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County Offices
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10 July 2019

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 18 July 2019** 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

Debbie Barnes OBE
Head of Paid Service

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, Small Scheduled Bodies Representative
Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 18 JULY 2019

Democratic Services Officer Contact Details

Name: **Emily Wilcox**
Direct Dial **01522 553787**
E Mail Address emily.wilcox@lincolnshire.gov.uk

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.

All papers for council meetings are available on:
www.lincolnshire.gov.uk/committeerecords

PENSIONS COMMITTEE
13 JUNE 2019

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors 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)

Officers in attendance:-

Roger Buttery (Chairman of the Local Pension Board), Claire Machej (Accounting, Investment and Governance Manager), Peter Jones (Independent Advisor), Pete Moore (Executive Director, Finance and Public Protection), Paul Potter (Investment Consultant), Jo Ray (Head of Pensions) and Emily Wilcox (Democratic Services Officer)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P E Coupland, James Grant (Small Scheduled Bodies Representative) and Councillor J Summers (District Council Representative).

Councillor B Adams was appointed as the Vice-Chairman for this meeting only.

2 DECLARATIONS OF MEMBERS' INTERESTS

Mr A N Antcliffe declared an interest as a contributing member of the Fund.

3 MINUTES OF THE PREVIOUS MEETING HELD ON 21 MARCH 2019

RESOLVED:

> That the minutes of the meeting held on 21 March 2019 be approved as a correct record and signed by Chairman, subject to the addition of Roger Buttery (Chairman of the LGPS Pension Board) and Peter Jones (Independent Advisor) to the attendance record.

4 CONSIDERATION OF EXEMPT INFORMATION

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 items 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.

5 MANAGER PRESENTATION - INVESCO - GLOBAL EX. UK EQUITY PORTFOLIO

The committee received a presentation from Invesco Asset Management, who managed the Global ex. UK Equity Portfolio.

Members were invited to ask questions, in which a number of points were raised.

RESOLVED:

That the committee approved the recommendation, as set out in the exempt report.

6 MANAGER PRESENTATION - MORGAN STANLEY DIVERSIFIED ALTERNATIVES

The committee received a presentation from Morgan Stanley, who managed the Fund's allocation to alternative investments.

Members were invited to ask questions, in which a number of points were raised.

RESOLVED:

That the committee approved the recommendations, as set out in the exempt report.

7 MANAGER PRESENTATION - BORDER TO COAST PENSIONS PARTNERSHIP

The committee received a presentation from the Border to Coast Pensions Partnership.

Members were invited to ask questions, in which a number of points were raised.

RESOLVED:

That the committee approved the recommendations, as set out in the exempt report.

The meeting closed at 12:56

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
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

Investment Commentary – July 2019

Buoyant Equity and Bond Markets so far this year

When I reported three months ago, I said that there had been an astonishing rise in most of the major global equity markets in the first quarter of 2019. That trend in equities has pretty much continued, but bond markets have performed strongly as well in the second quarter of 2019. So your portfolio will have appreciated materially since its value at the end of 2018. You may well recall that equities, especially in the USA, fell sharply in December amid growing pessimism about the health of the global economy. At the time of writing this report, the appreciation of your portfolio since December 2018 has been amazing, by about £180million to £2.38billion. This represents an uplift in percentage terms of almost 8%.

Economic growth and Central Banks

The global economy is still growing – but not as robustly as forecast at the end of last year. For example the World Bank recently reduced its forecast of growth in 2019 from above 3% to below it, citing the "trade war" between the USA and China as a significant factor.

The dramatic change since the last quarter of 2018 to now is the attitude of the US Federal Reserve ("the Fed") and other major Central Banks (e.g. the European Central Bank and the Bank of Japan). Previously, the Fed had been expected to raise short term interest rates in 2019 and to continue their policy of winding down the programme of Quantitative Easing whereby they sold back to the market some modest parts of their holdings of US Treasury Bonds. Faced with deteriorating global economic prospects and a scary fall in equity markets in late December, they abruptly reversed their policies and indicated a willingness to cut interest rates if circumstances demanded. They also reined in the sale of US Treasury Bonds. The other Central Banks have followed suit.

The result was a surge in virtually all equity markets around the world. Business confidence, though, has deteriorated. The most obvious cause is the continuing fraught trade negotiations between the USA and China – which on a pessimistic reading could lead to an all-out trade war. That, in my view, is not likely because the USA and China are so inter-dependent. But the risk undoubtedly exists and would certainly spook the markets. To date, markets have largely shrugged off the more pessimistic possible outcomes. In the UK, business sentiment has been strongly influenced by the Brexit impasse and the shenanigans in the Houses of Parliament.

So, in summary, the USA continues to grow at a respectable pace of over 2%, buoyed up by robust consumers' expenditure. Europe is scarcely growing with several countries, e.g. Italy, actually in recession. Germany and France are barely growing. It looks as if the UK is finally contracting, albeit temporarily, as destocking post the March 2019 Brexit "false deadline" takes hold, especially affecting the motor industry. Nonetheless, the UK economy should recover to grow at around 1% per annum during the rest of 2019.

Equity Markets

The rise in markets this year has not been driven by improving economic fundamentals but largely by the conviction of investors that Central Banks will do their upmost to prevent a significant global economic slowdown by boosting global liquidity. That liquidity will hold equity markets up. As ever, they remain susceptible to shocks, both economic and political; sharp one day or one week falls are inevitable. But I continue to believe that falls in the range 5% to 10% will bring in the buyers. Cash flow to institutional investors must find a home somewhere. There are few practical alternatives to equities.

Conclusion

Peter Jones
24 June 2019

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.

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Report by the Independent Chair of the Lincolnshire Local Pension Board**

Summary:

The purpose of this report is:

A) To update the Pensions Committee on the work of the Pensions Board (PB) during the last few months;

B) For the Pensions Committee to receive assurances gained from the PB's work; and

C) For the Pensions Committee to consider recommendations from the PB.

Recommendation(s):

The Pensions Committee is requested to:

A) Note the report; and

B) Adopt a requirement that any member joining the Pensions Committee or PB should complete the Pension Regulator's training toolkit within six months of taking office.

Background

1.0 <u>OUTCOMES FROM PENSION BOARD MEETING ON 21 MARCH 2019</u>

1.1 The PB met on the 21 March and its main focus was on the following topics:

A) **The Pension Regulator's Code of Practice** – the PB regard Lincolnshire's compliance to the Code as very important in the overall context of governance of the pension scheme. It is pleasing to report that Lincolnshire was largely compliant, in that there were 94 green out of 99 items in the Code. There were still 4 partially compliant – one of which concerns members of both the Pensions Committee and PB and that is completing the Regulator's training toolkit. Going forwards, the PB recommends that completion of the training tool kit within six months of joining the Committee (or Board) should be a requirement for all new members.

B) **Employer Monthly Submissions and Contribution Monitoring** – the PB considered a further update on the payment of contributions and employer submissions. Generally, the payment of contributions and the Employer Data Submissions on a timely basis are good, but there are still a few outliers. For the nine months ended December 2018, there were 30 cases of the late payment of contributions and 94 cases of the late submission of the monthly returns. This is both disappointing and unacceptable. The Board acknowledged that it was necessary to work with employers to attempt to resolve issues before taking further action, as it was important to maintain good relationships with them. The PB will continue to monitor the situation.

C) **Data Scores** – the PB considered an update from WYPF on the data scores for the Lincolnshire Pension Fund as reported to the Pensions Regulator; these were Common 96.01% and Scheme Specific 95.78%. The target is 100%, particularly for Common Data. WYPF are currently working on a data improvement plan and using a tracing company in an attempt to track lost members.

D) **Pension Benefits in Suspense** – in my last report, I mentioned that when a member reaches pension age and they have not been successfully traced, WYPF had set up a HSBC bank account with sub accounts for each pensioner. This avoids any unauthorised payment tax charges for the members once they were found. The Board requested a detailed report on the amounts currently held in these Sub Accounts and the proposed course of action to find the members. This will be considered at the meeting on the 18th July.

E) **Meeting of BCPP Local Pension Board Chairs** – there was a meeting of Pension Board Chairs on the 22nd May. This was very much an "ice-breaker" session. A range of items were discussed including governance of Border to Coast and the need for clearer information on savings and the implementation costs incurred; relationships between Boards and Pensions Committees; engagement with the Pensions Regulator; recruitment and retention of members and maintaining knowledge and skills.

Conclusion

ASSURANCES GAINED BY THE BOARD

2.1 The vast majority of employers pay their contributions on time and submit the required documentation. However, there are a few late payers and even more where the data submission is late;

2.2 The PB has some concerns about the data scores and cannot provide full assurance on this aspect; and

2.3 The PB has some concerns over the controls of the Suspense Account for unpaid pension benefits.

Roger Buttery
Independent Chairman

June 2019

Consultation

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

No

b) Risks and Impact Analysis

N/A

This report was written by Roger Buttery, 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 Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 31 March 2019 and any current issues.

Recommendation(s):

That the Committee;

1) note the report; and
2) approve the extension to the contract for Actuarial Services to 31 October 2020.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £151.8m (6.9%) to £2,351.7m on 31 March 2019. Fund performance and individual manager returns are covered in the separate Investment Management report, item 9 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 31 March. Across the asset classes, all are within their approved tolerance levels. At a manager level, Columbia Threadneedle and Morgan Stanley Global Brands are above their higher tolerance levels, however as these mandates will be transitioning to Border to Coast in the near future, no rebalancing has been undertaken. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3%
- UK Equities underweight by 1.7%
- Global Equities overweight by 4.7%

Underweight Alternatives by 1.0%

Underweight Property by 0.4%

Underweight Infrastructure by 0.6%

Underweight Bonds by 1.5%

Overweight Cash by 0.5%

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 31 March 2019.

1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31 March, accounting for 10.7% of the Fund, compared to 10.3% 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	37.7	1.6
2	MICROSOFT	36.5	1.6
4	RECKITT BENCKISER	25.6	1.1
5	UNILEVER	25.2	1.1
3	HSBC	23.8	1.0
8	BRITISH AMERICAN TOBACCO	21.3	0.9
6	VISA	21.3	0.9
7	BP	21.0	0.9
9	DIAGEO	19.1	0.8
10	PHILIP MORRIS INTERNATIONAL	18.5	0.8
	TOTAL	**250.0**	**10.7**

1.6 Appendix D presents summarised information in respect of how external managers have voted in relation to the Fund's equity holdings.

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 this quarter, LAPFF engaged with 104 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.

- In February Ryanair announced that current Chairman David Bonderman would be replaced during 2020. The statement was made after LAPFF had voiced an intention to requisition the AGM in order to propose a resolution requesting Mr Bonderman resign from the Board.

- The Government announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). This comes in the aftermath of the Kingman Review which recommended the FRC be disbanded, a position promoted by LAPFF after many years of raising concerns over the FRC.

- After pledging to include the overall reduction of its net carbon footprint in considering executive remuneration outcomes, Royal Dutch Shell Plc published its remuneration report enacting this commitment. As a member of the Climate Action 100+ investor initiative, LAPFF welcomed Royal Dutch Shell's steps in addressing the need to tackle climate change proactively. This is considered a small but pioneering step towards enabling companies to prepare for the low carbon transition.

- The Forum joined investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050.

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 £10.8m for the year financial year to 31 March. The invested cash has outperformed the benchmark from 1 April 2018 by 0.18%, annualised, as shown in the table below, and earned interest of £88k.

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 – 2018/19 Outturn				
Pension Fund Average Balance £'000	**Interest Earned £'000**	**Cumulative Average Yield Annualised %**	**Cumulative Weighted Benchmark Annualised %**	**Performance %**
10,803.54	87.99	0.84	0.66	0.18

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, however in B12 there is now only one member of the Pensions Committee yet to complete their TPR Toolkit training.

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, a certificate has not been received from one remaining Committee member.

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.

5 Risk Register Update

5.1 The risk register is brought to this Committee at agenda item 11, therefore an update is not provided in this report.

6 **Asset Pooling Update**

Sub Funds

6.1 Representatives from Border to Coast presented to the June meeting of this Committee, updating on progress of the sub funds for Global Equity Alpha, Investment Grade Credit and Multi Asset Credit.

6.2 The Fund will be making its first investment with Border to Coast in the coming months, into the Global Equity Alpha Fund. The next investments are expected to be into the Investment Grade Credit and the Multi Asset Credit funds.

6.3 The development of the Alternatives products have progressed well, with the Private Equity sleeve open and soon to be making its first investments. Work is progressing on the Infrastructure sleeve, with commitments expected to be made in the next few months, with Private Credit following after that. Discussion is still being had with Funds and advisors on the other alternative requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.

6.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast on the development of the sub-fund products, with a number of workshops attended to discuss requirements and agree structures.

Joint Committee Meetings

6.5 The Joint Committee (JC) last met on 4 June 2019, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:

- Elections for the Role of Chair and Vice Chair of the Joint Committee and Nominee for the Directorship of Border to Coast Pensions Partnership Limited
- Future Meeting Dates
- Joint Committee Budget
- Update from the Climate Change Working Party
- Chief Executive Officer (CEO) Report

- Border to Coast Alternatives Capability – PE, Infrastructure and Private Credit

- Border to Coast ACS Fixed Income Fund – Investment Grade and Multi Asset Credit

6.6 The next JC meeting is being held on 11 September 2019 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.

AGM and Shareholder Approvals

6.7 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

6.8 Ahead of any shareholder approvals, officers, including S151 officers, work closely with Border to Coast to ensure full understanding of the resolution, the impact of it not being approved and discuss this with the JC ahead of any resolution being sent for approval. An informal shareholder meeting is also held on the date of each Joint Committee meeting.

6.9 Two shareholder approvals were completed since the last Committee:

- Chief Executive remuneration – following the annual pay review of the CEO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.

- Chief Operating Officer remuneration – following the annual pay review of the COO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.

Visit to Border to Coast Offices

6.10 The planned visit on 11 July was cancelled due to a low take-up, therefore officers will be looking to rearrange later in the year, when more members are available.

7 Good Governance Project

7.1 The Scheme Advisory Board (SAB) appointed Hymans Robertson earlier this year to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Their role was to facilitate an investigation of the issues and work with key stakeholders to develop options for change which will improve LGPS governance. Hymans have consulted widely and captured a wide range of views from those working within the LGPS. This included carrying out a number of related activities including issuing surveys, arranging interviews, organising seminars and discussing at various LGPS events including the PLSA conference in May.

7.2 The survey, which was open to all stakeholders, requested views on four example governance models, each with increasing changes to the current model. The options were to be considered against the criteria of standards, conflict, representation, clarity, consistency and cost.

Option 1 – Improved practice
Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 - Greater ring fencing of the LGPS within existing structures
Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 - Joint Committee (JC)
Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body
An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

7.3 Highlights of the emerging themes from the survey responses and the discussions that have been had with stakeholders are shown below, across the six criteria:

Standards	Greater risk of Regulator intervention, strengthen KPI use, extend audit to cover adequacy/suitability of governance arrangement.
Conflict	Potential conflicts for S151 officers and elected members, high professional standards of S151's, schemes of delegation to reduce conflicts.
Representation	Many different views on employer/member representation, good employer engagement in some cases but needs to improve, voting rights for non-elected members.
Clarity	Roles and responsibilities clearly documented, what's statutory vs. fiduciary vs. locally decided.
Consistency	Update existing guidance and signpost better, strengthen

	training e.g. CIPFA S151 training, S101 training (same regulatory requirement as Local Pension Boards).
Cost	Strong desire that approach is not disproportionately onerous to implement and does not add unnecessary cost, some funds have difficulties paying market rates for pensions/investment specialists within the authorities pay structures.

7.4 Hymans will report their findings to SAB in July, detailing proposals to improve governance for them to consider. Following that, SAB will make recommendations to MHCLG where appropriate.

8 **Actuarial Services Contract**

8.1 The contract for Actuarial services was awarded to Hymans Robertson in December 2012, with an expiry date of 31 December 2019. As 2019 is a valuation year, the Fund will still be in the process of agreeing rates with employers and finalising the Funding Strategy Statement at that date, all of which require input from the Actuary.

8.2 The valuation process has to be finished by 31 March 2020, however at that time the process for the employers accounting reports has started, and continues across different groups of employers until the final reports are issued to academies in September/October.

8.3 Therefore to limit any impact to the Fund or the employers should the provider change, officers request that the Committee approve a ten month extension to the contract to 31 October 2020. This will also realign the contract end date for any subsequent appointments.

9 **Conference and Training Attendance**

9.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend.

9.2 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

Conclusion

10 This reporting period saw the value of the Fund increase by £151.8m to £2,351.7m. At the end of the period the asset allocation, compared to the strategic allocation, was:

- overweight equities, property and cash; and

- underweight fixed interest, infrastructure and alternatives.

11 The work with Border to Coast continues and the first transition from the Fund's global equity managers to the Global Alpha sub-fund is expected in the next few months.

12 The Scheme Advisory Board's (SAB) is undertaking a review of governance across LGPS Funds, with Hymans Robertson appointed to manage the Good Governance Project and to report their findings to SAB, with proposals for improvements, in July.

13 The Actuarial contract expires in December 2019, and to reduce any potential impact to the Fund and employers should there be a change of provider, officers request that the Committee approve a ten month extension to the contract to 31 October 2020.

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

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	31 Mar 2019			31 Dec 2018			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	179,499	0.0%	0.0%	170,792	0.0%	0.0%		
Legal & General	429,761,712	29.0%	18.3%	392,746,958	29.1%	17.9%	20.0%	+/- 2%
TOTAL UK EQUITIES	**429,941,211**		**18.3%**	**392,917,750**		**17.9%**	**20.0%**	
GLOBAL EQUITIES								
Invesco	546,783,306	36.9%	23.3%	502,820,032	37.3%	22.9%	22.5%	+/- 2.5%
Threadneedle	149,282,166	10.1%	6.3%	132,269,695	9.8%	6.0%	5.0%	+/- 1%
Schroder	136,206,686	9.2%	5.8%	123,911,170	9.2%	5.6%	5.0%	+/- 1%
Morgan Stanley	219,728,687	14.8%	9.3%	196,420,114	14.6%	8.9%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	**1,052,000,846**		**44.7%**	**955,421,010**		**43.4%**	**40.0%**	
TOTAL EQUITIES	**1,481,942,057**		**63.0%**	**1,348,338,760**	**100%**	**61.3%**	**60.0%**	**+/- 6%**
ALTERNATIVES	**328,625,441**		**14.0%**	**321,982,483**		**14.6%**	**15.0%**	**+/- 1.5%**
PROPERTY	**202,956,466**		**8.6%**	**205,267,538**		**9.3%**	**9.0%**	**+/- 1.5%**
INFRASTUCTURE	**44,437,467**		**1.9%**	**41,846,019**		**1.9%**	**2.5%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	143,904,374	50.8%	6.1%	137,584,346	50.1%	6.3%	6.75%	+/- 1%
Blackrock	139,253,249	49.2%	5.9%	137,042,880	49.9%	6.2%	6.75%	+/- 1%
TOTAL FIXED INTEREST	**283,157,624**		**12.0%**	**274,627,226**	**100%**	**12.5%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**10,583,721**		**0.5%**	**7,817,553**		**0.4%**	**0.0%**	**+ 0.5%**
TOTAL FUND	**2,351,702,775**		**100%**	**2,199,879,579**		**100%**	**100%**	

APPENDIX B

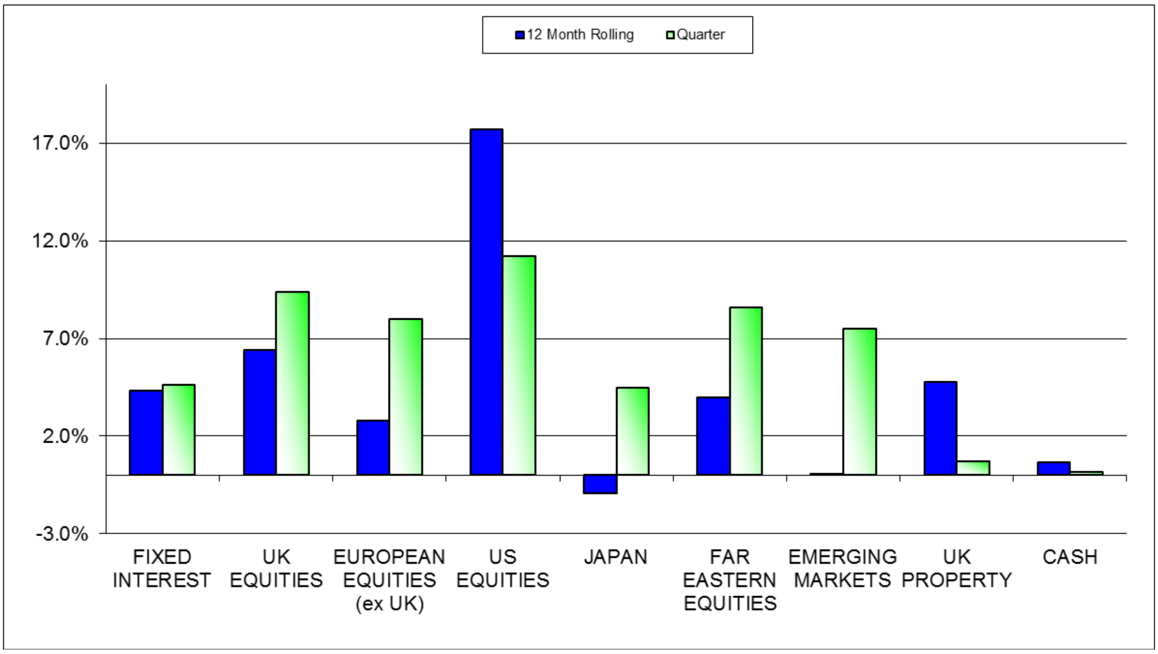
PURCHASES AND SALES OF INVESTMENTS
Quarter Ended 31st March 2019

Investment	Purchases £000's	Sales (£000's)	Net Investment £000's
UK Equities			
Legal & General	0	0	0
Global Equities			
Invesco	59,067	(55,319)	3,748
Columbia Threadneedle	11,258	(11,309)	(51)
Schroders	17,893	(17,637)	256
Morgan Stanley Global Brands	31	0	31
Total Equities	**88,249**	**(84,265)**	**3,984**
Alternatives			
Morgan Stanley	0	0	0
Total Alternatives	**0**	**0**	**0**
Property	**10**	**(209)**	**(199)**
Infrastructure	**966**	**(0)**	**966**
Fixed Interest			
BlackRock	0	0	0
Blackrock Interim	0	0	0
Total FI	**0**	**0**	**0**
TOTAL FUND	**89,225**	**(84,474)**	**4,751**

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 31st MARCH 2019



INDEX RETURNS	12 Months to Mar 19 %	Jan-Mar 19 %
FIXED INTEREST	4.3%	4.6%
UK EQUITIES	6.4%	9.4%
EUROPEAN EQUITIES	2.8%	8.0%
US EQUITIES	17.7%	11.2%
JAPANESE EQUITIES	-0.9%	4.5%
FAR EASTERN EQUITIES	4.0%	8.6%
EMERGING MARKETS	0.0%	7.5%
UK PROPERTY	4.8%	0.7%
CASH	0.7%	0.2%

