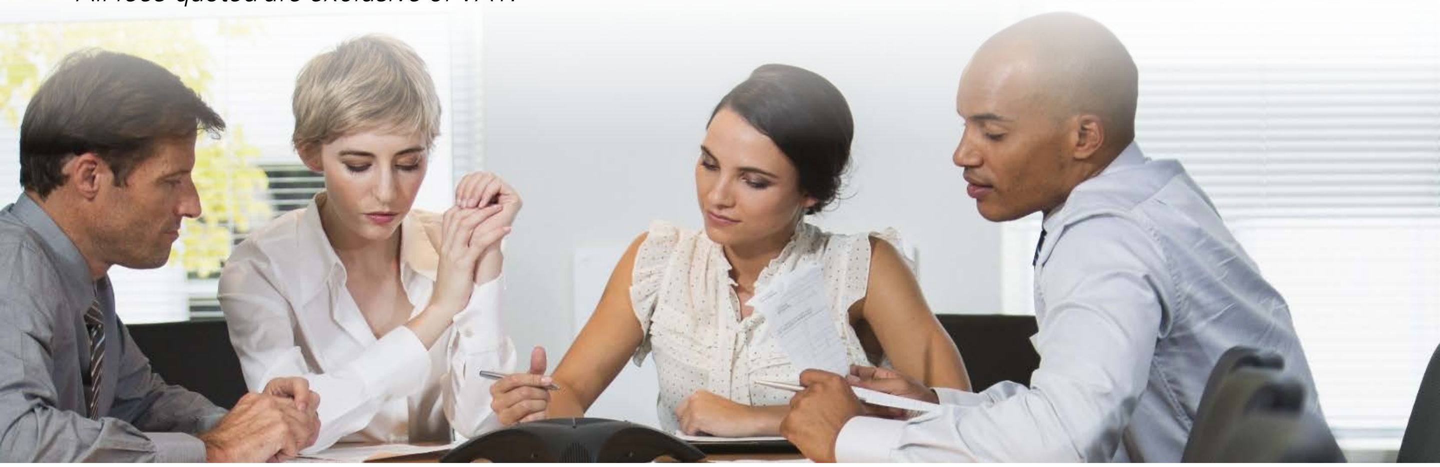
Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit of the Authority is £107,325 plus VAT (£111,101 in 2016-17) and £24,350 plus VAT for the Pension Fund (£25,344 in 2016-17)

We propose an additional fee due to work undertaken in relation to the significant risk areas identified in this report, and to cover the costs of the KPMG experts and specialists we have needed to engage in response to matters identified during the audit. The amount of additional fee has still to be determined and is still subject to final agreement and PSAA approval. We will update the Audit Committee when this has been resolved.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Lincolnshire County Council	107,325	111,101
PSAA Scale fee Lincolnshire Pension Fund	24,350	25,344
Total audit services	**131,675**	**136,445**
Mandatory assurance services	Nil	Nil
Total mandatory assurance services	**Nil**	**Nil**
Audit-related assurance services		
Teachers' Pension Return 2016/17	5,500	3,000
S31Transport Grant 2016/17	4,100	Nil
SFA Subcontracts' Controls 2016/17	5,000	Nil
Total audit-related assurance services	**14,600**	**3,000**
Allowable non-audit services		
SERCO 'Lessons learned' review	**Nil**	**50,000**
Total allowable non-audit services	**Nil**	**50,000**
Total non-audit services	**-**	**53,000**
Grand total fees for the Authority	**146,275**	**189,445**

All fees quoted are exclusive of VAT.



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The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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