APPENDIX D

Manager Voting – Jan-Mar 2019

Schroders

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Capitalization	Approve reduction in share capital		1	1
	Authorize share repurchase program		1	1
Directors related	Appoint internal statutory auditors and approve auditor's remuneration		2	2
	Approve discharge of board and president		1	1
	Approve discharge of management board		2	2
	Approve discharge of supervisory board		1	1
	Approve remuneration of directors and/or committee members		1	1
	Elect Director	3	42	45
Non Salary Comp	Advisory vote to ratify named executive officers' compensation	1	4	5
	Approve annual bonus payment for directors and statutory auditors		1	1
	Approve remuneration of executive directors and/or non-executive directors		2	2
	Approve remuneration policy		1	1
	Fix maximum variable compensation ratio		1	1
Reorganisation and mergers	Approve spin-off agreement		1	1
Routine/business	Accept consolidated financial statements and statutory reports		1	1
	Accept financial statements and statutory reports		1	1
	Amend articles/bylaws/charter -- non-routine		1	1
	Approve allocation of income and dividends		3	3
	Approve financial statements, allocation of income and dsicahrge directors		1	1
	Authorize board to ratify and execute approved resolutions		1	1
	Designate X as independent proxy		1	1
	Elect member(s) of rumeration committee	1	4	5
	Other business	1		1
	Ratify auditors		5	5
	Receive/approve special report		1	1
Shareholder proposals	Amend proxy access right	1		1
	Board diversity		1	1
	Political lobbying disclosure	1		1
	Link executive pay to social criteria	1		1

Columbia Threadneedle

Count of Vote Instruction		Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Antitakeover Related	Adjourn Meeting	1		1
	Reduce Supermajority Vote Requirement	1		1
Capitalization	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	1		1
	Approve reduction in share capital	2		2
	Authorise Issuance of Equity or Equity-Linked Securities with Preemptive Rights	1		1
	Authorize share repurchase program	2		2
	Increase Authorised Common Stock	1		1
Directors related	Approve discharge of management board	4		4
	Approve Discharge of Supervisory Board	14		14
	Approve remuneration of directors and/or committee members	2		2
	Elect Board Chairman/Vice-Chairman	1		1
	Elect Director	42		42
	Elect Supervisory Board Member	1		1
	Ratify Changes in the Composition of the Board		1	1
Non Salary Comp	Advisory vote to ratify named executive officers' compensation	3		3
	Approve Equity Plan Financing	1		1
	Approve Increase in Aggregate Compensation Ceiling for Directors	2		2
	Approve Qualified Employee Stock Purchase Plan	1		1
	Approve remuneration policy	1		1
Routine/business	Accept consolidated financial statements and statutory reports	1		1
	Accept financial statements and statutory reports	3		3
	Appoint Appraiser/Special Auditor/Liquidator	1		1
	Approve allocation of income and dividends	3		3
	Approve Dividends	1		1
	Designate X as independent proxy	1		1
	Elect member(s) of rumeration committee	4		4
	Ratify auditors	6		6
SH Health/Environ	Review Drug Pricing or Distribution	1		1

Invesco

	Count of Vote Instruction	Vote Instruction		
Proposal code category	Proposal Code Description	Against	For	Grand Total
Antitakeover Related	Adjourn Meeting		1	1
Capitalization	Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights	1	2	3
	Approve Reduction in Share Capital		3	3
	Authorize Issuance of Equity or Equity-Linked Securities with Pre-emptive Rights		2	2
	Authorize Reissuance of Repurchased Shares		1	1
	Authorize Share Repurchase Program		4	4
Directors Related	Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]		1	1
	Appoint Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	2	13	15
	Approve Discharge of Board and President		3	3
	Approve Discharge of Management and Supervisory Board		1	1
	Approve Discharge of Management Board		3	3
	Approve Discharge of Supervisory Board		2	2
	Approve Remuneration of Directors and/or Committee Members		7	7
	Elect Board Chairman/Vice-Chairman	1	1	2
	Elect Director	13	161	174
	Elect Directors (Bundled)		1	1
	Elect Supervisory Board Member		3	3
	Fix Number of Directors and/or Auditors		5	5
Non-Salary Comp.	Advisory Vote on Golden Parachutes		1	1
	Advisory Vote to Ratify Named Executive Officers ‘Compensation	1	5	6
	Amend Omnibus Stock Plan		1	1
	Amend Qualified Employee Stock Purchase Plan		1	1
	Approve Alternative Equity Plan Financing	2		2
	Approve Annual Bonus Payment for Directors and Statutory Auditors		2	2
	Approve Equity Plan Financing	3	1	4
	Approve Increase in Aggregate Compensation Ceiling for Directors		1	1
	Approve Increase in Aggregate Compensation Ceiling for Statutory Auditors		2	2
	Approve Remuneration of Executive Directors and/or Non-Executive Directors		1	1
	Approve Remuneration Policy		4	4
	Approve Restricted Stock Plan	1	2	3
Reorg. and Mergers	Amend Articles to: (Japan)		1	1
	Approve Merger Agreement		1	1
	Approve Spin-Off Agreement		1	1
Routine/Business	Accept Financial Statements and Statutory Reports		6	6
	Acknowledge Proper Convening of Meeting		3	3

	Approve Allocation of Income and Dividends		15	15
	Approve Auditors and Authorize Board to Fix Their Remuneration Auditors		2	2
	Approve Financial Statements, Allocation of Income, and Discharge Directors		1	1
	Approve Minutes of Previous Meeting		2	2
	Approve Remuneration of Directors and Auditors		1	1
	Authorize Board to Fix Remuneration of External Auditor(s)		2	2
	Change Company Name		1	1
	Designate Inspector or Shareholder Representative(s) of Minutes of Meeting and/or Vote Tabulation		3	3
	Designate X as Independent Proxy		1	1
	Elect Chairman of Meeting		2	2
	Elect Member(s) of Remuneration Committee		5	5
	Other Business	1		1
	Prepare and Approve List of Shareholders		3	3
	Ratify Auditors		14	14
SH-Compensation	Advisory Vote to Ratify Named Executive Officers' Compensation		1	1
	Link Executive Pay to Social Criteria	1		1
SH-Corp Governance	Approve Recapitalization Plan for all Stock to Have One-vote per Share		1	1
	Proxy Voting Tabulation		1	1
SH-Dirs.’ Related	Amend Proxy Access Right	1		1
	Board Diversity	1	1	2
SH-Health/Environ.	Review Drug Pricing or Distribution	1		1
SH-Other/misc.	Political Lobbying Disclosure		2	2
SH-Soc./Human Rights	Human Rights Risk Assessment	1		1

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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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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
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 January 19 to 31 March 19.

KPI's for the period 1.1.19 to 31.3.19						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
AVC In-house (General)	85	10	83	85	97.65	2.71
Change of Address	208	5	190	85	91.35	1.69

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
Change of Bank Details	72	5	63	85	87.5	2.19
DWP request for Information	1	10	1	85	100	2
Death Grant Nomination Form Received	733	20	733	85	100	1.31
Death Grant to Set Up	24	5	23	85	95.83	2.63
Death In Retirement	154	5	142	85	92.21	2.58
Death In Service	3	5	3	85	100	1
Death on Deferred	8	5	7	85	87.5	1.75
Deferred Benefits Into Payment Actual	232	5	210	90	90.52	1.49
Deferred Benefits Into Payment Quote	331	35	322	85	97.28	7.48
Deferred Benefits Set Up on Leaving	1902	10	1760	85	92.53	7
Divorce Quote	41	20	41	85	100	3.07
Enquiry	8	5	7	85	87.5	1.25
Estimates for Deferred Benefits into Payment	18	10	18	90	100	1.5
General Payroll Changes	80	5	72	85	90	1.8
Initial Letter Death in Service	3	5	3	85	100	0.67
Initial letter Death in Retirement	154	5	151	85	98.05	0.87
Initial letter Death on Deferred	8	5	7	85	87.5	3.88
Monthly Posting*	738	10	690	95	93.5	3.08
NI adjustment to Pension at State Pension Age	5	20	5	85	100	11.2
Pension Estimate	146	10	134	75	91.78	8.09
Refund Payment	300	10	293	95	97.67	1.54
Refund Quote	512	35	495	85	96.68	5.73
Retirement Actual	160	3	149	90	93.13	1.27
Set Up New Spouse Pension	65	5	59	85	90.77	4.85
Spouse Potential	7	20	7	85	100	3.14
Transfer In Actual	24	35	22	85	91.66	26.54

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
Transfer In Quote	38	35	38	85	100	2.26
Transfer Out Payment	19	35	19	85	100	20.48
Transfer Out Quote	128	20	118	85	92.19	13.14

*Reasons for underperforming KPI's:

Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc. Average time taken across all employers is less than 10 days. Only one repeat offender (Woodlands Academy).

2.0 Scheme Information

2.1 Membership numbers as at June19 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	22,873	28,173	1,346	21,943	2,685
Percentage of Membership	31.78	35.68	1.83	27.44	3.3
Change from Last Quarter	-1053	+69	+216	+491	+62

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	280	1524	1472	1987	2524	2766	3856	3716	2920	1499	255	74	22873

2.3 Employer Activity - During Jan 19 to Mar 19

New Academies and Education Trusts	4
New Town and Parish Council	0
New Admission Bodies	2
Total of New Employer	**3**
Employers Exited	1
Total Numbers of employers	**287**

WYPF are currently working on 18 organisations becoming employers in LPF

3.0 Member and Employer Contact

3.1 Over the quarter January to March we received 1 online customer response.

Over the quarter January to March 163 Lincolnshire member's sample survey letters were sent out and 23 (14.2%) returned:

Overall Customer Satisfaction Score:

January to March 2018	April to June 2018	July to September 2018	October to December 2018	January to March 2019
87.4%	72.1%	81.6%	81%	81.3%

Appendix A – Customer survey results.

3.2 Employer Training

Over the quarter January to March two Employer sessions were held in Lincolnshire, Pensionable Pay and Secure Administration.

Customer satisfaction scores were 96.95% and 98.58% respectively.

Appendix B – Employer feedback summary.

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 a solicitor appointed by Lincolnshire County Council.

Stage 1 appeals against the fund

One decision in this period. One appeal currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
1/3/19	Appeal against error in deferred benefit calc.	Decision letter drafted. To be passed to Jo Ray.	
10/12/18	Appeal against not being permitted to reverse decision to transfer in an AVC.	Turned down. Member had correctly been awarded to a service credit from the AVC that she had agreed to a transfer to and this cannot be reversed.	11/2/2019

Stage 1 appeals against scheme employers

One appeal decision in this period. One appeal currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
13/2/19	Appeal against being refused an ill health pension.	Referred to GLL as scheme employer.	
20/12/18	Appeal against decision not to turn on 'rule of 85'.	Appeal upheld. Decision taken to turn on 'rule of 85'.	16/1/2019
29/11/18	Appeal against incorrect pay figure being used in pension calculation resulting in overpayment of pension.	Referred back for clarification of correct final pay figure to be obtained from the scheme employer.	14/1/2019

Stage 2 appeals

No appeals currently outstanding.

Ombudsman

4.2 One case outstanding

Date application received	Details of complaint	Current position/outcome	Date complete
29/1/2019	Appeal against employer decision of employer not to waive the 'rule of 85' to allow unreduced benefits to be paid.	Notified of appeal by Pensions Ombudsman 'for your information only'.	

5.0 Administration Update

5.1 Annual Benefit Statements

This year the Annual Benefit has been revamped to show more options to the member. It is hoped that this will reduce the number of queries from members. Production of the Annual Benefit Statements (ABS) started slightly earlier this year. To date 66% of ABS's have been issued to members. The statutory deadline to issue all ABS's is 31 August.

5.2 Deferred Benefit Statements

To date 60% of Deferred Benefits Statements have been issued to members. Whilst there is no statutory deadline to issue these, they are being produced on a rolling programme with ABS's with an expected completion date by 31 August. It is expected that there will be a surge of requests for early payment as members can have benefits paid from age 55.

6.0 Current Issues

See **Appendix C**

7.0 Shared service Budget

7.1 Shared Service spend

The final management cost for 2018/19, showing a total spend of £11.99m against a revised budget of £13.64m, net underspend of £1.64m. The gross underspend is mainly due to significant underspend on salary, investment transaction cost recharges for bulk transfer and other contractual savings on investment transaction costs.

The latest projected spend for 2019/20 is forecasted at £13.42m, this is currently showing underspend of £1.22m. This projection does not include cost of new structure. Until the new structure is finalised by Bradford, it will be difficult to forecast spend to year end accurately.

	2019/20 Original Budget	2019/20 Forecast PD02	2019/20 Variance (Est vs Frcst)	2018/19 Revised Estimate	2018/19 Full Year Outturn	2018/19 Variance outturn
	£			£	£	£
Expenditure						
Accommodation	291,060	350,000	-58,940	293,200	337,061	-43,861
Actuarial Costs	200,000	249,100	-49,100	100,000	249,096	-149,096
Computer Costs	762,970	772,400	-9,430	754,000	755,103	-1,103
Employee Costs	9,494,290	7,232,800	2,261,490	8,233,200	7,061,802	1,171,398
Internal Recharges from Bradford Council	411,670	450,000	-38,330	410,100	451,749	-41,649
Printing and Postage	600,310	650,000	-49,690	449,400	552,377	-102,977
Other Running Costs	372,220	1,865,000	-1,492,780	1,396,200	1,863,089	-466,889
Transaction costs	2,500,000	1,848,000	652,000	2,000,000	724,389	1,275,611
	14,632,520	13,417,300	1,215,220	13,636,100	11,994,666	1,641,434
WYPF	-12,563,543	-11,428,533	-1,135,010	-11,526,100	-10,005,899	-1,520,201
Shared Service Income	-1,942,949	-1,825,398	-117,551	-1,985,000	-1,825,398	-159,602
Other income	-126,028	-163,369	37,341	-125,000	-163,369	38,369
	-14,632,520	**-13,417,300**	**-1,215,220**	**-13,636,100**	**-11,994,666**	**-1,641,434**

8.0 Awards

8.1 WYPF were winners of the Best Administration Award held by Pensions Age Awards held in London in 28 February.

8.2 WYPF also won the Pensions Administration Award held by the European Pension Awards held in London on 20 June.

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 A	Customer survey results
Appendix B	Employer Feedback summary
Appendix C	Current Issues

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 Pensions Manager.

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 January to 31st March 2019)

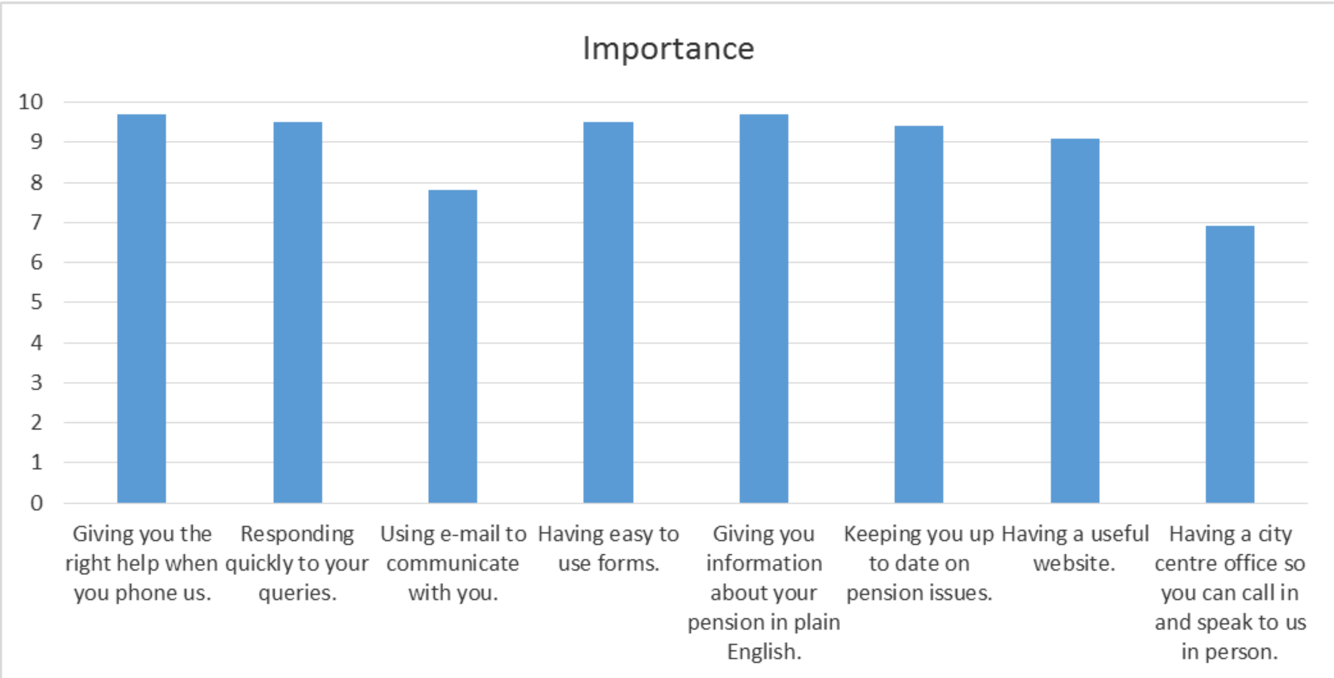
Over the quarter January to March we received **1** online customer response.

Over the quarter January to March **163** Lincolnshire member's sample survey letters were sent out and **23 (14.2%)** returned:

Overall Customer Satisfaction Score;

January to March 2018	April to June 2018	July to September 2018	October to December 2018	January to March 2019
87.4%	72.1%	81.6%	81%	81.3%

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



Sample of positive comments:

Member Number	Comments
8088034 (Phone Call)	She only phoned to say a huge thank you to the Retirements team for processing her retirement on short notice she is extremely happy and wanted to thank everyone involved in her retirement!
8052701	I am very happy with the service provided to me by WYPF. Prompt, reliable information delivered on time.
8091560	Staff very polite and helpful but some confusion over technical issues. On the whole positive.
Online	Quick response by email and by letter. Helpful, professional and quick response by email, and a pension estimate sent out very quickly to my home address. Thank you.

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8088075	Appalling time consuming, blunt correspondence, not concerned and not polite	Response sent by Kate G Thank you for taking time to complete and return our customer survey. I am sorry that you feel we have not provided an adequate level of service to you. I have reviewed your record and have to agree that some of the responses could have been more polite and informative. This is not the level of service we aim to provide to our members. Unfortunately your former employer and their various payroll providers did not inform us that you had opted out and subsequently have had difficulty in supplying data which ultimately lead to the delays in dealing with your case. Thankfully your case has now been resolved. Please accept my I apologies for any distress or inconvenience caused.
8077907	Abrupt, impersonal and not what I wanted to hear.	Response sent by Dipika Thank you for the comments you have made on the customer service questionnaire recently sent to you. You advised the member of staff you spoke to was abrupt, impersonal in their manner and not what you wanted to hear. Firstly I am sorry that you received this kind of service and I regret any frustration that the experience has caused you. I have reviewed your case and passed your comments to the individual's Line Manager. With regards your request to not receive a pension in respect of this post. As you were over the age of 55 and the reason for leaving stated by your employer

		was 'redundancy', the Local Government Regulations state, in these circumstances you must be awarded a pension benefits, there is no option to defer. Once again, I am very sorry for the upset this has caused you.
8108411	From filling in the forms to its money going to my account was very good. Talking 6 months to sort out my pension I think its little long.	Response sent by Dipika Thank you for taking the time to complete and return the customer service form. I am sorry that you are not completely happy with the service that West Yorkshire Pension Fund has provided. West Yorkshire Pension Fund has established time limits for dealing with all aspects of members' benefits, but these time limits can only begin once the necessary details have been received from all sources. Unfortunately, the length of time taken by employers to provide information is out of WYPF control. I have gone through your file. The reason for the delay in your case was due to you having multiple posts with Lincolnshire CC and your former employer, Lincolnshire CC, not supplying the relevant information in a timely manner to process your case. Once WYPF had received all the relevant information your benefits were calculated within the time limits that we have set. Once again please accept my apologies for any inconvenience caused by this matter.

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APPENDIX B

Employer Feedback (LPF)
Quarter 1 January – March 2019

Pensionable Pay – 23 January 2019

Feedback score: 96.95%

Comment	Action taken
A few more examples / exercises	Shared with trainer

A summary of the compliments

- Very informative

Secure Administration – 27 February 2019

Feedback score: 98.58%

Comment	Action taken
None	

A summary of the compliments

- Found the course very helpful and had all questions I had answered thoroughly

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APPENDIX C

Current Issues

1 Post 2014 Deferred Refund, member left more than five years ago

The National Technical Group has contacted the Scheme Advisory Board (SAB) to request a change in the LGPS Regulations 2013 to remove the requirement for a refund to be paid within five years. Unless and until such a change is made, the rules apply as they stand.

2 Pension Dashboards

The DWP consultation on the introduction of pension dashboards closed on 28 January 2019. The government published its response to the consultation on 4 April 2019. You can find the consultation documents, the Local Government Association (LGA) response and the government response to the consultation on:

- The non-scheme consultations page of www.lgpsregs.org
- The non-scheme consultations page of www.scotlgpsregs.org

Key details of the government's plans include:

- Legislation to compel pension providers to make consumers' data available on the dashboard
- Staged on-boarding of schemes with the majority of schemes participating within 3 to 4 years
- The inclusion of state pension data
- A commitment to multiple dashboards, with a non-commercial dashboard being overseen by the Money and Pensions Service (previously the Single Financial Guidance Body)

3 Fair Deal consultation

The Government's consultation on Fair Deal provisions in the LGPS closed on 4 April. Proposals include the introduction of a definition of 'Fair Deal employers' and 'protected transferees' who will retain the right to participate in the LGPS for as long as they are wholly or mainly employed on the outsourced service. Outsourcing employers would also be permitted to be a 'deemed employer' instead of contractors being required to have an admission agreement. As expected, the broadly comparable route will no longer be available. The consultation also includes proposals for the automatic transfer of LGPS assets and liabilities following a merger or takeover involving scheme employers.

4 Actuarial Factors

New actuarial factors for Additional Pension Ministry of Housing, Communities and Local Government (MHCLG) has issued revised factors for additional pension.

5 Revised Club memorandum published – effective from 1 April 2019

In March 2019 a revised version of the Club Memorandum, including new Club transfer factors, was published.

MHCLG will update the actuarial factor spreadsheet for England and Wales to include the new Club factors. The update will also include a revision to the CRA factors. The new Club memorandum is effective from 1 April 2019.

6 Consultation on Late Retirement

MHCLG has issued a technical consultation on the implementation of new late retirement factors proposed from 1 May 2019. MHCLG does not normally consult on actuarial guidance but have done so in this instance due to the significant change to the methodology being proposed. The consultation closed on 17 April.

7 Consultation on restricting exit payments

HM Treasury have opened a 12 week consultation called 'Restricting exit payments in the public sector: consultation on implementation of regulations'. The consultation documents can viewed on the non-scheme consultation page of www.lgpsregs.org. The consultation closes on 3 July 2019.

8. Consultation: Local valuation cycle and the management of employer risk

On 8 May 2019 MHCLG issued a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk'.

The consultation closes on 31 July 2019 and covers the following areas:

- amendments to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

Regarding the change to exit credit payments, given that the consultation proposes backdating the change, LGA are of the view that it would be legitimate to delay payment of an exit credit (where a side agreement was in place) pending the consultation outcome.

You are encouraged to respond to respond to the consultation before the deadline. The consultation documents are available on the scheme consultations page of www.lgpsregs.org

9. Scheme Advisory Board (SAB)
2018 annual report

The 2018 annual report has recently been published by the Scheme Advisory Board.

The aim of the annual report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. It aggregates information supplied in the 89 fund annual reports, as at 31 March 2018.

Key highlights:

- The total membership of the LGPS grew by 197,000 (3.4%) to 5.8m members in 2018 from 5.6m in 2017
- The total assets of the LGPS increased to £275bn (a change of 5%). These assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), as well as other asset classes (7%)
- The local authority return on investment over 2017/2018 was 4.4%. This was reflective of the market conditions during the year and set against the UK Return of 0.2%
- The Scheme maintained a positive cash-flow position overall. Scheme income was higher than total scheme outgoings by £500m; this is including investment income
- Over 1.7m pensioners were paid over the year.

The full report can be viewed on the Scheme Advisory Board website.

10. McCloud and valuation guidance

LGA bulletin 181 published in February 2019 reported that administering authorities had been asked to inform SAB about their preference concerning the approach to the 2019 valuation. Specifically, whether they would prefer to receive guidance from SAB on how McCloud / cost management should be taken account in the 2019 valuation, or if they would prefer to determine their own approach taking advice from their actuarial adviser.

The majority of funds expressed a preference to receive central guidance which was issued on 14 May 2019.

CIPFA have provided a separate note on accounting for McCloud / cost management.

Action for administering authorities

The SAB advice note sets out their proposed approach in five key points. Administering authorities are encouraged to discuss this approach, together with the CIPFA guidance note, with their actuaries.

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up to date information on Employer Monthly Submissions for the fourth quarter of the financial year 2018/19 (January to March).

Recommendation(s):

The Committee note the report and consider if there are any further actions they wish to take against employers submitting late or inaccurate payments or data.

Background

1 There are just under 270 employers within the Lincolnshire Pension Fund. All employers have a statutory responsibility, as set out within the Pensions Act 1995, to ensure that they pay over any contributions due to the Fund by the 19th of the month following their payroll. The Fund considers an employer a 'late payer' if either the cash and/or the data is received after this date.

2 The Fund has in place robust processes for monitoring the receipt of payments and data from employers. Within the Pensions Team, the Finance Technician post is responsible for employer contributions monitoring. Additional checks are also undertaken by the West Yorkshire Finance Team on the detail within the data submissions, and the pensions system itself identifies errors, queries, or where further information is required from the employer (e.g. additional leavers' information).

3 After any late payment (including data submission) an email is sent to the employer reminding them of their responsibilities. In addition to emailing employers, the Lincolnshire Pension Fund Finance Technician is in regular contact with employers and their payroll providers to prompt payments/data submissions and clarify any queries. Much work has been put into building a good relationship with the employers and payroll providers, to assist in understanding the process and the data required.

4 A summary of all late contributions or data submissions since April 2018 is set out in table one below and details of the individual employers for quarter four can be found at **Appendix A**.

Table One: Late contributions and data submissions to March 2019

Month	Payment of Contributions		Submission of Data	
April	*6*	*2.4%*	*15*	*6.0%*
May	*2*	*0.8%*	*23*	*9.1%*
June	*5*	*2.0%*	*7*	*2.8%*
July	*4*	*1.6%*	*9*	*3.6%*
August	*5*	*2.0%*	*6*	*2.4%*
September	*2*	*0.8%*	*2*	*0.8%*
October	*3*	*1.1%*	*13*	*4.9%*
November	*0*	*0.0%*	*8*	*3.0%*
December	*3*	*1.1%*	*11*	*4.1%*
January	0	0.0%	13	4.9%
February	1	0.4%	3	1.1%
March	4	1.5%	7	2.7%
Total for 2018/19	**35**		**117**	

5 The analysis shows the number of employers making late contributions is a relatively small percentage of the overall number of employers. A higher number of employers submit their data returns late, or have made an incorrect submission by the deadline date (i.e. their data contains errors, or does not agree to the contributions paid across). A number of reasons have been identified for late returns. These include:

- Staff changes at a number of employers;
- Merger of a number of schools into a larger academy trust; and
- Change of payroll providers at a number of employers.

6 None of these breaches individually have been material and therefore have not been reported to the Pensions Regulator; however, they have been included en masse in the breaches register.

7 If any employer makes contribution payments or submits data late in three out of six months on a rolling basis, they will receive a fine, unless they are able to offer extenuating circumstances. Fines are currently set at a minimum of £136. Details of fines issued since April 2018 are set out in table two over page.

Table Two: Late contributions fines to March 2019

April	*May*	*June*	*July*	*August*	*September*
No fines	*3*	*2*	*4*	*3*	*2*
October	*November*	*December*	January	February	March
No fines	*3*	*2*	2	0	3

Conclusion

8 This report provides quarterly monitoring information on the timeliness and accuracy of employer submissions to help the Pensions Committee understand if there are any issues arising from late payments or data and any further actions which are required to address employers not meeting their statutory responsibilities.

9 Employer submissions have increased in prominence as the number of employers within the scheme has increased. The Fund has responded to this by having a dedicated resource to monitor employer submissions and working closely with West Yorkshire and employers to reduce the numbers of late payers.

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	List of Late Contributions Payments or Late Data Submissions Quarter Four (January to March 2019)

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

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Appendix A

Late Contributions Payments or Late Data Submissions

January 2019

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Bourne Town Council	No		Yes	20/02/2019
Lincoln Christ's Hospital Academy	No		Yes	01/03/2019
Queen Elizabeth's High School, Gainsborough	No		Yes	25/02/2019
Grantham College	No		Yes	20/02/2019
Eastfield Infant and Nursery School	No		Yes	04/03/2019
Our Lady of Good Counsel	No		Yes	08/03/2019
Serco	No		Yes	26/02/2019
St Mary's Catholic Primary School, Grantham	No		Yes	25/02/2019
St Mary's R C Primary School, Boston	No		Yes	25/02/2019
Stamford St Augustines Catholic Primary	No		Yes	12/03/2019
The Kings School, Grantham	No		Yes	27/02/2019
Mercers Wood Academy	No		Yes	26/02/2019
Waddington All Saints	No		Yes	04/03/2019
	Total = 0		Total = 13	

February 2019

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Welton St Mary's	Yes		Yes	Outstanding
Stamford St Augustines Catholic Primary	No		Yes	29/03/2019
Springwell Academy Lincoln	No		Yes	11/04/2019
	Total = 1		Total = 3	

March 2019

Employer	Late Contributions	Date received	Late Data Submissions	Date submitted
Queen Elizabeth Academy, Alford	No		Yes	Outstanding
Lincolnshire Housing Partnership	Yes	10/05/2019	No	
Bourne Town Council	No		Yes	22/04/2019
Crowland Parish Council	Yes	06/06/2019	Yes	03/06/2019
Lindsey Marsh Internal Drainage Board	No		Yes	Outstanding
Outspoken training	Yes	25/04/2019	Yes	25/04/2019
Pinchbeck Parish Council	Yes	23/04/2019	No	
St Lawrence Academy, Horncastle	No		Yes	Outstanding
Welton St Mary's	No		Yes	Outstanding
	Total = 4		Total = 7	

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 January 2019 to 31 March 2019.

Recommendation(s):

That the Committee note this report.

Background

This report is split into four areas:

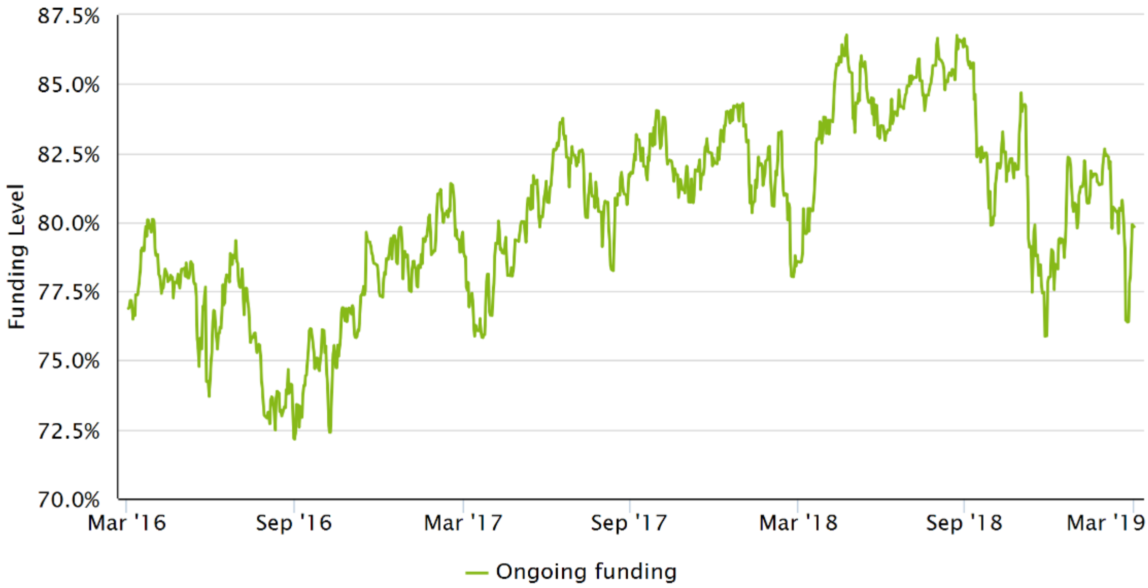
- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

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, 31 March 2016, to the current quarter end, 31 March 2019. 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.

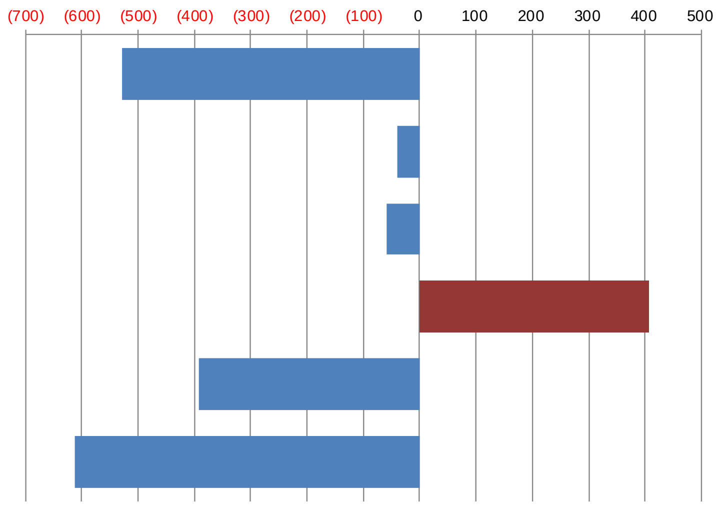
1.2 The graph below shows the funding level at the latest formal valuation, at 76.9%, and its movement to 31 March 2019, where the funding level has increased slightly to 79.8%.

Change in funding level since last valuation



1.3 Over the period 31 March 2016 to 31 March 2019 the deficit, in real money, has increased from £529m to £612m. The chart below shows the main impactors on the deficit. The excess return on assets no longer offsets the negative changes in yields and inflation, interest deficit and contributions (less benefits accruing) seen over this period.

Surplus/(Deficit)	£'m
Surplus/(Deficit) as at 31st March 2016	(529)
Contributions (less benefits accruing)	(40)
Interest on surplus/(deficit)	(59)
Excess return on assets	408
Impact of change in yields & inflation	(392)
Surplus/(Deficit) as at 31March 2019	(612)



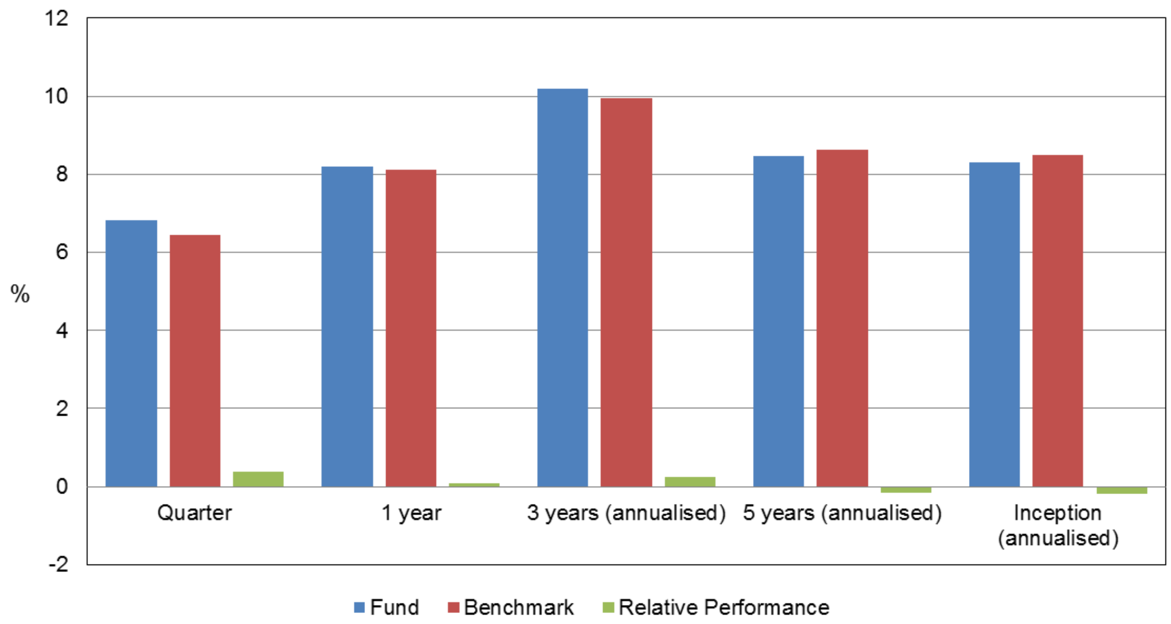
1.4 On a shorter term time horizon, looking at the last quarter, the funding level has increased from 79.0% to 79.8% between 31 December 2018 to 31 March 2019. The deficit has increased from £602.1m to £612.0m, this is due to a significant reduction to the impact of change in yields and inflation. At 31 December 2018 this was estimated to be -£256.1m by 31 March 2019 this had fallen to -£392.0m.

2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £151.8m during the quarter from £2,199.9m to £2,351.7m, as the table below shows. The most significant movements in the quarter were seen on equities, both global and UK equity holdings which increased in value significantly. Global Equities by 10.1% or £96.6m, and UK Equities by 9.4% or £37.0m.

Asset Class	Q1 2019 £m	Q4 2018 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	429.9	392.9	18.3	20.0	(1.7)
Global Equities	1,052.0	955.4	44.7	40.0	4.7
Alternatives	328.6	322.0	14.0	15.0	(1.0)
Property	203.0	205.3	8.6	9.0	(0.4)
Infrastructure	44.4	41.8	1.9	2.5	(0.6)
Fixed Interest	283.2	274.6	12.0	13.5	(1.5)
Cash	10.6	7.9	0.5	0.0	0.5
Total	**2,351.7**	**2,199.9**		**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	6.83	6.44	0.39
1 year	8.20	8.11	0.09
3 years*	10.19	9.94	0.25
5 years*	8.47	8.64	(0.17)

Inception**	8.31	8.49	(0.18)

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

2.3 Over the quarter, the Fund produced a positive return of 6.83% (as measured by JPMorgan), outperforming the benchmark by 0.39%. The Fund was also ahead of the benchmark over the one and three year periods, but slightly behind the benchmark over the five year period 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 four ratings between negative and preferred. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 Hymans Robertson are continuing the process of focusing their manager research. This has led to a reduction in the number of manager of 'preferred' and 'positive' rating and fewer formal rating overall being maintained by the research team. Across property, the team will maintain formal ratings for most pooled and segregated UK managers, including fund-of-funds and global managers, but not for managers of regional overseas funds. Across infrastructure, formal ratings will only be maintained for leading managers, such as Infracapital and Pantheon, who are expected to be raising new funds on a regular basis. New fund launches from other managers will be assessed on a case-by-case basis, though close end funds with existing client investments will continue to be monitored.

3.3 The Fund has nineteen managers. During the quarter there has been one change to manager ratings, Blackrock Property has been downgraded from 'Positive' to 'Suitable'. There are two motivations for this downgrade. Firstly Hymans believes the size of the fund has a negative impact on its ability to deliver outperformance. Secondly, its high fee makes it one of the most expensive funds in the peer group, this is not justified given the quality of its approach.

3.4 Officers continue to monitor managers closely and arrange meetings to discuss any potential issues.

Manager	Rating				
	No Rating	Negative	Suitable	Positive	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				

Manager	Rating				
	No Rating	Negative	Suitable	Positive	Preferred
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

(*) Hymans rate Invesco Global Equities at 'positive', however, the rating has been placed 'on watch' during the quarter due to concerns over its performance, specifically its low hit rate of ideas. The Hymans team have met with the team at Invesco and are currently reviewing the rating.

4. Individual Manager Update

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

4.2 Over the quarter, four managers showed a positive return relative to their benchmark: Columbia Threadneedle, Schroders, Morgan Stanley Global Brands and Morgan Stanley Alternatives. Three managers achieved the benchmark, Legal and General and both Blackrock funds, whilst Invesco was the only fund to show a negative return relative to their benchmark.

	3 months ended 31 March 2019			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %*	Manager Return %	Index Return %	Relative Variance %*	Target p.a. %
Legal & General (UK Equities)	6.5	6.4	0.0	6.5	6.4	0.0	Match Index
Invesco (Global Equities (ex UK))	8.7	10.0	(1.1)	9.1	12.3	(2.8)	+1.0
Columbia Threadneedle (Global Equities)	12.9	9.8	2.9	12.3	11.0	1.1	+2.0
Schroders (Global Equities)	9.9	9.6	0.2	10.0	10.4	(0.4)	+3.0
Morgan Stanley Global Brands	11.8	9.9	1.7	22.9	12.0	9.7	n/a
Blackrock (Fixed Interest)	4.6	4.6	0.0	4.4	4.3	0.1	Match Index
Blackrock Interim (Fixed Interest)	1.6	1.6	0.0	2.2	2.2	0.0	Match Index
Morgan Stanley (Alternative Investments)	2.8	1.2	1.5	3.8	4.9	(1.1)	3M LIBOR + 4%

**Note: Relative Variance is the scale of the performance achieved. This measures the proportional out/under performance of a portfolio relative to the benchmark.*

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report March 2019

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.

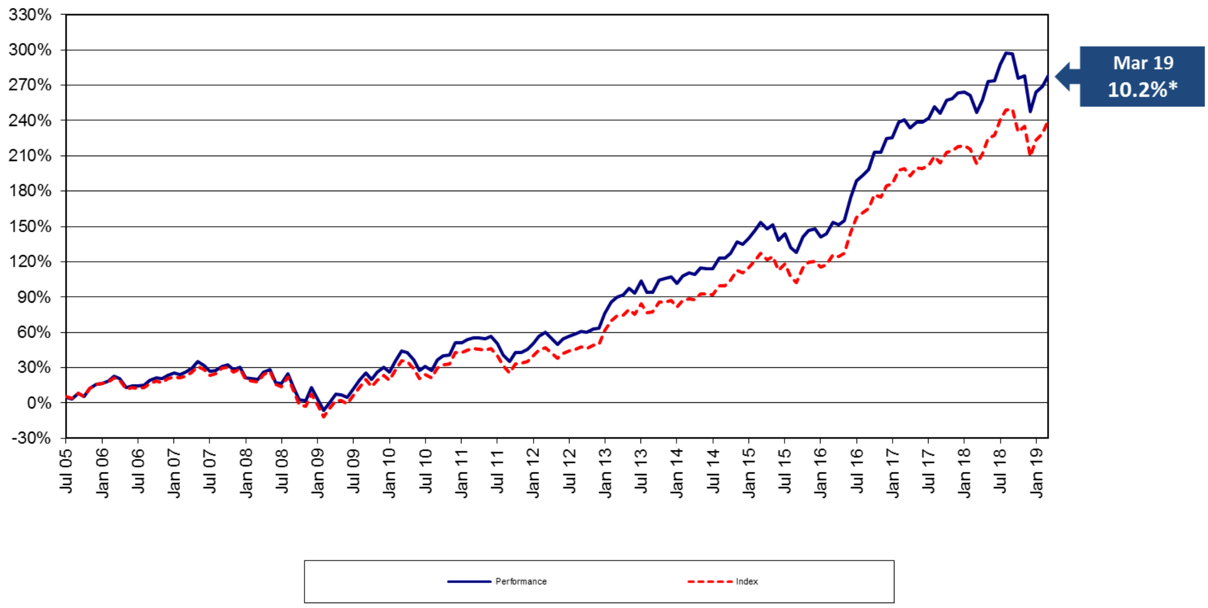
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£502,820,032	£546,783,306

Performance

Stock selection weighed on performance during the first quarter. In the portfolio, Earnings Momentum was the only factor able to add value, while contributions from Price Momentum, Quality and Value were negative. Stock-specific events, which are not attributable to any other factor, further detracted from performance. Active sector and country weights, residuals from the multi-factor stock selection approach, did not have any significant impact on relative return. Other factors contributed negatively to active return which was largely driven by the exposure to smaller capitalized stocks.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	8.7	9.1	14.2	12.4	10.2
MSCI World ex UK	10.0	12.3	14.7	12.5	9.3
Relative Performance	(1.1)	(2.8)	(0.4)	(0.1)	0.8

* annualised, inception date 01/07/2005

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
476	408	9.1	9.0

Purchases and Sales

During the last quarter, several stock adjustments were made to the portfolio because of the stock selection process. Walgreens Boots Alliance, Starbucks, Athene Holdings and Popular were added, with trade weights of 0.45%, 0.43%, 0.39% and 0.28%, respectively. Furthermore, a position in CP Railway with a trade weight of 0.31% was increased. On the other side, Verisign, BASF and Aristocrat Leisure with trade weights of 0.48%, 0.37% and 0.30%, respectively were sold out. Positions in VMware and Cigna with trade weights of 0.29% and 0.28%, respectively, were decreased.

Largest Overweights

L'Oreal	0.80%
Roche	0.78%
Mitsui	0.69%
Peugeot	0.63%
ConocoPhillips	0.63%

Largest Underweights

Alphabet	(0.63%)
Netflix	(0.41%)
Home Depot	(0.34%)
DowDuPont	(0.33%)
Abbott Labs	(0.32%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Microsoft	£14,633,503
2	Apple	£12,341,174
3	Amazon	£9,844,997
4	Roche	£6,966,004
5	Cisco Systems	£6,152,428
6	Procter & Gamble	£6,075,952
7	Alphabet	£5,797,519
8	Bank of America	£5,486,282
9	L'Oreal	£5,277,117
10	Citigroup	£5,189,942

Hymans Robertson View

Hymans rate Invesco Global Equities at 'positive', however, the rating has been placed 'on watch' during the quarter due to concerns over its performance, specifically its low hit rate of ideas. The Hymans team have met with the team at Invesco and are currently reviewing the rating.

Risk Control

The ex-ante tracking error of the fund remained steady at 1.06% (ex post target 1%). With 96%, the major part of our active risk was associated with our stock selection factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report March 2019

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.

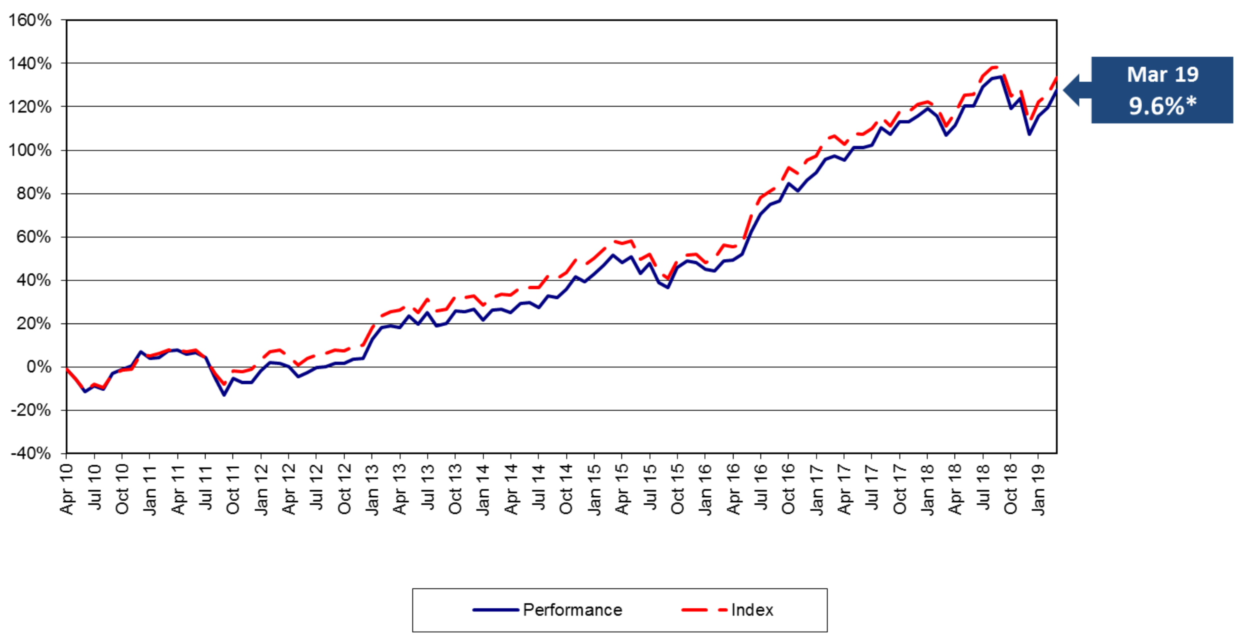
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£123,911,170	£136,206,686

Performance

The portfolio outperformed the benchmark index in this quarter, this was due to the positive effect of stock selection. Consumer staples, industrials and healthcare positions added the most to relative returns, while technology names detracted. By region, performance was strongest in Japan, while North American names detracted overall.

Schroders Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	9.9	10.0	15.2	12.5	9.6
MSCI ACWI (Net)	9.6	10.4	14.3	11.8	9.9
Relative Performance	0.2	(0.4)	0.8	0.6	(0.3)

*annualised, Inception date April 2010

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
82	60	11.6	15.7

Purchases and Sales

Amongst a number of trades enacted over the quarter, Alcoa was sold. The difficulty in determining an appropriate level for aluminium and alumina is currently very challenging, with Rusal sanctions further clouding the supply outlook. This has reduced conviction and Schroders closed the position. Schlumberger was also sold, as the environment for offshore oil and gas services has grown less positive, adding instead to positions in onshore services providers Cabot and Occidental.

Some of these proceeds were used to build the position in Lloyds Banking. Lloyds is one of the few European banks showing positive earnings per share (EPS) revisions. While revenues are only growing slowly, its cost discipline and falling provisions has led to positive EPS surprises, which we expect to continue.

Top 5 Contributions to Return

Philip Morris	0.2%
Danaher	0.2%
AIA Group	0.1%
Visa	0.1%
LVMH Moet Hennessy	0.1%

Bottom 5 Contributions to Return

UnitedHealth Group	(0.3%)
Booking	(0.2%)
Bayerische Motoren	(0.2%)
Samsung	(0.2%)
Apple	(0.2%)

Top 10 Holdings

1	Alphabet	£4,802,927
2	Visa	£4,285,667
3	Amazon	£3,936,077
4	Nestle	£3,987,116
5	Comcast	£3,826,476

6	AIA	£3,412,296
7	Bank of America	£3,302,370
8	JP Morgan	£3,294,656
9	Novartis	£3,258,287
10	Phillip Morris	£3,244,168

Hymans Robertson View

Hymans Robertson rate Schroders Global Alpha at 'Positive'. Schroders announced that Rory Bateman has now assumed his responsibilities as Head of Equities and joined the Group Management Committee, replacing Nicky Richards. This move was announced in advance and there aren’t any concerns over this appointment. Bateman has been a core figure within Schroders equity business since he joined the form in 2008 and has over 20 years' experience of managing equity strategies. Schroders have stated they plan to appoint someone internal to fill the Head of UK and European Equities role.

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 March 2019

Investment Process

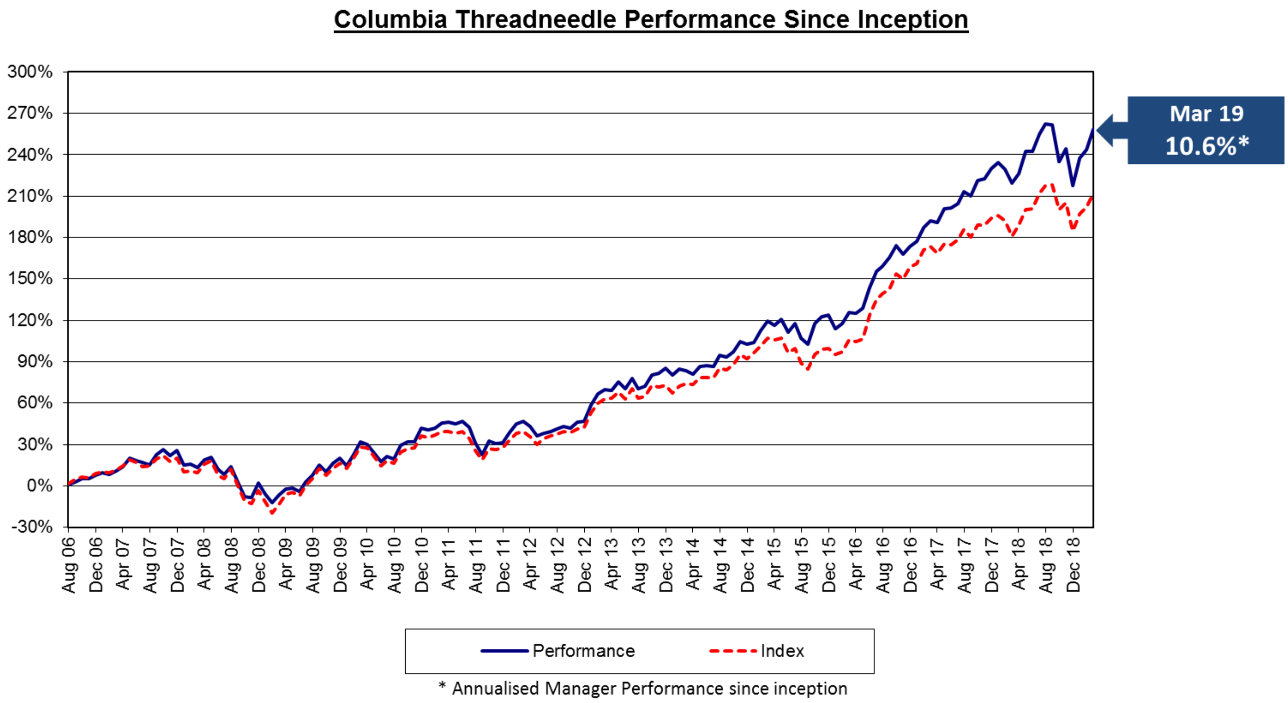
The portfolio is designed to outperform the MSCI All Countries World Index by 2% per annum, gross of fees, over rolling three-year periods. The team focus on quality growth companies with high or rising returns on investor capital, and sustained or improving competitive advantage. The focus is on stock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

Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£132,269,695	£149,282,166

Performance

Gross of fees, the fund outperformed its benchmark in the first quarter of 2019. Strong stock selection drove returns, with picks in financials, communications, financials and healthcare sectors providing particularly helpful. Asset allocation detracted marginally, due to underweight positions in consumer staples and real estate.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	12.9	12.3	16.7	14.3	10.6
MSCI ACWI	9.8	11.0	15.0	12.4	9.4
Relative Performance	2.9	1.1	1.5	1.7	1.1

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
76	63	6.8	6.7

Purchases and Sales

Positions were initialled in visual computing technology developer NVIDIA, the stock had pulled back on concerns around demand for digital currency mining hardware, and in healthcare product provider Baxter International, the transitory weakness in its medication delivery and nutrition sales will improve and that new product launches can boost returns. During the quarter positions were also extended in video game publisher Activision Blizzard, which is well-placed to capitalise on the shift from packaged to digital sales and Comcast which is signalling momentum in its core cable segment.

To fund these purchases, Schlumberger, British American Tobacco, Bank of America and Sekisui Chemical were sold.

Top 5 Contributions to Return

Alibaba Group	0.71%
Mastercard	0.56%
Facebook	0.56%
Ping An Insurance	0.55%
Lam Research Corp	0.54%

Bottom 5 Contributions to Return

Essilor Luxottica	(0.20%)
CME Group	(0.19%)
Centene Corp	(0.19%)
OSRAM Licht	(0.11%)
Activision Blizzard	(0.05%)

Top 10 Holdings

1	Alphabet	£5,715,492
2	Amazon	£5,023,966
3	Microsoft	£4,892,467
4	Mastercard	£4,178,702
5	Ping An	£4,096,681
6	Alibaba	£3,999,805
7	Visa	£3,866,939
8	JP Morgan	£3,812,853
9	Facebook	£3,747,212
10	HDFC Bank	£3,588,051

Hymans Robertson View

Hymans Robertson rate Columbia Threadneedle at 'positive'. The company are searching for a new CEO for EMEA after Michelle Scrimgeour resigned to join competitor LGIM in summer 2019. She will work closely with Ted Truscott, CEO over the coming months. Columbia Threadneedle is yet to announce its expected timeline for appointing Scrimgeour's successor and Hymans will monitor this closely and provide updates on developments.

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 March 2019

Investment Process

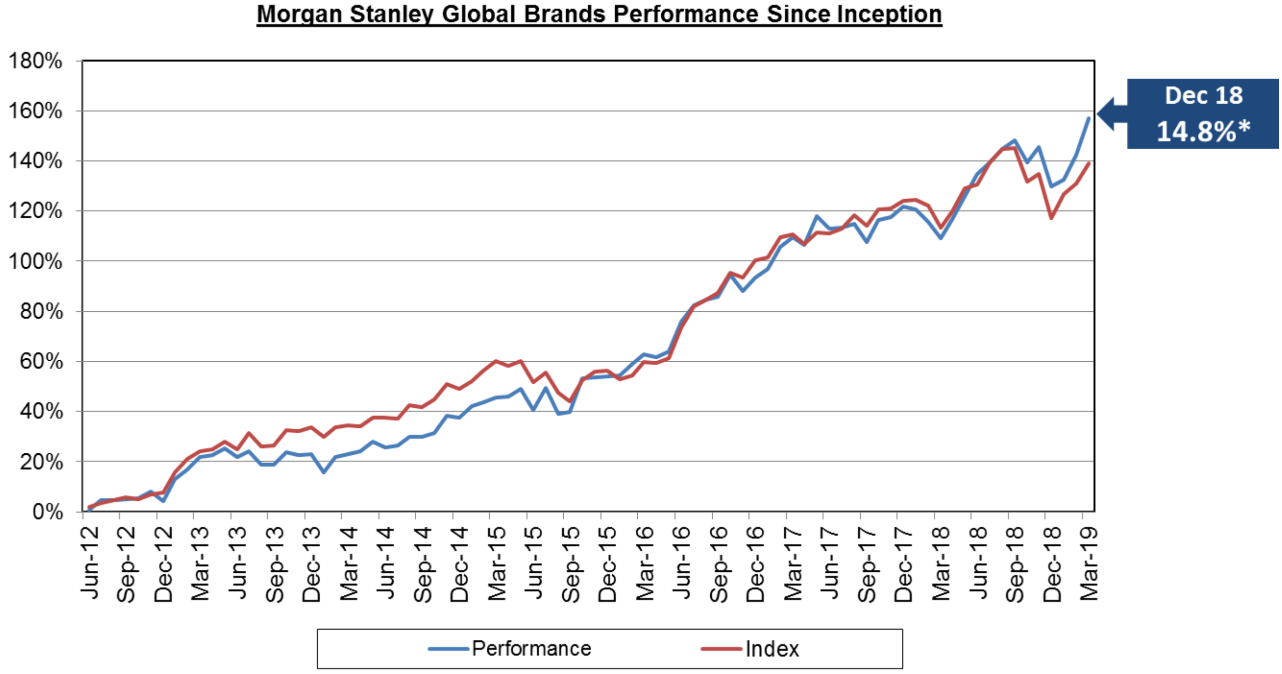
The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong "intangible assets". The Fund is benchmarked against 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 31.12.18	Value at 31.03.19
£196,420,114	£219,728,687

Performance

For the first quarter of 2019, the portfolio outperformed despite the strong markets. Stock selection was very strong for the quarter, as sector-beating performance in health care, consumer staples and financials had far more impact than the underperformance in communication services, industrials and information technology. Sector allocation was positive, with the benefits of the overweight in information technology and the underweight in financials stronger than the costs of the consumer staples' slight lag to the market and the drag from cash holdings.



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	11.8	22.9	16.4	15.9	14.8
MSCI World Index	9.9	12.0	14.4	12.2	13.6

Relative Performance	1.7	9.7	1.8	3.3	1.1

*annualised, inception date 18/06/2012

Purchases and Sales

It was a quiet quarter for portfolio activity. Aside from the completion of the Disney acquisition of 21st Century Fox in late March, where the resulting cash was spread around seven existing holdings, there was only one strategic trade. That was exiting Altria, with funds being put into the existing Philip Morris International position. The tobacco industry is undergoing significant disruption due to the emergence of 'next generation products' (NGP) with reduced risks, aggravated in the U.S. by regulatory pressure. By contrast Philip Morris International is the clear leader in heated-tobacco products

Top Contributors to Return

Philip Morris	171bps
Microsoft	97bps
Accenture	95bps

Bottom Contributors to Return

Coca-Cola	(10bps)
Fox	(7bps)
Altria	(6bps)

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	8.48
Microsoft Corp	Software	7.15
Philip Morris	Tobacco	6.78
Sap	Software	5.13
Unilever	Personal Products	4.99
Visa	IT Services	4.98
Accenture	IT Services	4.83
Baxter International	Health Care Equipment & Supplies	4.30
Heineken Holdings	Beverages	3.68
Danaher Corp	Health Care Equipment & Supplies	3.62

Hymans Robertson View

Hymans Robertson rate Morgan Stanley Global Brands at 'suitable'. There has been no change in rating from the previous quarter.

Lincolnshire Pension Fund
UK Equities – Legal & General (LGIM)
Quarterly Report March 2019

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 31.12.18	Value at 31.03.19
£392,746,958	£429,761,712

Performance

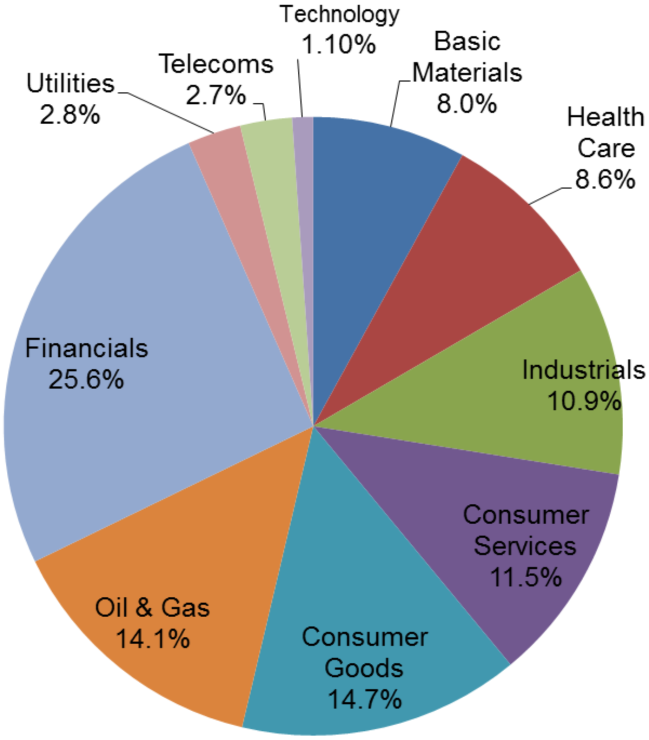
Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	6.5	9.5	N/A	N/A	0.3
Benchmark	6.4	9.5	N/A	N/A	0.1
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	8.8
HSBC Holdings	5.4
BP	4.8
AstraZeneca	3.7
Glaxosmithkline	3.5
Diageo	3.3
British American Tobacco	3.2
Rio Tinto	2.2
Unilever	2.1
Lloyds	2.1
Total	**39.0**

Whole Fund Sector Breakdown



Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report March 2019

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	**31.12.18 £**	**31.03.19 £**
Corporate Bond All Stocks Index Fund	70,035,194	72,881,347
Over 5 Years UK Index-Linked Gilt Index Fund	39,805,842	42,337,249
All Stocks UK Gilts*	27,743,408	28,685,461
Cash (residual)	1	1
Total	**137,584,346**	**143,904,473**

*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	4.6	4.4	6.3	7.2	7.1
Composite Benchmark	4.6	4.3	6.3	7.1	7.0
Relative Performance	0.0	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

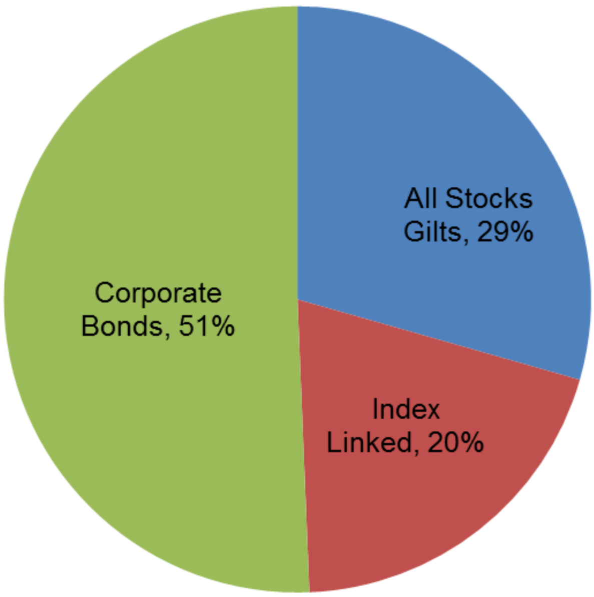
Hymans Robertson rate Blackrock fixed interest at 'positive'.

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 31 March 2019.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report March 2019

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 31.12.18	Value at 31.03.19
£137,042,880	£139,253,249

Note: An additional £10m was invested in July 2018

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	1.6	2.2	n/a	n/a	1.4
Benchmark	1.6	2.2	n/a	n/a	1.4
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

Hymans Robertson rate Blackrock fixed interest at 'positive'.

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report March 2019

Investment Process

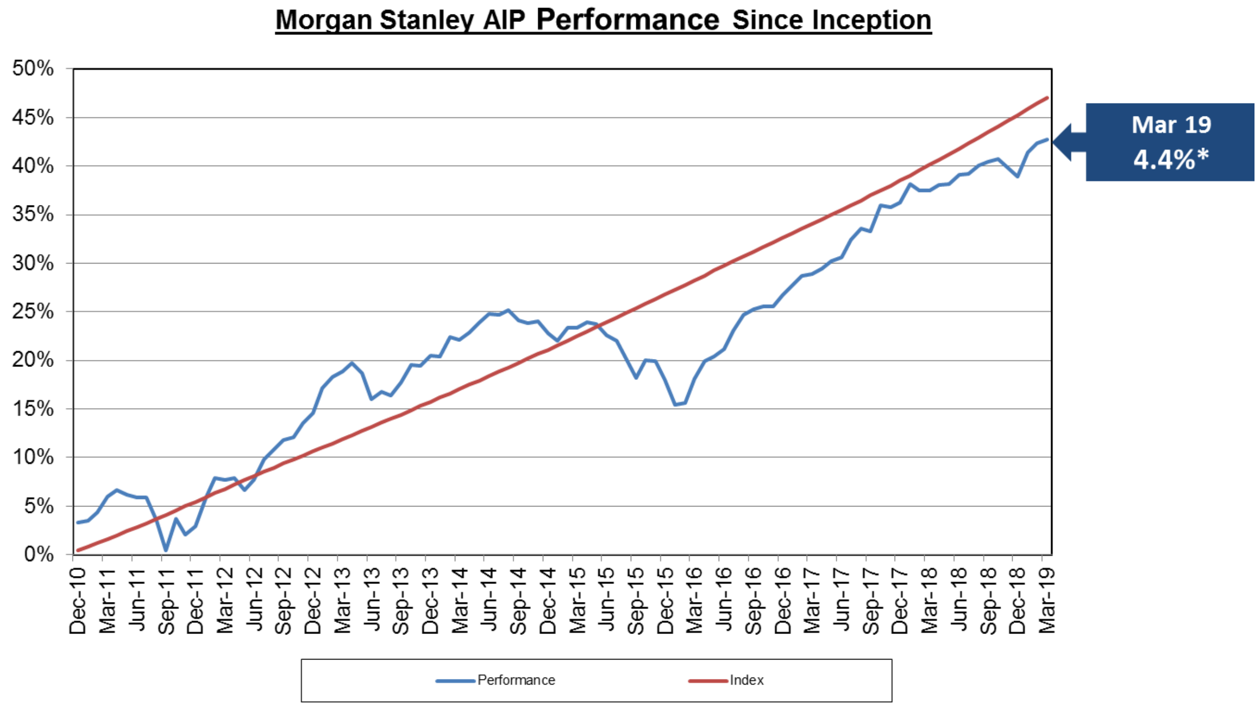
Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement the existing Fund allocation. The manager has a target to beat the return 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 31.12.18	Value at 31.03.19
£294,067,078	£303,945,932

Performance

The total alternatives portfolio (excluding legacy private equity holdings) returned 2.8% during the quarter. Absolute returns were driven by hedge funds and expanded credit allocations. All asset classes contributed positively, with the exception of catastrophe risk. Morgan Stanley's tactical decisions benefitted returns, particularly the reintroduction of the frontier equity allocation which benefitted from the broad-based equity market rally. In contrast, manager selection modestly detracted.



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	2.8	3.8	6.5	3.2	4.4
3 Month LIBOR + 4%	1.2	4.9	4.7	4.7	4.7

Relative Performance	1.5	(1.1)	1.8	(1.4)	(0.4)

* annualised since inception date 24/11/2010 (excludes legacy PE portfolio assets)

Allocation

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

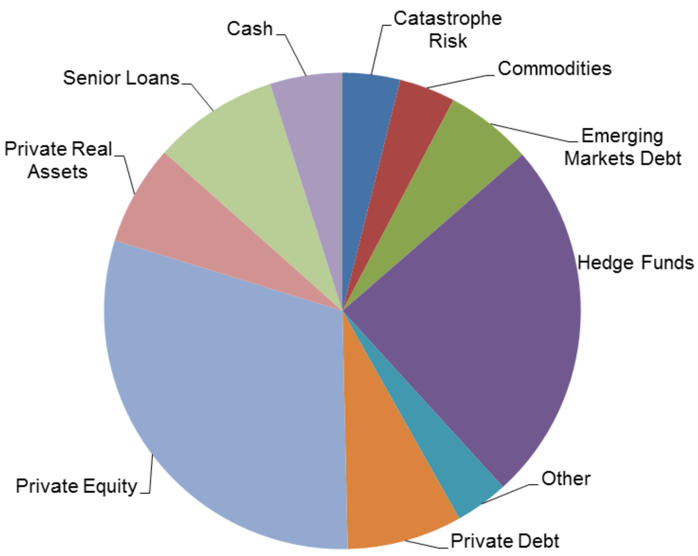
- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private 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 table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 31 March 2019.

Strategy

Alpha	28.47%
Credit	14.44%
Discovery	2.61%
Real Assets	49.95%
Cash	4.53%

Asset Class



Hymans Robertson View

Hymans Robertson rate Morgan Stanley Alternatives at 'suitable'. There has been no change in rating from the previous quarter.

Risk Control

Portfolio volatility since inception is 3.49%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 6.83%, outperforming the benchmark which returned 6.44%.

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.

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

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Annual Report on the Fund's Property and Infrastructure Investments**

Summary:

This report outlines the performance of the Fund's property and infrastructure investments for the year ended 31 March 2019.

Recommendation(s):

The Committee note the report.

Background

1. Introduction

1.1 The Fund's investment exposure to property and infrastructure is achieved via holdings in pooled vehicles.

1.2 The Fund's strategic allocation of 9.0% to property is slightly higher than the average local authority pension fund, currently at 7.8%. The market value of holdings in property pooled vehicles at 31 March 2019 was £202.9m (8.6% of the Fund). Whilst the majority of exposure is to UK commercial property, to diversify the property allocation the Fund made commitments to European commercial property, property venture type funds and Asian commercial property.

1.3 The Fund also has a 2.5% strategic allocation to infrastructure and has made commitments to Private Finance Infrastructure schemes. Again this is slightly higher than the average local authority pension fund, which is currently 1.1%. The market value of holdings in infrastructure pooled vehicles at 31 March 2019 was £44.4m (1.9% of the Fund).

1.4 The table over sets out the Fund's holdings as at 31 March 2019.

Market value of property and other holdings at 31 March 2019

Property Pooled Investment Vehicle	Undrawn Commitments 31/03/2019 £m	Market value of LCC holdings 31/03/2019 £m
BALANCED UK PROPERTY		
Aviva Pooled Property Fund	n/a	48.5
Royal London Exempt Unit Trust	n/a	24.2
Blackrock – UK Property Unit Trust	n/a	42.1
Aberdeen Standard - Trustee Investment Plan	n/a	63.8
Total Balanced UK Property	**n/a**	**178.6**
PROPERTY VENTURES		
RREEF – Property Ventures Fund III	0.0	0.5
Franklin Templeton European Fund of Funds	0.3	0.8
Franklin Templeton Asian Fund of Funds	3.0	1.9
Igloo Regeneration partnership	0.0	1.0
Total Property Ventures	**3.3**	**4.2**
EUROPEAN COMMERCIAL PROPERTY		
Aberdeen Standard European Growth Fund	**0.0**	**12.1**
INFRASTRUCTURE		
Innisfree PFI Continuation Fund II	0.5	8.2
Innisfree PFI Secondary Fund	1.4	16.8
Innisfree PFI Secondary Fund 2	1.7	7.7
Infracapital Greenfield Partners I	8.8	7.7
Pantheon Global Infrastructure III	12.4	4.0
Total Infrastructure	**24.8**	**44.4**
Property/Infrastructure Cash	**n/a**	**8.0**
TOTAL PROPERTY AND INFRASTRUCTURE	**28.1**	**247.3**

1.5 The performance of the property and infrastructure holdings during 2018/19 was as follows:

- UK Commercial Property Unit Trusts return in the year saw an under performance, of 1.74% against a benchmark of 4.88%;
- Property Ventures was a significant out performance of 11.07% against the benchmark of 7.00%; and
- Infrastructure also saw a significant out performance of 12.21% against a benchmark of 6.00%.

The overall return on the portfolio was 4.25% compared to a benchmark performance of 5.31%. UK Commercial Property Units represents 72% of the property and infrastructure holdings. Their underperformance was not out weighed by the outperformance seen for Property Venture and Infrastructure

1.6 Details of the individual property and infrastructure holdings and their performance are set out in the following sections of the reports.

2. BALANCED UK COMMERICAL PROPERTY

2.1 The pooled investment vehicles have been selected by officers to provide diversified exposure to the UK Commercial Property asset class with the intention of achieving broad market returns. Offices are in regular contact with the various managers to monitor performance.

2.2 During the year income from the holdings was reinvested. No redemptions were made.

2.3 **Appendix A** illustrates the overall UK property sector and regional weightings of the individual pooled vehicles.

Overall UK property sector asset weightings at 31 March 2019

Property Sector	LCC Fund %	IPD %	Difference %
Retail	27.0	27.0	0.0
Offices	31.2	29.1	2.1
Industrial	29.6	29.2	0.4
Other	12.3	14.7	-2.4
Total	**100.0**	**100.0**	

2.4 Overall, the Fund's property allocation, when compared to an index of similar property funds, is overweight Shopping Centres, Offices in London and Industrials in the South East. The Fund is underweight Standard and Warehouse Retail, Offices in the South East and the rest of the UK, the Industrial sector in the rest of the UK, "Other" properties (which includes properties such as leisure, residential and listed assets) and cash.

2.5 At an individual fund level:

- Aviva has no allocation to shopping centres and is also underweight in industrials in the rest of the UK. They are significantly overweight in London offices.

- Royal London has an overweight position in offices in London and underweight in industrials in the rest of the UK. They have no allocation to shopping centres. Property sizes are generally smaller when compared to the other managers.

- Blackrock is heavily overweight other properties. They are underweight in standard retail and offices in the rest of the south east.

- Aberdeen Standard is overweight shopping centres and industrials in the south east. They are underweight other property and offices in the south east.

3. Market Environment in the Period Reported

3.1 Property produced total returns of 4.88% (IPD index), over the twelve months to 31 March 2019, compared to UK equity returns of 6.36% (FTSE All Share) and UK index-linked bond returns of 2.20%.

3.2 The following paragraphs set out the UK property market environment for the year 2018/19:

- Q2 2018 UK commercial real estate delivered modest capital growth during the quarter, but at the sector level, there was further divergence in performance. While industrials continued to outperform the wider UK real estate market, signs of a slowdown in offices were more apparent and there was further distress on the high street. Mothercare and House of Fraser were the latest retailers to resort to CVAs (company voluntary arrangements), while others like M&S looked to rationalise their physical store portfolios. In this environment, real estate investors remained focused on assets in good locations, offering resilient income.

- Q3 2018 UK commercial property remained stable, although there were some indications during the quarter that the market was moderating. Total returns had been marginally weaker in recent months, with the return for August (the latest data available) the lowest since September 2016. Although capital growth was weaker, rents held up fairly well – particularly for industrial and office property. Market trends continued to see industrial and retail property move in opposite directions. Industrials were still outperforming all the other commercial sectors as the relentless demand for all types of storage and distribution facilities drove the sector higher.

- Q4 2018 Total returns continued to slow amid a difficult period for the UK commercial property market. As expected, 2018 was a weaker year for real estate. Full-year returns were unlikely to match the double figures achieved in 2017. Ongoing uncertainty surrounding the Brexit withdrawal agreement caused investors to be more cautious. Over the last nine years, real estate had delivered returns of more than 10% per year. However, the market was at a late stage in the cycle and valuations appeared expensive relative to their long-term worth, therefore returns were expected to be lower going forwards.

- Q1 2019 It was a weak start to the year for UK commercial real estate. Monthly total returns continued to slow and were barely positive. As property values were reassessed, capital growth turned negative at an all-property level. This was largely a result of weakening values for large-scale retail assets (e.g. retail warehouses and shopping centres). Industrials in the South East remained the strongest sector and capital values continued to rise for these assets. Central London offices continued to slow having defied the odds in the face of heightened levels of Brexit uncertainty.

4. Outlook

4.1 Returns are expected to remain subdued in the period ahead with a difficult economic backdrop likely to bring rental decline to many parts of the market. Given its many challenges, the retail sector looks especially vulnerable to significant rental decline. Central London office rents are also likely to correct in the face of significant new supply and Brexit-related uncertainty. Regional centres appear considerably more defensive. Industrial occupier markets are structurally well placed, however, current rates of rental growth in the sector appear unsustainable. In turn, weaker occupier markets are likely to induce greater caution on the part of investors though; with yield-driven buyers propping up the market in recent times, the latest shift in stance from the major central banks may help to sustain this demand for a while yet.

5. Investment Performance

5.1 The table below sets out the annualised performance of the Fund's current UK Commercial Property Investments over one, three, five and ten years. The IPD UK All Balanced Property Funds Index is used to compare the managers' performance. This index was developed for all the leading managers of balanced property funds. The returns reported are taken from the published performance data. The five and ten years annualised figures for Blackrock relate to the pooled fund and are not specific to Lincolnshire Pension Fund.

UK Commercial Property Investment returns to 31 March 2019

	2018 / 2019 %	3 years Annualised %	5 years Annualised %	10 years Annualised %
Aviva	3.4	5.1	7.9	7.2
Royal London	2.5	4.5	7.1	7.7
Blackrock	4.9	6.1	8.5	8.0
Aberdeen Standard	-0.2	3.3	7.1	7.3
IPD UK PPFI All Balanced Median return	4.8	6.2	9.1	8.3

5.2 Aviva has underperformed the one year benchmark, delivering 3.4%, which was below the benchmark of 4.8%. The Fund's three year relative performance has steadily improved since September 2016, and in Q1 2019 relative performance was -1.0% compared to -2.1% 24 months ago. This performance improvement is expected to continue as the strategic sale assets are completed and sustainable income growth is driven from a core portfolio of high quality assets in strategic locations.

5.3 This fund focuses on: Income Growth – delivering growth in rental income through rent reviews, lease renewals, new lettings, repositioning assets and the creation of additional or higher value space; Income Quality – with desirable assets which attract and retain quality tenants; and Focused Strategy – investing in locations which will benefit from ongoing economic, social and technological change to deliver outperformance over the medium and long term.

5.4 Royal London returns have underperformed against the benchmark in all periods. The difference in performance between the fund and the benchmark is as a result of lower than average capital returns, the fund's income return is ahead of benchmark. Returns from industrial and other commercial sector were ahead of the benchmark, while office and retails returns were below.

5.5 The aim of the fund is to maximise returns from an appropriately diversified portfolio consisting of Retail, Industrial and Office properties. The strategy is to acquire properties of suitable quality for the fund at times in market cycles when relative values are low, and to manage the properties actively and effectively until selected sales can be made to take advantage of buoyant conditions. It is intended that in most cases properties acquired for the fund will be fully let and income producing to tenants of sound financial strength.

5.6 Blackrock is ahead of the one year benchmark, and only very slightly behind the benchmark performance in all other periods. The fund is strategically positioned overweight in Industrial and Other Properties. The Fund's core investment strategies are in primary healthcare, student accommodation, multi-let industrials and logistics warehouse development. During 2018/19 vacancy levels fell to 5.6%, against a benchmark of 7.1%. The fund secured a number of significant leasing agreements on the 'build to hold' logistics part of portfolio, they purchased a 178 bed hotel and have commenced development of a four unit industrial scheme.

5.7 Aberdeen Standard is behind the benchmark over all periods, particularly in the last 12 months. The key factors in the underperformance were retail holdings. To tackle this the fund has decided to place two shopping centre assets under offer, although this has contributed significantly to the underperformance these proposed sales will improve the funds overall structure. Further restructuring of the fund, including, the sale of three leasehold office assets, the acquisition of central London student accommodation property, and two industrial should strengthen future prospects for the fund.

5.8 The Aberdeen Standard Fund is one of the largest pooled funds in the UK and is well diversified across sectors and geographic regions. The fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in prime quality UK properties.

6. PROPERTY VENTURES

6.1 To diversify from the UK core property market, investments have been made in a number of different types of property funds aiming, over the long term, to exceed conventional market returns through specialist and active involvement in different parts of the property market. The four Funds have limited lives of between seven and ten years (before extensions), over which time they will try to invest in specific projects to improve their value and then realise the profits through sales and the return of capital to investors. Comments on the activity are set out below.

RREEF Ventures III Unit Trust

6.2 The Committee approved the commitment of £10m in January 2006 and this has now been fully drawn down to fund a number of projects, most of which have now been realised. Unfortunately this investment was made before the financial crisis of 2008, and all property purchases were made in 2006 and 2007, ahead of the large fall in property asset values. The value of the Fund's units at 31 March 2019 was £0.5m. The Fund continues to be wound up, with just the final property to be disposed.

6.3 Total distributions since inception to 31 March 2019 are £3.1m. The year end investment multiple (the value plus the distributions received, divided by the total capital committed) is 0.36.

Franklin Templeton European Real Estate Fund of Funds – Luxembourg public limited company

6.4 The Committee approved the investment in October 2005 of €15m (£13.2m). So far this Fund of Funds has commitments to eleven underlying funds, including a portfolio of German nursing homes, a specialist French property investor, a UK real estate partnership, a pan European real estate fund and a German commercial property investor. During the year, the Fund continued the disposition of its investments. On a cumulative basis, 69.8% of the aggregated invested capital has been returned by the underlying Real Estate Funds.

6.5 At 31 March 2019 the Fund's investment is valued at £0.8m, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent. Since inception €8.7m (£7.0m) has been distributed, and the year end investment multiple was 0.66. As at 31 March 2019 since inception the internal rate of return for the fund is -7.3%. Although the success of the individual investments within the fund has varied, performance overall has been substantially below target.

Franklin Templeton Asian Real Estate Fund of Funds – Luxembourg public limited company

6.6 The Committee approved the investment in October 2007 of $25m (£17.8m), with $4m (£3.0m) left to be drawn down as at 31 March 2019. The Fund has made a total of sixteen investments, and at this stage six Funds have fully completed the disposition of their assets, another two only have one asset remaining.

6.7 The value of the Pension Funds investment is £1.9m at 31 March 2019, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent. Since inception $20.2m (£13.4m) has been distributed, and the year end investment multiple was 1.30, with an internal rate of return of 0.71%. Managers are pleased with the portfolio assembled and the progress that has been achieved to date.

Igloo Regeneration Partnership

6.8 The Committee approved the commitment of £10m in April 2006 to a partnership with a pipeline of early stage regeneration projects in the UK. The Fund is focused on the regeneration and repositioning of ten key locations across the UK, delivering developments with market leading levels of high quality, sustainable design.

6.9 On 1 July 2017 the partnership entered into a 'wind up' period with assets being marketed for sale, since this date the fund has made two distributions to investors. As at 31 March 2019 the Pension Fund’s investment value is £1.0m, having distributed £6.7m since inception, resulting in an investment multiple of 0.77.

7. EUROPEAN BALANCED PROPERTY FUND

Aberdeen Standard European Property Growth Fund – Unit Trust

7.1 To diversify the Fund’s balanced property exposure, a commitment of €5m (£4.4m) was made in November 2002 to a new pooled investment vehicle created by Aberdeen Standard to invest in Continental European property. A further commitment of €10m (£8.8m) was approved in July 2005. The Fund mainly owns office, retail and distribution properties in the Eurozone, and to a limited degree in other European countries. The fund continues to be focused on ensuring that the portfolio is well balanced between core markets, with a tactical exposure to recovery markets.

7.2 As at the 31 March 2019, this commitment had been fully drawn and the investment in the Fund was valued at £12.1m. Distributions of €6.0m (£4.8m) have been received.

8. INFRASTRUCTURE

Innisfree Investments

8.1 The Fund has made commitments to funds managed by this specialist investor in Private Finance Initiative and similar projects, both in the UK and overseas. The investments offer prospective long term indexed returns in excess of those available from bonds. There is potential for improved returns from refinancing opportunities and contract variations. Whilst the investments hold equity stakes in the ownership and operation of large capital projects, they are not property investments in the strictest sense. The long-term nature of these investments fits well with the investment perspective of a pension fund.

8.2 During the year income from these holdings was reinvested to fund further drawdowns. No redemptions were made.

Innisfree Continuation Fund II – partnership

8.3 The Committee approved a commitment of £8m to the Innisfree Continuation Fund II in January 2006. During 2015/16 the Pension Fund also purchased £0.5m from the investor commitment of BAE Systems Pension Fund.

8.4 Following this Fund's acquisition of assets from an earlier Innisfree primary fund in April 2006, plus a number of subsequent follow on investments and disposals the fund now has a total of £340m committed to 12 project investments, all of which are operational. Fund assets include: three hospitals, five education projects, three accommodation projects all in the UK and a Dutch high speed rail link. From inception, the Fund's portfolio of investments has generated returns that are higher than was anticipated in the base case acquisition model, and investors have received an average net yield of 9.1%, compared to the 7.2% forecast.

8.5 The investment is currently valued at £8.2m and has distributed £6.6m to 31 March 2019 (with a further £0.3m distributed in April 2019 relating to the six month period up to the end of March 2019). At 31 March 2019 the forecast long term gross IRR of the portfolio was 11.3%, compared to 8.75% in the acquisition base case.

Innisfree Secondary Fund (ISF) – partnership

8.6 The Committee approved a commitment of £15m to the Innisfree Secondary Fund in July 2007. During 2015/16 the Pension Fund also purchased £1.5m from the investor commitment of BAE Systems Pension Fund.

8.7 Secondary Funds are long term holders of PPP (public/private partnerships) and PFI (private finance initiatives) projects which have typically reached their operating stage. Returns to investors are principally by way of cash generated by the projects during the remainder of their concession lives. ISF had its final closing on 30 June 2008, taking aggregate commitments to £600.5m, and now has 15 limited partners. As at 31 March 2019, the Fund had total commitments of £590.0m to 33 projects, and around 98% of investor commitments have been cash drawn. Projects include schools, hospitals, infrastructure and MOD buildings in the UK, Canada and Sweden.

8.8 The investment is currently valued at £16.8m, having distributed £7.2m to 31 March 2019 (with a further £0.6m distributed in April 2018 relating to the six month period up to the end of March 2018).

Innisfree Secondary Fund 2 (ISF2) – partnership

8.9 The Committee approved a commitment of £10m to the Innisfree Secondary Fund 2 in January 2013. ISF2 had its final closing on 31 March 2013, taking aggregate commitments to £544m, with 12 limited partners. The Fund was 74% committed to investments and 74% of investor commitment had been cash drawn at 31 March 2019. The Fund is similar to ISF and is invested in projects including schools, hospitals and Thameslink, in the UK, Canada and Sweden.

8.10 The investment is currently valued at £7.7m, with outstanding commitments of £1.7m, and having distributed £2.6m to 31 March 2019 (with a further £0.4m distributed in April 2019 relating to the six month period up to the end of March 2018). At 31 March 2019 the forecast long term gross IRR of the portfolio was 11.0%.

Other Infrastructure Investments

8.11 The Committee approved an increased commitment to infrastructure in January 2017. This set the strategic allocation to infrastructure at 2.5% of the fund. Following research and due diligence undertaken by Officers and the Investment Consultant it was agreed to commit £15m to Infracapital Greenfield Partners I in August 2017 and $21m (£15.0m) to Pantheon Global Infrastructure III in February 2018.

8.12 During the year £8.4m was invested into these infrastructure schemes: £4.8m in Infracapital Greenfield Partners I and £3.6m in Pantheon Global Infrastructure III. No redemptions were made. It is too early to report on performance for these funds.

Infracapital Greenfield Partners I

8.13 The Committee approved a £15m commitment being made to Infracapital Greenfield Partners I in August 2017. This fund is targeting £1 billion in capital commitments to create a diversified portfolio of European greenfield economic infrastructure investments, in order to provide investors with capital appreciation and yield. It will focus on later stage development, construction and/or expansion of long-term infrastructure through projects and corporates. IGP I will target eight to fifteen investments, based on an equity investment in the range of £25m to £200m, including buy and build investments or roll out strategies. The fund has a 25 year term and is targeting a mid-teens gross IRR over the entire life of the Fund. There are two phases to the fund's life – an initial period where significant capital appreciation is expected, and an operating period during which high teens yield is expected to be delivered. Investors will have the opportunity to exit after the initial period, or (with more than 66.6% investor support) continue to the operating period.

8.14 This fund has currently made commitments of £826.12m to eight schemes. The projects include: broadband infrastructure, bio- and solar energy, new train rolling stock and a portfolio of PPP assets. The pension fund's investment is currently valued at £7.7m, with outstanding commitments of £8.8m. To 31 March

2019 there has been a small distribution of £76k, this is to be expected as this is a new fund. It is too early to report on performance for this fund.

Pantheon Global Infrastructure III

8.15 The Committee approved an increased commitment to infrastructure in January 2017, with a $21m (£15.0m) commitment being made to Pantheon Global Infrastructure III in February 2018. This is a fund-of-funds, targeting a capital raising of $1.2bn. The Fund's strategy is focused on a combination of secondaries and co-investments in infrastructure opportunities. The Fund is targeting an equal allocation across midstream energy, power and utilities, transportation, social infrastructure and 'other' (including telecommunications).

8.16 The pension fund's investment is currently valued at £4.0m, with outstanding commitments of $16.2m (£12.5m). To 31 March 2019 there has been a small distribution of £25k, this is to be expected as this is a new fund. It is too early to report on performance for this fund.

Conclusion

9.1 Overall, the Pension Fund's investment in property and infrastructure generated a return of 4.25%, which was behind the benchmark (as measured by JP Morgan) return of 5.31%, however, within this there is significant a significant variation in performance.

9.2 The property allocation, at 8.6%, is slightly underweight its benchmark allocation, with 1.7% in undrawn commitments, and infrastructure, at 1.9%, is also underweight its benchmark allocation, however, there is a further £24.8m in undrawn commitments.

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	UK Balanced Property Allocation – March 2019

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

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Appendix A

UK BALANCED PROPERTY ALLOCATION AT 31 MARCH 2019

March 2019	Retail %			Offices %			Industrial %		Other %		Total %
	Standard Retail	Shopping Centres	Retail Ware House	London	Rest SE	Rest UK	SE	Rest UK	Other Prop.	Cash	
Aviva	11.9%	0.0%	10.6%	30.5%	14.1%	1.9%	21.4%	1.8%	5.9%	1.9%	100.0%
Royal London	14.1%	0.0%	12.5%	19.8%	8.2%	1.7%	13.2%	12.9%	9.6%	8.0%	100.0%
Blackrock	5.7%	2.6%	15.9%	9.3%	7.1%	5.9%	20.1%	11.8%	18.0%	3.6%	100.0%
Aberdeen Standard	9.5%	8.3%	14.6%	15.9%	2.2%	7.8%	24.8%	9.4%	2.7%	4.8%	100.0%
Weighted Average	9.9%	3.6%	13.5%	18.8%	7.4%	4.9%	21.2%	8.4%	8.1%	4.2%	100.0%
IPD UK Pooled Property Fund Indices	10.6%	2.5%	13.9%	12.0%	11.3%	5.8%	19.1%	10.1%	9.7%	5.0%	100.0%
Difference (absolute)	-0.7%	1.1%	-0.4%	6.8%	-3.9%	-0.9%	2.1%	-1.7%	-1.6%	-0.8%	-0.7%

SE = South East

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Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Lincolnshire Pension Fund Risk Register**

Summary:

This report presents the Pension Fund Risk Register to the Committee for annual review and brings a risk policy for the Committee to approve.

Recommendation(s):

That the Committee:

1) review and approve the risk management policy;
2) review and approve the risk register; and
3) agree to amend the risk score of risk P1 from red to blue, following the commencement of the new Executive Director of Resources and the skills gap analysis and training plan agreed.

Background

1. Committee members will understand the importance of looking at risk as part of the normal Member training that the Council provides. Given the size and importance of the Pension Fund, it is best practice to have a separate risk register considering the key risks that can impact the Fund and how they can be mitigated, if at all possible. The risk register is reviewed annually at this Committee, and any additional changes or updates are reported in the quarterly Fund Update reports.

2. At the October meeting, the Pensions Committee received a report comparing the risk registers of all the partner funds within Border to Coast, to ensure that the risks identified in the Lincolnshire risk register were not out of step with other Border to Coast funds.

3. CIPFA produced new guidance in 2018 on managing risk in the LGPS, and the Officers have taken the opportunity to refresh the risk register fully to reflect the current best practice. This includes having a risk management policy, which is a formal record of the Fund's appetite for risk, its risk management structures and its approach to risk management. A risk management policy has been drafted, adapted from CIPFA example in the guidance, and is attached at appendix A.

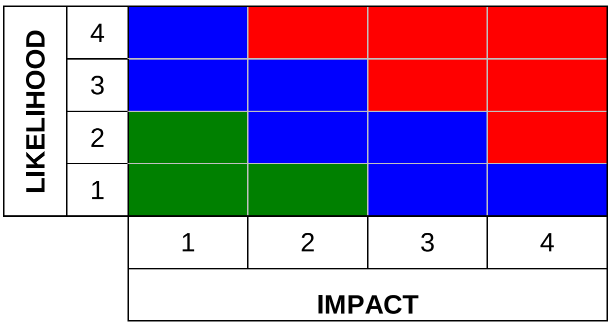
4. Appendix B is the Pension Fund risk register. 27 risks have been identified, along with the controls in place to mitigate them. The presentation has been changed to group together risks by type, and risks have been reworded, split or expanded to provide greater clarity.

5. There is a recommendation to amend the score of one risk, at risk P1, following the commencement of the new Executive Director of Resources. This was raised to red following the agreed retirements of the County Finance Officer and the Executive Director of Finance and Public Protection, where detailed knowledge of the Fund would be lost. This was before the appointment of the new Executive Director of Resources, who is now the line manager to the Head of Pensions. Following a skills gap analysis and training plan agreed with the Executive Director of Resources, it is recommended that this risk is reduced to blue.

6. The risk register follows the standard format of the Council's risk registers. To assist in understanding the risk register, the first risk on the register and the associated columns are described below:

- ID – an identifying number
- Linked to objective – the Fund's objectives are detailed at the top of the register
- Source – what the risk is
- Consequences – the potential outcomes
- Risk owner – person responsible overall
- Existing controls – what is already in place to reduce either the impact or the likelihood
- Status – the effect that the controls in place have, either good, fair or poor
- Owner – who is responsible for the controls
- Current Risk score – L – Likelihood and I – Impact (explained in the table below)
- Overall Current Risk Score

7. The risk scores are calculated using the risk matrix below:



For the **likelihood**, there are four possible scores:

1 **HARDLY EVER**	2 **POSSIBLE**	3 **PROBABLE**	4 **ALMOST CERTAIN**
Has never happened. No more than once in ten years. Extremely unlikely to ever happen.	Has happened a couple of times in last 10 years. Has happened in last 3 years. Could happen again in next year.	Has happened numerous times in last 10 years. Has happened in last year. Is likely to happen again in next year.	Has happened often in last 10 years. Has happened more than once in last year. Is expected to happen again in next year.

For the **impact**, there are four possible scores, but considered across four areas:

	SERVICE DELIVERY Core business, Objectives, Targets	**FINANCE** Funding streams, Financial loss, Cost	**REPUTATION** Statutory duty, Publicity, Embarrassment	**PEOPLE** Loss of life, Physical injury, Emotional distress
4 **CRITICAL** Disastrous impact, Catastrophic failure	Prolonged interruption to core service. Failure of key strategic project.	Severe costs incurred. Budgetary impact on whole Council Impact on other services. Statutory intervention triggered.	National media interest seriously affecting public opinion.	Loss of life. Multiple casualties.
3 **MAJOR** Significant impact, Disruption to core services	Key targets missed. Some services compromised.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.
2 **MINOR** Minor impact, Some degradation of non-core services	Management action required to overcome short-term difficulties.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Limited local publicity. Mainly within local. government community. Causes staff concern.	Minor injuries or discomfort. Feelings of unease.

1 NEGLIGIBLE No noticeable impact	Handled within normal day-to-day routines.	Little loss anticipated.	Little or no publicity. Little staff comment.	

8. Once the likelihood and the impact are assessed, this produces the overall risk score e.g. likelihood = 3, impact = 2 then the risk score is 6. This means that it would fall into the blue area of the matrix, and is a higher concern than if it were in the green area. The Committee would need to be satisfied that they were comfortable with this level of risk, and that no further controls were required. There will always be some risks that cannot be fully mitigated.

Conclusion

9. It is considered best practice to have identified the high level risks associated with managing a Pension Fund and to have put appropriate controls in place. The risk register has been reviewed and updated to reflect the latest best practice guidance and a risk management policy has been drafted and is brought to the Pensions Committee for review and approval.

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	Risk Management Policy
Appendix B	Pension Fund Risk Register July 2019

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

Risk Management Policy

RISK MANAGEMENT POLICY

Lincolnshire County Council, as the Administering Authority of the Lincolnshire Pension Fund (the Fund), is aware that some risks will always exist and will never be eliminated.

Against this background, and within the overall risk strategy of the County Council, the Fund recognises it has a moral and statutory duty to manage risk with a view to protecting its assets and the benefits due to the scheme members, and supporting its employers.

The Fund will meet this duty by adopting best practice risk management (RM) which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Fund at a strategic and operational level.

The overall aim is to embed risk management into the processes and culture of the Fund to help it achieve its objectives and enhance the value of services the Fund provides to scheme members and employers.

THE FUND’S RM OBJECTIVES

The Fund’s RM objectives are to:

- integrate risk management into the culture and day-to-day activities of the Fund;
- raise awareness of the need for risk management by all those connected with the delivery of services (including partners, delivery agents and those involved in any form of collaborative delivery of services);
- enable the Fund to anticipate and respond positively to change;
- minimise loss and inconvenience to employers and scheme members arising from, or connected with, the delivery of Pension Fund services;
- establish and maintain a robust process for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice; and
- ensure consistent application of the Fund's RM methodology.

KEY MECHANISMS FOR DELIVERY

To demonstrate the Fund's clear commitment to achieving the objectives of the risk management strategy, the Fund has identified the key mechanisms through which they will be delivered. These objectives will be achieved by:

- maintaining clear roles, responsibilities and reporting lines within the Fund for risk management;
- maintaining adequate representation at departmental and corporate level, and also across the LGPS, so that risks may be freely communicated, experience pooled and information, guidance or procedures that may have a significant impact on the Fund's risk may be considered;
- promoting excellence in risk management;
- ensuring that risk management is explicitly considered in all policy decisions, partnerships, projects and key planning processes;
- maintaining a risk register for risks arising across all aspects of managing the Fund, and ensuring that the process assesses risks for likelihood and impact, identifies owners and mitigating controls and ensures that they are reviewed at least annually – ensuring that these are adequately documented and regularly reviewed in the light of changing circumstances;
- providing opportunities for shared learning on risk management across the LGPS, and with partners and stakeholders where appropriate;
- reinforcing the importance of effective risk management as part of the everyday work of employees, and that employees, officers and members are adequately informed and receive training about the risks within their own working environment; and
- regularly monitoring, reporting and independently reviewing the Fund's arrangements.

The Fund recognises the breadth and complexity of the service that it delivers, and also of the mechanisms by which they are delivered. Further support, advice and guidance can also be obtained from the Head of Pensions.

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Pension Fund
RISK REGISTER

Areas covered

- **Governance**
- **Investments and Funding**
- **Operational**
- **People**

Service Objectives

1. **Ensure there are enough assets to cover liabilities in the long term**
2. **To prepare the statutory accounts for the Pension Fund to the agreed timetable and with an unqualified audit.**
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 ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due**
6. **To work in partnership with WYPF to ensure an effective and efficient Pensions Administration Service is provided**
7. **To work in partnership with WYPF to support the employers and scheme members**

Fully Refreshed July 2019

ID	Linked to Objective	Description of Risk: Source (Lack of….Failure to ….)	Description of Risk: Consequences (Results in ….Leads to ….)	Risk Owner	Existing Controls	Status	1:Low….4:High L	1:Low….4:High I	Overall Current Risk Score
Governance									
G1	1,2,3,4,5,6,7	Governance requirements not met	Financial loss Damaged reputation Legal issues	Head of Pensions	Governance compliance statement Pension Committee reporting Monthly member letter Investment Strategy Statement Funding Strategy Statement Trained Committee members and officers Pension Board	Good	1	2	2
G2	1,3,4	Failure to ensure that the Committee's knowledge and understanding of pensions related activities is robust and meets all statutory requirements.	Improper scrutiny and challenge, non-compliance, loss of professional investor status with inability to implement investment strategy, reputational damage, secretary of state intervention	Head of Pensions	induction training, training policy and annual training plan, additional committees for training session, self assessment	Good	1	2	2
G3	1,3,4	Failure to ensure that the Pension Board's is effective in carrying out its role.	Ineffective scrutiny and challenge, non-compliance, reputational damage, Pensions Regulator intervention	Head of Pensions	induction training, ongoing training and work plan, additional meetings for training session, self assessment	Good	1	2	2
G4	1,3,4,5	Governance of asset pooling - management of relationship with BCPP	Inability to implement asset allocation decisions Increased costs Reduced returns	Head of Pensions	Joint Committee Officer operation group Senior officer group	Fair	2	3	6
Investment and Funding									
I1	1	Required returns not met due to poor strategic allocation	Damaged reputation Increase in employer contribution	Head of Pensions	Professional advice Triennial review Performance monitoring Monthly Members letter Reporting to Pensions Committee	Good	2	3	6

I2	4	Custodian bank goes bust	Inability to settle trades No reconciliation, accounting or performance service Loss of access to cash accounts	Head of Pensions	Service level agreement with termination clause Regular Meetings Regular control reports Other Custodian options - review markets	Good	1	3	3
I3	1,3,4	Poor investment performance from managers	Lower funding level Increase in employer contributions	Head of Pensions	Performance measurement Managers report monthly Reporting to pensions committee Diversification across managers Manager meetings	Good	2	3	6
I4	1	Assets not enough to meet liabilities	Lower funding level Increase in employer contributions	Head of Pensions	Valuation Asset Liability Study Quarterly reporting of funding level Professional advice	Good	2	3	6
I5	4	Non compliance of external managers	Damaged reputation Financial loss	Head of Pensions	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	1	2	2
I6	1,3,4,5	Asset pooling - transition of assets	Inability to implement asset allocation Impact on performance of costs	Head of Pensions	Officer operations group Workstreams within Border to Coast Communicate to Committee regularly S151 meetings	Fair	2	3	6
I7	1,3	Failure to meet requirements as a responsible investor - across all ESG risks (including, climate change and a move to a low carbon economy)	Reputational risk, loss of Fund value	Head of Pensions	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	Good	1	2	2
I8	1,5	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	Head of Pensions	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	Poor	4	3	12
I9	1,5	Maturing Fund	Cashflow issues to pay pensions or commitments Increasing employer rates	Head of Pensions	Investment strategy Cashflow monitoring Discourage opt outs 50/50 scheme option Communication	Fair	3	2	6
Operational									
O1	6,7	Contributions and 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	Head of Pensions	Employer contribution monitoring Additional monitoring at specific times Reconciliations Improved employer contribution data Monthly returns checks UPM employer module Ongoing employer training	Good	1	3	3

O2	6,7	Inability to deliver the administration service in accordance with the agreement	Members of the pension scheme not serviced Statutory deadlines not met	Head of Pensions	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	2	3	6
O3	6	Calculating and paying pensions correctly (inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners)	Damaged reputation Financial loss	Head of Pensions	Internal control through audit process Constant monitoring / checking Quality standard at WYPF Process management NFI and Tracing services Data Cleansing	Good	2	2	4
O4	4,6,7	Non-compliant in Information Governance - incl. GDRP compliance	Risk of fines Reputational risk Personal/sensitive data in the wrong hands	Head of Pensions	WYPF policies Reporting to Committee LCC policies	Fair	2	3	6
O5	4,6	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	Head of Pensions	WYPF and Bradford Council policies LCC policies External provider control reports	Good	2	3	6
O6	6,7	Employer breaches	Reporting to TPR Fines to employers Reputational risk to LCC and WYPF	Head of Pensions	Make employers aware of responsibilities through Admin Strategy and training Reporting breaches procedure Contribution monitoring	Good	1	2	2
O7	1,6	Pension Freedom and Choice rules	Impact on cashflow Process not followed	Head of Pensions	Value of transfers monitored	Good	1	2	2
O8	2,6,7	Increasing employer numbers and/or reducing covenant strengths	Increased workload Incorrect rates paid	Head of Pensions	Admission agreements Bonds Employer covenant monitoring Contribution monitoring Employer communication and PFR roles	Good	3	2	6
O9	2	Financial Statements of Pension Fund incorrect or late	Damaged reputation Qualified accounts	Head of Pensions	Agreed timetable Externally audited Qualified and trained staff Closedown procedures	Good	1	2	2
O10	1,3,4,6	Fraud risk not managed	Financial loss Damaged reputation	Head of Pensions	Separation of duties Internal & external audit Monthly reporting Reconciliation procedures	Good	1	3	3

O11	1,3,4	Financial regulations (e.g. LCC / CIPFA) and statutory requirements not adhered to / legal guidelines not followed	LCC may incur penalties Damaged reputation Intervention from Secretary of State Intervention from the Pensions Regulator	Head of Pensions	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	1	2	2
O12	1,3,4,6	Financial or administration decisions challenged	Ombudsman report Reported to TPR	Head of Pensions	Performance monitoring and reporting Monthly and quarterly reporting Admin processes and procedures	Good	1	1	1
O13	3,4	Personal gain (internal or external) through: • Fraud or misappropriation of funds • Manipulating share price	Financial loss Damaged reputation	Head of Pensions	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	1	1	1
People									
P1	2,3,4,6	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	Head of Pensions	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) B2C and partner funds relationship Head of Pensions obj. to support/train new Director Agreed training plan/skills gap analysis with Executive Director of Resources	Poor	3	2	6

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Internal Audit Report**

Summary:

This report presents the latest internal audit report undertaken on the Pension Fund.

Recommendation(s):

That the Committee;
1) note the report; and
2) consider the recommendation on mandatory training made in the Audit report.

Background

1 The Council's internal audit service undertook an audit of the key controls and effectiveness of the management of the Pension Fund in April 2019.

The scope of the audit was to provide assurance that:

- Key controls are in place within the pension system;
- Pension system controls are consistently operated;
- Pension transactions examined are complete and accurate;
- Management of the Pension fund is effective and assets are maximised through investment to cover liabilities;
- The fund complies with legislation and investment policy;
- Fund managers investment performance is monitored;
- Adequate security arrangements are in place for the IT systems; and
- LCC Pension staff have adequate knowledge, guidance and training.

2 The outcome of the report is shown in the Executive Summary below, and the complete final audit report is attached at appendix A.

High Assurance

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.
The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Risk	Rating (R-A-G)	Recommendations	
		Low	Medium
Pension fund investments do not exist or are valued incorrectly	Low	0	0
There are insufficient assets within the pension fund to cover the liabilities	Medium	0	0
Investments do not comply with legislation	Low	0	0
Poor investment performance by Investment Fund managers	Medium	0	0
LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	0	1
TOTAL		0	1

3 As can be seen, there are two residual amber risk ratings even though a high assurance audit rating was given overall. This was due to the following:

Risk - There are insufficient assets within the pension fund to cover the liabilities.
The last triennial valuation as at 31 March 2016 found that assets were less than liabilities with a deficit valuation of £529 million. The 2019 annual report detailing the results for the 31st March 2019 triennial valuation has not yet been published but assets may still not cover the liabilities and therefore the risk is included as amber.

Risk - Poor investment performance by Investment fund managers.
The investment manager report for the quarter to 31/3/19 detailed that "Over the 12 month period, only four managers have achieved their benchmark: Morgan Stanley Global Brands, Legal and General, Blackrock (Fixed Income) and Blackrock Interim". Poor investment performance by managers does occur and therefore the risk is shown as amber.

4 High assurance was given despite these two amber risks, as explained below:
These risks are outside the control of the Pension team and have therefore not impacted on the overall High assurance rating given, which was based on the Governance and system processes in place within the Pension team.

5 As can be seen from the table above, one recommendation was given regarding the risk of LCC pensions staff not having the knowledge, training or skill to perform their duties effectively. The full detail given in the action

plan is shown on page 7 of the Audit report, however the recommendation is shown below:

Recommendation

The Pension team need to:

- *Monitor and update the training log on a regular basis;*

- *Ensure that all members undertake all the training required in the Pension training plan and policy and other training needed following changes to policy or statutory requirements; and*

- *Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee.*

6 A training log is maintained by officers, and Committee members are informed regularly of training events and requirements. As mentioned in paper six on this agenda, the Good Governance Project is likely to put forward a proposal to the Scheme Advisory Board that the training requirement for Pension Committees should be at least equal to that of Pension Boards, who are required to meet mandatory levels of knowledge on an individual basis, therefore the recommendation for consideration is very timely.

7 The Committee are asked to consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee, and if so, the timescales in which this training should be undertaken. Following this consideration, any amendments required to the Training Policy will be made and it will be circulated to all Committee members.

Conclusion

8 The Pension Fund was given High assurance at its most recent internal audit. This reflected the strong governance and process systems in place within the Pensions Team. One recommendation was made concerning Committee member training, and the Committee are asked to consider this.

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	Internal Audit Report

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

For All Your Assurance Needs

Internal Audit Report

Pension Fund

Date: April 2019

What we do best…

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

…and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

Contents

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Jill Thomas

Principal Auditor

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Background and Scope

Background and Context

Lincolnshire County Council Pension fund currently manages the pension fund investment of over £2.2bn on behalf of over 74,000 scheme members.

The Pensions Committee are updated on a regular basis with reports monitoring performance regarding investments, administration and governance of the fund. The Committee review annually the governance policies and principles of investment to ensure that the pension fund assets are invested appropriately.

The Audit will focus on the reviewing the Key controls and the effectiveness of the Management of the Pension fund to:

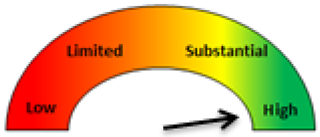
- enable the Head of Internal Audit to form an opinion on the Council's financial control environment
- inform External Audit's control evaluation

Scope

To provide assurance that:

- Key controls are in place within the pension system
- Pension system controls are consistently operated
- Pension transactions examined are complete and accurate
- Management of the Pension fund is effective and assets are maximised through investment to cover liabilities
- The fund complies with legislation and investment policy
- Fund managers investment performance is monitored
- Adequate security arrangements are in place for the IT systems
- LCC Pension staff have adequate knowledge, guidance and training.

Executive Summary



High Assurance

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Pension fund investments do not exist or are valued incorrectly	Low	0	0
There are insufficient assets within the pension fund to cover the liabilities	Medium	0	0
Investments do not comply with legislation	Low	0	0
Poor investment performance by Investment Fund managers	Medium	0	0
LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	0	1
TOTAL		0	1

Executive Summary

Key Messages

Our testing confirmed that the management and governance of investment activities are good and that the Pension fund is effectively controlled.

We found evidence of good practice throughout the investment process which provides a high level of assurance in this area, in particular:

- performance of investments are regularly monitored and reported to the Pensions Committee with any exceptions highlighted and appropriately dealt with.
- key policies have been agreed and adopted by the Pensions Committee to ensure sound governance over the pension fund and compliance with the Local Government Pension Scheme regulations.
- There is a Stewardship Code Statement outlining how the Authority will adhere to the 7 principles for local authority pensions, set out by the National Association of Pension Funds.
- there is a clear separation of duties between officers reconciling and reviewing the performance of managed funds.
- Officers involved in managing investments on behalf of the Council are well qualified and experienced.
- there is a staff and members pensions training plan and training policy in place. We did find 3 members of the Pensions Committee who had not undertaken the basic training agreed within

Executive Summary

Key Messages

the Committee's training policy

- the Pensions Committee’s appetite for risk is factored into the Asset Liability

- Guidance from the fund's investment consultant and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.

- Our regular testing of key controls in this area including examination of reconciliations of investments to custodian, investment manager and internal records confirmed that key controls are in place, that these controls are consistently operated and that transactions examined are complete and accurate.

There are 2 residual amber risk ratings even though a high assurance audit rating has been given overall. This is due to the following:

- Risk "There are insufficient asset within the pension fund to cover the liabilities": The last triennial valuation as at 31 March 2016 found that assets were less than liabilities with a deficit valuation of £529 million. The 2019 annual report detailing the results for the 31st March 2019 triennial valuation has not yet been published but assets may still not cover the liabilities and therefore the risk is included as amber.

- Risk "Poor investment performance by Investment fund managers". The investment manager report for the quarter to 31/3/19 detailed that "Over the 12 month period, only four managers have achieved their benchmark: Morgan Stanley Global Brands, Legal and General, Blackrock (Fixed Income) and Blackrock Interim". Poor investment performance by managers does occur and therefore the risk is shown as amber.

Executive Summary

Key Messages

These risks are outside the control of the Pension team and have therefore not impacted on the overall High assurance rating given, which was based on the Governance and system processes in place within the Pension team.

We would like to take this opportunity to thank the staff for their help and assistance throughout the audit.

Management Response

Management Response

We are pleased with the continued high assurance, and welcome the recommendation on mandatory training for all Committee members.

We'd like to thank the audit team for their approach throughout the audit.

Action Plan

1.	Risk Description	Current Rating	Target Rating
	LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	Low

Findings

James Grant and Cllr Peter Coupland (members of Pensions Committee) have attended some in house training events and had their induction training but neither have attended the Fundamentals (as required by the Training policy and plan) or Border to Coast Pension Partnership Training days. In addition, James Grant and Cllr Paul Key have not yet completed the Pension Regulator's toolkit.

Implications

Members may not

- have an adequate understanding of pension statutory requirements to make informed strategic pension / investment decisions
- comply with the CIPFA Knowledge and skills Framework and Code of Practice.

Recommendation

The Pension team need to : Monitor and update the training log on a regular basis Ensure that all members undertake all the training required in the Pension training plan and policy and other training needed following changes to policy or statutory requirements Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee	**Medium**

Assurance LINCOLNSHIRE
For All Your Assurance Needs

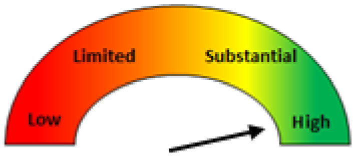
Action Plan

Agreed Action	Responsibility	Implementation date
The Pensions team will continue to report lack of compliance with the training policy to the Committee and Local Pension Board, and will raise the consideration of a mandatory minimum level with the S151 Officer and the Committee.	Jo Ray	18th July 2019 (next quarterly Pensions Committee)

Appendix 1 - Assurance Definitions

High

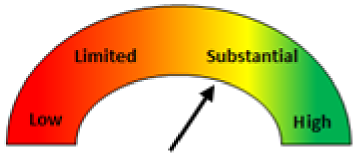
Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.



The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

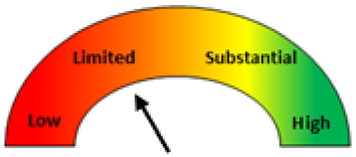
Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.



There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

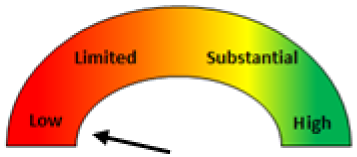
Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.



The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.



There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).

Appendix 2 – Distribution List

Distribution List

Jo Ray – Pension Fund Manager

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

This report has been prepared solely for the use of Members and Management of Lincolnshire County Council Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Annual Pensions Committee Training Plan and Policy**

Summary:

This report sets out the training policy and the annual training plan for the Pensions Committee members for the year to June 2020.

Recommendation(s):

That the committee:

1) approve the training policy;
2) identify and agree areas for training at the September and February meetings; and
3) approve the annual training plan.

Background

1. There is a high level of risk involved in managing and making decisions relating to the Local Government Pension Scheme (LGPS). It is therefore essential that those involved with these tasks have the appropriate knowledge and skills to do so. The need for appropriate knowledge and skills in the management of pension schemes has been a key topic in recent years in both the public and private sector.

2. The introduction of the new Markets in Financial Instruments Directive (MIFID II) in January 2018, has made it is even more important that the Committee are appropriately trained to ensure that the Fund retains its Professional investor status.

3. Members and Officers are required to undertake training to satisfy the obligations placed upon them by the following:

   - Lord Hutton, in his review of Public Sector Pensions, included a key recommendation referring to the need for all Pension Committees and Boards to be properly trained.

   - The Public Service Pensions Act 2013 included a requirement for members of Pensions Boards in the public sector to have an appropriate level of knowledge, and included a provision that required the Pensions Regulator to issue a Code of Practice relating to this for both Pension Board members and Scheme Managers (the Administering Authority).

- The Chartered Institute of Public Finance and Accountancy (CIPFA) launched a technical guidance for Representatives on Pensions Committees and non-executives (i.e. officers) in the public sector within a Knowledge and Skills Framework (KSF) in January 2010. The framework identifies the skill set for those responsible for pension scheme financial management and decision making. CIPFA followed this up with a Code of Practice which LGPS funds are expected to adhere to, reporting on how their Pension Committee members and officers are meeting the requirements of their Framework in the Annual Report and Accounts. The Pension Committee members' KSF is attached at appendix B.

- Myners Principles – Scheme Administering Authorities have been required for some time to report on a 'comply or explain' basis their adoption of, and compliance with, the principles. This is set out in the Governance Compliance Statement. The CIPFA document Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom (2012) also details the expectations that the Administering Authority should meet.

4. The Pensions Committee has adopted the key recommendations and principles of the CIPFA Code of Practice, detailed below:

- Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

- Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme financial knowledge and skills for those in the organisation responsible for financial administration and decision-making.

- The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Knowledge and Skills Frameworks.

- The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

5. For the Lincolnshire Pension Fund, the Executive Director of Resources, Andrew Crookham, is the designated officer in this regard.

6. To ensure that the Fund complies with the requirements above, a training policy and annual training plan is produced (attached at appendix A) and agreed by the Committee. Evaluation of knowledge and skills is periodically undertaken to ensure any emerging knowledge gaps (due to either regulatory/market change or change in members or key officers) are addressed.

7. The CIPFA KSF (attached at appendix B for reference) covers six areas:

   i. Pensions Legislative and Governance Context

   ii. Pensions Auditing and Accounting Standards

   iii. Financial Services Procurement and Relationship Management

   iv. Investment Performance and Risk Management

   v. Financial Markets and Products Knowledge

   vi. Actuarial Methods, Standards and Practices

8. It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained by members, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have knowledge in all areas of the framework but a collective understanding by the Committee as a whole.

9. The training policy was last agreed at the July 2018 meeting of this Committee. It sets out the policy concerning the training and development of:

   - the members of the Pensions Committee; and

   - officers of Lincolnshire County Council responsible for the management of the LGPS.

   The training policy is established to aid members of the Pensions Committee in performing and developing their individual roles in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that members are able to demonstrate that, collectively, they have the required knowledge and skills to make appropriate decisions and offer challenge, and that officers are adequately trained and experienced to undertake the day to day operation and management of the Scheme.

9. Following elections every four years (and when there are any other Committee changes) all new members to the Committee are expected to attend the new member induction training, and anyone unable to attend that is offered one-to-one training by the Head of Pensions. In addition, all Committee members are expected to:

- attend a basic training course (LGA Fundamentals or equivalent) designed for new members to the Pensions Committee within the first year on the Committee, or as a refresher when required;

- Complete the on-line training of the Pensions Regulator at https://education.thepensionregulator.gov.uk/login/index.php within six months of joining the Committee (and send their certificates to the Head of Pensions); and

- Undertake, as a Committee, regular training as set out in the annual training plan.

10. The Internal Audit report at paper 12 includes a recommendation that there should be a mandatory minimum level of training for Committee members, and the Good Governance project, as mentioned in paper 6, is expected to propose to the Scheme Advisory Board that Committee members are subject to similar training requirements as Local Pension Board members.

11. The Committee training plan presents the topics that will be covered in the normal Committee meetings and also the additional training sessions for the coming year. This will be updated for additional areas that are covered in Committee throughout the year, and will be used to assist in disclosure requirements for training in the Annual Report. The statement of compliance also requires Officers to keep a record of attendance at training courses and conferences by Members. Members are requested to inform Officers should they attend any meetings that are relevant to the Knowledge and Skills Framework.

12. A date of 3 September has been set aside for training in relation to the Committee's investment beliefs, responsible investment beliefs, asset allocation modelling for the valuation and asset mapping to Border to Coast. Committee members are asked to agree the topics for training for the session in September and discuss what topics they would like covered for the training meeting in February.

13. Committee members that attend external training events, including conferences, should be willing to provide a brief update to the next meeting of the Pensions Committee, covering the following points.

    - Their view on the value of the event and the merit, if any, of attendance;

    - A summary of the key learning points gained from attending the event; and

    - Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

Conclusion

14. The training policy has been developed to respond to the various requirements laid down in regulations and guidance to ensure that both Committee members and officers are suitably knowledgeable to perform their duties within the Pension Fund. The Committee training plan sets out the areas of training covered for the coming year, and a new plan will be brought each year to the July Committee.

15. Committee members are asked to agree the training topics organised for September and suggest topics for the February training session, to add to the plan.

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	Lincolnshire Pension Fund Training Policy and Annual Plan
Appendix B	CIPFA Knowledge and Skills Framework

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

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PENSIONS COMMITTEE TRAINING POLICY AND COMMITTEE TRAINING PLAN JULY 2019 TO JUNE 2020

Policy Objectives

The Fund's objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment.

- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest.

- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Scheme.

- Those persons responsible for governing the Fund meet the requirements to be opted up to a professional investor status under MIFID II.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice, and take on board the guidance within the Pension Regulator's Code of Practice for public sector pension schemes.

Application of the Policy

The training policy will apply to all members of the Pensions Committee and Council officers that have involvement in managing the Pension Fund, at any level.

Review and maintenance

This training policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee, to ensure it remains accurate and relevant.

The Fund's Training Plan will be updated each year, taking account of the result from any training needs evaluations and any emerging issues. The Committee will be updated with events and training opportunities as and when they become available, or relevant to on-going business.

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010, CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme);
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme); and
- publicly report how these arrangements have been put into practice each year.

The Lincolnshire Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

Training Provision, Measurement and Assessment

In order to identify and meet training needs and assess whether those governing the Fund are meeting the CIPFA Framework requirements, all Members and Officers agree to:

Members:

- Upon appointment to the Pensions Committee, undertake a one-to-one training session with the Head of Pensions, as a minimum.

- Attend a basic training course (LGA Fundamentals or equivalent) designed for new members to the Pensions Committee within the first year on the Committee, or as a refresher when required.

- Complete the on-line training of the Pensions Regulator at **https://education.thepensionregulator.gov.uk/login/index.php** within six months of joining the Committee.

- Undertake, as a Committee, regular training as set out in the annual training plan.

- Highlight to officers any areas where further training would be desirable or required, following subjects covered in Committee meetings or following attendance at any external training events or conferences.

- Obtain a satisfactory collective level of knowledge and skills in relation to all modules of the CIPFA Framework. Support from officers and the Fund's Advisors will be available as and when required, but always in advance of any decision being taken.

- Report as appropriate in external documentation the compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts and Governance Compliance Statement.

Officers:

All Lincolnshire LGPS officers with responsibility for managing the LGPS will be expected to have a detailed understanding of the CIPFA Knowledge and Skills Framework requirements for LGPS Practitioners, taking account of the requirements of their roles. Any specific targets will be determined and updated as necessary from time to time in joint agreement by the Head of Pensions and the Executive Director of Resources, in liaison with the Chairman of the Pensions Committee.

The Council's appraisal process will also identify any knowledge gaps and address training requirements.

Delivery of Training

Consideration will be given to various training resources available in delivering training to members of the Pensions Committee and officers.

Evaluation will be given to the mode and content of training in order to ensure it is targeted to needs and on-going requirements and emerging events. It is to be delivered in a manner that balances both demands on members' time and costs. These may include but are not restricted to:

Pensions Committee Members	Officers

Pensions Committee Members	Officers
In-house delivered training Using an Online Knowledge Library or other e-training facilities Attending courses, seminars and external events Internally developed training days and Committee meetings Shared training with other Funds or Border to Coast Regular updates from officers and/or advisers	Desktop / work base training Using an Online Knowledge Library or other e-training facilities Attending courses, seminars and external events Training for qualifications from recognised professional bodies (e.g. CIPFA, IMC) Internally developed sessions Shared training with other Funds or Border to Coast

External Events

All relevant external events will be emailed to members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

After attendance at an external event, Committee Members should be willing to provide verbal feedback at the next Committee covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;

- A summary of the key learning points gained from attending the event; and

- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

Officers attending external events will also be expected to report to their direct line manager with feedback and to make recommendations of any subject matters at the event in relation to which training would be beneficial to other officers or the Committee.

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team.

APPENDIX A

PENSIONS COMMITTEE TRAINING PLAN JULY 2019 TO JUNE 2020

The six areas covered within the CIPFA Knowledge and Skills Framework (KSF) are:

1. **Pensions Legislative and Governance Context**
2. **Pensions Auditing and Accounting Standards**
3. **Financial Services Procurement and Relationship Management**
4. **Investment Performance and Risk Management**
5. **Financial Markets and Products Knowledge**
6. **Actuarial Methods, Standards and Practices**

It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have detailed knowledge in all areas of the framework but a collective understanding by the Committee as a whole.

The table below details the training plan for the year, with the areas of the KSF that will be covered in each report or training session referenced in the final column.

Date	Topic	KSF area(s)
Jul 2019 Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Annual Property Report Risk Register Annual Review Internal Audit Report Annual Training Report Annual Report and Accounts Valuation Assumptions Report	4,5 1 1,3,4 1 1 4,5 4,5 1,4 1,2 1 1,2 6
Sep 2019 Training	Investment beliefs Responsible Investment beliefs Asset allocation modelling for the	4,5 4,5 4,5,6

	valuation Asset mapping to Border to Coast	 1,4,5
Oct 2019 Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Valuation Results Report Funding Strategy Statement Audit Governance Report Annual Fund Performance Report	4,5 1 1,3,4 1 1 4,5 6 1,6 2 4
Dec 2019 Committee papers	External Manager Presentations	4,5
Jan 2020 Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report	4,5 1 1,3,4 1 1 4,5
Feb 2020 Training	To be agreed	
Mar 2020 Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Valuation and FSS Report	4,5 1 1,3,4 1 1 4,5 1,6
June 2020 Committee papers	External Manager Presentations	4,5

Committee papers and training may be subject to change.

APPENDIX B

ANNEX A

Pensions Knowledge and Skills Framework for Elected Representatives and Non-executives

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
General pensions framework A general awareness of the pensions legislative framework in the UK. **Scheme-specific legislation** An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment. An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features. An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report. Awareness of the role of both internal and external audit in the governance and assurance process.	**Understanding public procurement** Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations. A general understanding of the main public procurement requirements of UK and EU legislation. **Supplier risk management** Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	**Total fund** Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. **Performance of advisors** Awareness of the Myners principles of performance management and the approach adopted by the committee. **Performance of the committee** Awareness of the Myners principles and the need to set targets for the committee and to report against them. **Performance of support services** Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	**Investment strategy** Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property). Understanding of the role of these asset classes in long-term pension fund investing. **Financial markets** Understanding of the primary importance of the investment strategy decision. A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks. An awareness of the limits placed by regulation on the investment activities of local government pension funds.	**Valuations** Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring. Awareness of the importance of monitoring early and ill health retirement strain costs. A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers. **Outsourcing** A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
A regularly updated appreciation of the latest changes to the scheme rules. Knowledge of the role of the administering authority in relation to the LGPS. **Pensions regulators and advisors** An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. **General constitutional framework** Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers. Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.					

Pensions legislative and governance context	Pensions accounting and auditing standards	Financial services procurement and relationship management	Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices
Pension scheme governance An awareness of the LGPS main features. Knowledge of the Myners principles and associated CIPFA and SOLACE guidance. A detailed knowledge of the duties and responsibilities of committee members. Knowledge of the stakeholders of the pension fund and the nature of their interests. Knowledge of consultation, communication and involvement options relevant to the stakeholders.					

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**Pension Fund Draft Annual Report and Accounts**

Summary:

This report brings the draft Annual Report and Accounts for the Pension Fund to the Pensions Committee for approval.

Recommendation(s):

That the Committee approve the draft Pension Fund Annual Report and Accounts.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31 March 2019 (included at **Appendix A**) has been completed and is being independently audited by the Council's external auditors, Mazars. These accounts form part of the Lincolnshire County Council Statement of Accounts.

2. The Annual Report and Accounts have been produced taking into account the guidance produced by CIPFA. For 2018/19 CIPFA issued new guidance for the contents of the Annual Report, this stipulates compulsory and desirable content for the report. This guidance was considered, and has been incorporated into the 2019 Annual Report.

3. In terms of the Accounts, there have been some revisions and clarifications to accounting standards, particularly around financial instruments (International Financial Reporting Standard (IFRS) 9), however, these changes in practice have had limited impact for the Fund because most assets and liabilities held by the pension fund are already classed as fair value through profit and loss (FVTPL). The 2018/19 Accounts also reflect the introduction of Local Government Pension Scheme (LGPS) asset pools. The Accounts now include a new accounting policy and disclosure of the Funds share holdings in the pooling company.

4. The Pension Fund Accounts, alongside the Council's Statement of Accounts, will be taken to the Audit Committee on 22 July 2019. An unqualified opinion is expected from Mazars, and no concerns have been raised as part of their

audit process. The Audit Completion Report prepared by Mazars for the Pension Fund will be brought to the October Pensions Committee.

5. Following the Audit Committee, a copy of the Fund's Annual Report will be put on both the Pension Fund and the County Council websites, and all Fund employers will be notified. In addition, the link will be 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 participants in due course.

Conclusion

5. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31 March 2019. The Council's external auditors, Mazars, will issue their opinion at the Audit Committee in July. An unqualified opinion is expected. Following that, a copy of the Pension Fund Annual Report and Accounts will be distributed to interested parties.

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	Lincolnshire Draft Pension Fund Annual Report and Accounts 2019

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

Lincolnshire Pension Fund Annual Report & Accounts 2019

Lincolnshire Pension Fund

Local Government Pension Scheme

Annual Report for the Year Ended 31 March 2019

Contents

Management Arrangements

Administering Authority	Lincolnshire County Council

Pensions Committee Members as at 31 March 2019

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

District Council Representative
J Summers

Representative of Other Employers
J Grant

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers

Executive Director of Finance & Public Protection	P Moore BA FCPFA
County Finance Officer	D C Forbes BSc CPFA
Head of Pensions	J Ray
Independent Advisor	P Jones
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

Asset Pool and Operator

Border to Coast Pensions Partnership

Investment Managers of the Fund

Equities:	Columbia Threadneedle
	Invesco
	Legal and General
	Morgan Stanley
	Schroders
Bonds:	Blackrock
Alternatives:	Morgan Stanley
Private Equity:	Aberdeen Standard
	Capital Dynamics
	Pantheon
Infrastructure:	Infracapital
	Innisfree
	Pantheon
Property:	Aberdeen Standard
	Aviva
	Blackrock
	Franklin Templeton
	Igloo
	Royal London
	Rreef

Auditors	Mazars
Investment Custodian	JP Morgan Securities Services
AVC Provider	Prudential
Fund Banker	Barclays
Benefits Administration	West Yorkshire Pension Fund

Report of the Pensions Committee

Introduction

The Pensions Committee of Lincolnshire County Council is responsible for the management of the Pension Fund, covering administration, investments and governance. It approves the investment policy of the Fund and monitors its implementation during the year. The Committee generally meets eight times a year, including two manager presentation meetings and two training meetings. Special meetings are convened if considered necessary.

Members of the Committee as at 31 March 2019 are listed on page 1.

All members of the Committee can exercise voting rights.

Corporate Governance and Responsible Investing

The Fund expects its appointed investment managers to act as responsible investors and that they fully integrate environmental, social and governance (ESG) issues into their investment process. It has produced a Responsible Investment Policy that can be found on the Pension Fund's shared website, at www.wypf.org.uk. To assist the Fund in being a responsible investor, it is a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of ESG issues. The Fund has produced a Tier 1 Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can also be found on the Fund's shared website.

Investment Performance

The Fund has an investment objective to meet its liabilities over the long term and to produce a return of 0.75% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve month period ended 31 March 2019 saw the value of the Fund increase by £171.8m to £2,361.2m. The overall investment return of 8.2% was ahead the Fund's specific benchmark return of 8.1%. Over the last ten years, the Fund's annualised investment performance of 9.9% is slightly behind the benchmark return of 10.5%.

Detail on the global markets over the year can be found in the Investment Background, on page 34.

Manager Arrangements

No manager changes or new investments were made during the year.

Pensions Administration

The shared service arrangement with West Yorkshire Pension Fund (WYPF) to provide Pensions Administration services for the Lincolnshire Fund is now four years old. A satellite office for WYPF is based in Lincoln, co-located with the LCC Pension Fund team. This arrangement was made to improve efficiency and reduce costs in the provision of the Pensions Administration service, and this is now being seen. The move from an annual data return to a monthly process has considerably improved the quality of data held in the administration system, enabling a better service to be provided to scheme members. WYPF continues to work with the Lincolnshire Fund and its employers to improve all aspects of administering the scheme.

The initial period for the shared service was five years, from April 2015, with two additional two year extensions available. At its March 2019 meeting, the Pensions Committee approved the first two year extension to the shared service, taking the agreement to 31 March 2022. The final extension will be considered in March 2021, to allow time for any retender of the service, if required.

Local Pension Board

It is now four years since the introduction of the requirement for a Local Pension Board for the Lincolnshire Pension Fund, as prescribed in the Public Service Pensions Act 2013 and the Local Government Regulations 2013. Its oversight role to ensure that the Fund is meeting all the requirements for administration and governance, as set out in the various regulations and by the Pensions Regulator, has been a welcome addition to the governance structure of the Pension Fund. The annual report of the Board can be found on page 27.

Asset Pooling

The requirement to pool the Fund's assets with other LGPS Funds came into statute in November 2016. Lincolnshire chose to become part of the Border to Coast Pensions Partnership (Border to Coast), alongside eleven other partner LGPS funds. Much progress has been made in creating Border to Coast as the pooling vehicle to implement the investment strategy of the twelve partner funds. The result is a £45bn+ asset pool, governed by a Local Government Joint Committee and Administering Authority shareholders. The outcome should reduce investment costs, improve performance and increase resilience across the Funds, over the long term. Border to Coast went live in July 2018, with assets from three of the partner funds with internally managed assets. Work continues with Border to Coast in creating the sub-fund range that will be available to the Fund. The expectation is that the first assets from Lincolnshire will be transitioned to Border to Coast in summer 2019.

Fund Governance and Communication Statements and the Investment Strategy Statement

The Fund's investments are managed in accordance with the Investment Strategy Statement (ISS).

The Fund's ISS, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all attached at the end of this report. These documents, and other related publications, can also be downloaded from the Pension Fund's shared website, at www.wypf.org.uk.

Hard copies of any of these statements may be obtained from:

Jo Ray, Head of Pensions
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
Tel: 01522 553656 | email: jo.ray@lincolnshire.gov.uk

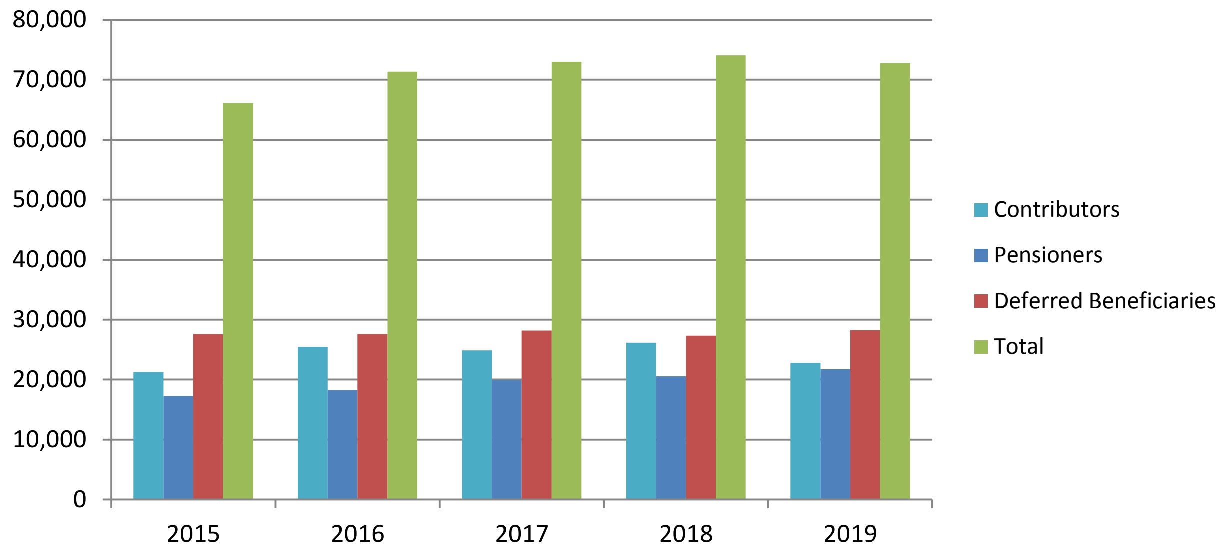
Councillor Eddie Strengiel
Chairman
Pensions Committee

Management Report of the Administering Authority

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for nearly 73,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the active membership has dropped, much of which is due to data cleansing activity undertaken with employers. The Fund has matured over the last five years, with pensioner and deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 68.6% of the overall membership.



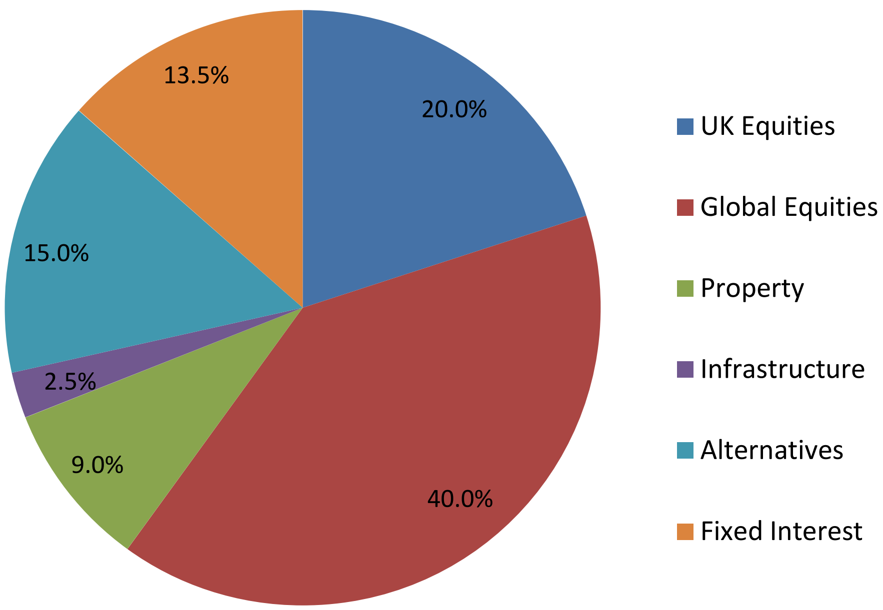
Year ended 31March	2015	2016	2017	2018	2019
Contributors	21,262	25,451	24,893	26,153	22,820
Pensioners	17,264	18,281	19,916	20,543	21,715
Deferred Beneficiaries	27,577	27,618	28,182	27,356	28,221
Total	66,103	71,350	72,991	74,052	72,756

(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database. Current and past members of the LGPS may have more than one pension record as a result, for example, of having more than one part time contract of employment with a Scheme employer.)

Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed at least every three years, alongside the Fund's triennial valuation. The strategic asset allocation is set to provide the required return, over the long term, to ensure that all pension payments can be met. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Committee. The distribution of investments is reported to the Pensions Committee monthly and quarterly.

Strategic Asset Allocation Benchmark



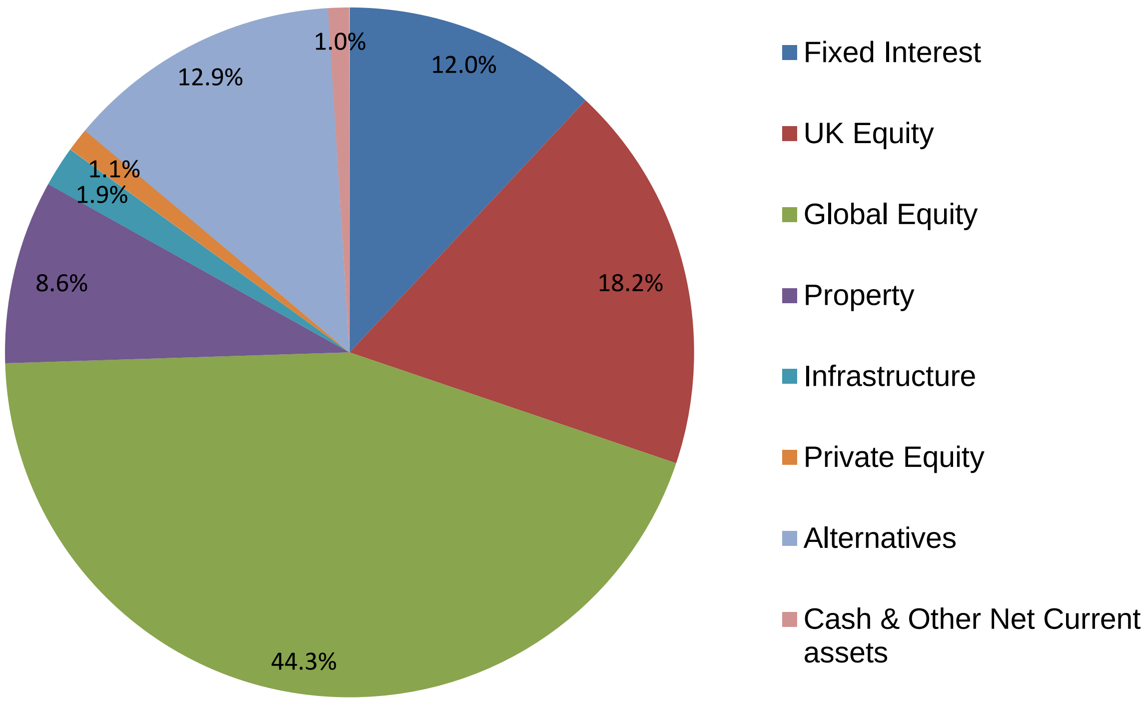
Asset class	Strategic Benchmark 31 March 2019 %	Actual Allocation 31 March 2019 %
UK Equities	20.0	18.2
Global Equities	40.0	44.3
Total Equities	60.0	62.5
Property	9.0	8.6
Infrastructure	2.5	1.9
Alternatives (incl. Private Equity)	15.0	14.0
Fixed Interest	13.5	12.0
Cash (incl. net current assets)	0.0	1.0
Total	100.0	100.0

Total Actual Asset Distribution

The distribution of the assets is shown in the table and pie chart below.

Asset Class	Market Value £'m	31/3/19 %	31/3/18 %
Fixed Interest	283.2	12.0	12.1
UK Equity	429.8	18.2	18.5
Global Equity	1,046.5	44.3	42.8
Property	203.0	8.6	9.5
Infrastructure	44.4	1.9	1.6
Private Equity	24.7	1.1	1.4
Alternatives	305.2	12.9	12.8
Cash & Other Net Current Assets	23.6	1.0	1.3
	2,360.4*	100.0	100.0

*excludes Border to Coast share holdings



Fund Investment Performance

The twelve month period ended 31 March 2019 saw the value of the Fund increase by £171.8m to £2,361.2m. The overall investment return of 8.2% was ahead the Fund's specific benchmark return of 8.1%. Over the last ten years, the Fund's annualised investment performance of 9.9% is slightly behind the benchmark return of 10.5%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 8.2% compares to a rise in retail prices of 2.4% and an increase in public sector earnings of 2.7%.

Investment Performance of the Fund 1 April 2009 to 31 March 2019

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2009/10	29.7	36.7	4.4	4.0
2010/11	7.9	7.8	5.3	2.2
2011/12	1.5	2.4	3.6	1.8
2012/13	12.6	11.3	3.3	1.1
2013/14	6.3	6.2	2.5	1.1
2014/15	12.3	12.4	0.9	(0.9)
2015/16	1.0	1.8	1.6	1.9
2016/17	19.8	19.3	3.1	1.3
2017/18	3.3	3.0	3.3	2.6
2018/19	8.2	8.1	2.4	2.7
10 years annualised	9.9	10.5	3.0	1.8

Manager/Asset Class Performance of the Fund

Asset Class	1 Year		3 Years**		5 Years**	
	FM	BM	FM	BM	FM	BM
Equities						
Internal UK Equity	n/a	n/a	6.1	7.2	3.8	4.5
LGIM	6.4	6.4	n/a	n/a	n/a	n/a
Invesco	9.2	12.3	14.3	4.7	12.6	12.7
Schroders	10.1	10.5	15.3	14.4	12.4	11.8
Columbia Threadneedle	12.3	11.1	16.6	15.0	14.3	12.4
Morgan Stanley	23.0	12.0	16.4	14.4	15.9	12.2
Fixed Interest						
Blackrock	4.4	4.1	6.4	6.2	7.2	7.1
Blackrock (interim)	2.2	2.2	n/a	n/a	n/a	n/a
Property/Infrastructure*						
Property Unit Trusts	1.7	4.9	3.6	6.2	6.8	9.1
Property Other and Infrastructure	10.8	7.0	10.5	7.0	10.1	7.0
Alternatives						
Morgan Stanley	4.2	4.8	6.5	5.5	3.2	4.6
Legacy Private Equity	19.8	4.8	10.7	4.5	12.4	4.6
Total	8.2	8.1	10.2	9.9	8.5	8.6

*Property/Infrastructure performance not split for the time periods covered therefore combined in this report.

** Performance annualised.

Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including pooled investments, as at 31 March 2019. These account for £1,493.7m and make up 63.2% of the Fund's investments.

	Market Value £m's	Proportion of Fund %
Legal & General UK Equity Index Fund	418.7	17.7
Morgan Stanley Alternatives	285.0	12.1
Morgan Stanley Global Brands Fund	207.3	8.8
Blackrock Aquila Life <5 year Corporate Bonds Fund	138.0	5.8
Blackrock Aquila Life Corporate Bond Fund	71.2	3.0
Aberdeen Standard Property Fund	63.8	2.7
Aviva Property Fund	48.5	2.1
Blackrock Property Fund	42.1	1.8
Blackrock Aquila Life > 5 Year ILG Fund	39.7	1.7
Blackrock Aquila Gilts Fund	27.8	1.2
Royal London Asset Management Property Fund	24.2	1.0
Microsoft	20.8	0.9
Amazon	17.0	0.7
Innisfree Secondary Fund	16.8	0.7
Alphabet	15.3	0.6
JPMorgan Chase	13.6	0.6
Apple	12.4	0.5
Standard Life European Property Growth Fund	12.1	0.5
Visa	10.3	0.4
Bank of America	9.1	0.4
Total	1,493.7	63.2

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets are set out below. Portfolio values include cash at 31 March.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
Global Equities - (Ex UK)	Invesco	542.3	22.9
Global Equities	Schroders	135.7	5.7
Global Equities	Columbia Threadneedle	148.8	6.1
Total Segregated Equities		826.8	34.7

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds. Pooled fund values exclude cash held at an asset class level with the custodian.

Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property	Franklin Templeton	2.6	0.1
	Igloo	1.0	0.0
	Aviva	48.5	2.1
	Royal London	24.2	1.0
	Rreef	0.5	0.0
	Blackrock	42.1	1.8
	Aberdeen Standard	76.0	3.2
	Total Property	194.9	8.2
Infrastructure	Innisfree	32.8	1.4
	Infracapital	7.7	0.3
	Pantheon	4.0	0.2
	Total Infrastructure	44.5	1.9
Private Equity	Capital Dynamics	4.9	0.2
	Pantheon	13.3	0.6
	Aberdeen Standard	4.8	0.2
	Total Private Equity	23.0	1.0
Alternatives	Morgan Stanley	290.1	12.3
UK Equities	Legal and General	429.8	18.2
Global Equities	Morgan Stanley	219.7	9.3
Fixed Interest	Blackrock	283.2	12.0
Total Pooled Vehicles		1,485.2	62.9

Investment Administration and Custody

The Fund's segregated managers are responsible for the administration of the assets held within their mandates, and the Council's officers are responsible for the administration of the pooled fund investments.

The Fund's custodian at 31 March 2019 was JPMorgan, with responsibility for safeguarding the segregated assets, in addition to providing investment accounting and performance measurement services. This contract was terminated on 1 April 2019 when, following a tender process, Northern Trust was appointed to provide the same services for an initial five year contract period.

Funding

The Lincolnshire Pension Fund's latest triennial valuation was as at 31 March 2016. The results from this are published on the Fund's shared website.

The table below summarises the latest triennial valuation's financial position in respect of benefits earned by members up to this date, compared with the previous valuation.

	31 March 2013	31 March 2016
Past Service Liabilities	£2,092m	£2,288m
Market Value of Assets	£1,495m	£1,759m
Surplus/(Deficit)	(£597m)	(£529m)
Funding Level	71.5%	76.9%

The funding level of the Fund is monitored each quarter on a roll forward basis, and this is reported to the Pensions Committee.

Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Tier I Stewardship Code statement, in compliance with the Financial Reporting Council's Stewardship Code. It encourages its external managers and service providers to produce their own codes, and to report their engagement and stewardship activity to the Fund.

The Pensions Committee agree that the adoption of good practice in Corporate Governance will improve the management of companies and thereby increase long term shareholder value. The Fund's Responsible Investment policy and Corporate Governance and Voting policy can be found on the shared website at www.wypf.org.uk. These policies are aligned with those of Border to Coast, who will be responsible for implementing them once assets are transferred.

The Fund requests that its segregated managers vote on all direct company holdings, wherever possible. Prior to December 2018, votes were filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. This contract terminated in November 2018 ahead of the transitions from segregated managers to the pooled investments that will be managed by Border to Coast. The votes cast by managers are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 79 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest. Further information on the work of the LAPFF can be found at www.lapfforum.org. LAPFF engages with companies across a wide range of issues that can broadly be grouped into five engagement themes:

- Environmental and carbon risk;
- Social risk;

- Governance risk;
- Reliable accounts; and
- LGPS and Stewardship.

Risk Management

Risk management is an integral element of managing the Pension Fund. The Pension Fund has a risk register which identifies the major risks associated with managing the Fund. This is reviewed by the Pensions Committee annually, and new or changed risks are reported at each quarterly meeting.

The table below highlights the key risks and how they are managed.

Key risk identified:	A range of controls are in place including:
Assets do not cover liabilities	Triennial valuation, diversification of investments, regular monitoring and reporting, professional advisors.
The inability to deliver the Pensions Administration Service, due to failure in the shared service agreement	Performance and management indicators, regular meetings, internal and external audits, service level agreement and benchmarking.
Paying pensions correctly	Process controls, audits, reconciliations, task management.
Collecting contributions correctly	Employer contribution monitoring, monthly contribution data returns, audits, employer training, reconciliations.
Not meeting statutory requirements	Pension Board oversight, checklist against the Pensions Regulator requirements, regular reporting to Committee and Board.
Loss of key staff, knowledge and skills	Diversified staff/team, pensions user groups, procedural notes, appraisals.
Asset Pooling – the management of the relationship with Border to Coast Pensions Partnership and the investment performance, as a client and a shareholder	Joint Committee, officer operations group, senior officers group, regular meetings with Border to Coast.

Information regarding the risks relating to financial instruments is included within the notes to the accounts, later in this report.

Lincolnshire County Council's (LCC) internal audit team regularly undertake audits across different aspects of the Fund's management and administration. The output from these audits is reported to the Council's Audit Committee, and brought to the Pension Board and Committee as appropriate. Internal audits undertaken in 2018/19 covered assurance of the administration service provided by West Yorkshire Pension Fund (WYPF). The Council's audit team reviewed outcomes of the pensions administration audits undertaken by the Bradford Metropolitan District

Council, who are responsible for the internal audit function of WYPF. Areas covered and outcomes are shown below:

- New Pensions and Lump Sums – Deferred Pensions = Effective
- Reimbursement of Agency payments = Mostly Effective
- LGS Contributions = Excellent
- New Pensions and Lump Sums – Ill Health Pensions = Good
- New Pensions and Lump Sums – Fire Service Pensions = Good

Following their conversations with the WYPF audit provider, LCC can continue to place assurance on the robust nature of the audits completed by Bradford MDC. They were pleased to see that the audits continue to have positive assurance levels to date and that actions are implemented promptly. They are happy to place reliance on this assurance over Pension Administration and plan to maintain their relationship with Bradford MDC.

Assurance from the service suppliers and fund managers appointed by Lincolnshire Pension Fund is obtained thorough the receipt and monitoring of control reports – e.g. ISAE 3402 (AAF 01/06) or SSAE16/70. For 2018/19 reasonable assurance was obtained from all third party operations.

Employer Contribution Rates

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	207	12	219
Admitted Body	27	12	39
Total	**234**	**24**	**258**

The employers' contribution rates (including deficit cash or percentage of payroll amounts where applicable) applying in the year ended 31 March 2019, for all employers are set out below, alongside actual cash contributions received from both the employer and the employees for each body.

Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2019:

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
SCHEDULED BODIES				
County and District Councils				
Lincolnshire County Council	16.4	£5,503	28,966	8,167
LCC Schools	16.4	6.5%	2,350	578
Boston Borough Council			1,445	365
East Lindsey District Council	16.6	£706k	1,940	457
City of Lincoln Council	16.0	£1,562	3,803	902
North Kesteven District Council	16.3	£682k	2,155	559
South Kesteven District Council	16.5	£991k	1,594	353
South Holland District Council	16.7	£571k	3,824	875
West Lindsey District Council	16.2*	£782k	1,708	433
Internal Drainage Boards				
Black Sluice	16.8*	£96k	271	49
Lindsey Marsh	17.5*	£26k	226	94
North East Lindsey	17.9	£16k	23	3
South Holland	18.3	£100k & 10.4%	188	20
Upper Witham	18.4	£56k	117	21
Welland and Deeping	17.7	£121k	251	50
Witham First	19.3	£5k & 7.5%	63	16

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	Contributions received £k Employee
Witham Fourth	18.0	£90k	257	62
Witham Third	17.3	£38k & 6.7%	165	38
Parish and Town Councils				
Billinghay PC	19.3	2.3%	4	1
Bourne TC	19.3	2.3%	9	3
Bracebridge Heath PC	19.3	2.3%	8	2
Cherry Willingham PC	19.3	2.3%	4	1
Crowland PC	19.3	2.3%	7	2
Deeping St James PC	19.3	2.3%	7	2
Gainsborough TC	19.3	2.3%	26	8
Gedney PC	19.3	2.3%	3	1
Greetwell PC	19.3	2.3%	1	0
Heighington PC	19.3	2.3%	3	1
Horncastle TC	19.3	2.3%	13	3
Ingoldmells PC	19.3	2.3%	5	1
Langworth PC	19.3	2.3%	0	0
Louth TC	19.3	2.3%	12	3
Mablethorpe & Sutton TC	19.3	2.3%	19	6
Market Deeping TC	19.3	2.3%	8	2
Metheringham PC	19.3	2.3%	8	2
Nettleham PC	19.3	2.3%	6	2
North Hykeham TC	19.3	2.3%	39	11
Pinchbeck PC	19.3	2.3%	7	2
Skegness TC	19.3	2.3%	35	10
Skellingthorpe PC	19.3	2.3%	9	2
Sleaford TC	19.3	2.3%	42	10
Stamford TC	19.3	2.3%	22	6
Sutton Bridge PC	19.3	2.3%	5	1
Sudbrooke PC	19.3	2.3%	1	0
Washingborough PC	19.3	2.3%	8	2
Welton-by-Lincoln PC	19.3	2.3%	7	2
Woodhall Spa PC	19.3	2.3%	3	1
FE Establishments				
Bishop Grosseteste University	20.9*	£82k	1,024	322
Boston College	21.5	£76k	801	198
Grantham College	21.0	£86k	629	155
Lincoln College	22.3	£446k	1,369	259

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	 Employee
Stamford College	20.6	£63	557	146
Other Scheduled Bodies				
Acorn Free School	16.5		14	5
BG Lincoln	20.7	£2k	36	9
Compass Point	21.8		971	274
Police Chief Constable and Police & Crime Commissioner (pooled rates also with G4S)	16.3	£1,102k	3,183	844
Academies				
Aegir Community Academy	19.0	£34k	160	40
Alford Queen Elizabeth	19.5*		69	35
Barnes Wallis Academy	18.0	£149k	69	21
Bassingham Primary Academy	20.8	£8k	46	10
Beacon Primary	15.9		27	10
Boston Grammar	18.4	£7k	90	27
Boston High School	18.6*	£20k	104	30
Boston John Fielding	17.9	£27k	145	39
Boston St Mary's RC Primary	18.6	£2k	35	8
Boston West Academy	19.2		46	13
Boston Witham Federation	17.7	£55k & 0.5%	698	208
Bourne Abbey Academies Trust	19.0	£3k	175	53
Bourne Academy	19.4	£23k	224	66
Bourne Grammar	19.0	£30k	162	45
Bourne Westfield Primary	19.5*	£9k	116	34
Bracebridge Infant and Nursery	18.4		33	10
Branston CofE Infant School	20.5	£3k	21	5
Branston Community Academy	19.1		174	50
Branston Junior Academy	19.2	£12k	31	6
Browns CofE Academy	21.7	£5k	24	5
Caistor Grammar Academy	18.7*	£1k	65	22
Caistor Yarborough	17.9	£9k	67	19
Carlton Academy	17.6		82	27
Castle Wood Academy	18.5	£9k	39	9
Caythorpe Primary Academy	19.7	£5k	31	7
Chapel St Leonards Primary	20.2	£6k	60	16
Charles Read Academy	18.0	£149	68	21
Eastfield Infant and Nursery School	19.5	£12k	42	11

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	 Employee
Edenham CofE Academy	21.3	£8k	25	4
Ellison Boulters Academy	20.0	£4k	53	14
Ermine Primary	18.5	£9k	133	39
Fosse Way Academy	19.0	£9k	100	27
Frithville Primary	19.1	£2k	5	1
Gainsborough Benjamin Adlard	18.6		44	13
Gainsborough Parish Church	18.5	£12k	72	19
Giles Academy	17.4	£6k	109	34
Gipsey Bridge Academy	19.9	£4k	22	5
Gosberton House Academy	18.6	£23k	124	32
Grantham Ambergate	18.0	£26k	189	59
Grantham Isaac Newton Primary	19.3	£13k	87	22
Grantham Kings School	19.9*	£13k	135	42
Grantham Sandon	18.5	£30k	137	34
Grantham St Mary's Catholic Primary	20.1	£4k	27	6
Grantham Walton Girls	19.8	£11k	138	34
Greenfields Academy	18.9	£10k	68	20
Harrowby CofE Infants	18.6	£5k	36	10
Hartsholme Academy	16.1	£5k	77	28
Heighington Millfield Academy	18.9	£3k	57	16
Hillcrest EY Academy	16.9	£8k & 0.2%	59	17
Hogsthorpe Primary Academy	18.0	£149k	12	4
Holbeach Bank Academy	19.8	£1.2k	18	5
Holbeach Primary	17.2	£10k	52	14
Holy Trinity CofE Primary	20.1	£6k	29	6
Horncastle Banovallum	18.4	£37k	163	41
Horncastle QE Grammar	18.9*	£22k	129	37
Huntingtower Community Primary	17.9	3.0%	114	31
Huttoft Primary Academy	18.7		57	17
Ingoldmells Academy	18.7	£4k	32	9
Ingoldsby Primary Academy	18.0	£149k	15	5
John Spendluffe Tech College	18.8	£25k	173	46
Keelby Primary Academy	19.7	£11k	45	10
Kesteven & Grantham Academy	19.1	£36k	211	54
Kesteven & Sleaford High	19.0*	£17k	110	32
Kidgate Primary Academy	17.4	£10k	78	22
Kirkby La Thorpe	19.4	£2k	32	9

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	 Employee
Lacey Gardens Junior School	18.5	£11k	43	12
Lincoln Anglican Academies	16.4		46	20
Lincoln Castle Academy	19.4	£17k	139	39
Lincoln Christs Hospital School	19.5	£30k	238	65
Lincoln Our Lady of Lincoln	18.8	£2k	42	12
Lincoln St Hugh's Catholic	19.0	£8k	65	18
Lincoln St Peter & St Paul's	19.1	£15k	120	34
Lincoln UTC	17.6		43	14
Lincoln Westgate Primary	18.4	£6k	67	19
Ling Moor Academy	19.1	£7k	67	18
Little Gonerby CofE	19.6	£5k	48	13
Long Bennington CofE	19.7*	£6k	42	12
Louth Academy	19.4	£44k	172	33
Louth King Edward VI Grammar	19.0	£43k	145	33
Mablethorpe Academy	19.2	£13k	90	23
Manor Farm Academy	17.4		18	6
Manor Leas Infant Academy	19.3	£2k	33	9
Manor Leas Junior Academy	18.9	£6k	44	11
Market Rasen De Aston	18.8	£3k	163	50
Mercer's Wood Academy	18.5	£9k	46	14
Morton CofE Academy	20.8	£16k	59	11
Mount Street Academy	17.6	£10k	93	27
National CofE Junior	19.2*	£14k	83	25
Nettleham Infants Academy	19.1*	£7k	34	9
New York Primary	18.5	£1k	6	2
North Kesteven School	18.7*	£63k	225	59
North Thoresby Primary	18.6		19	5
Poplar Farm School	17.2		8	3
Priory Federation of Academies	18.2		969	314
Rauceby CofE	19.6	£6k	33	8
Redwood Primary	20.5	£4k	24	6
Ruskington Chestnut Street	19.5	£21k	72	15
Sir Robert Pattinson Academy	18.8	£21k	193	53
Sir William Robertson	18.7	£25k	143	39
Skegness Academy	18.4	£25k	274	69
Skegness Grammar	18.0	£149k	122	27
Skegness Infant Academy	18.1	£11k	72	19

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Skegness Junior Academy	18.7	£7k	78	21
Sleaford Carres Grammar	19.3*	£29k	188	58
Sleaford Our Lady of Good Counsel	17.9		25	8
Sleaford St Georges	19.1		389	122
Sleaford William Alvey	18.9	£4k	76	22
Somercotes Academy	18.5	£27k	67	13
South Witham Community	20.6*	£7k	29	7
Spalding Academy	19.4	£58k	227	51
Spalding Grammar	19.6	£26k	161	42
Spilsby Eresby	18.0	£149k	70	22
Spilsby King Edward Academy	18.0	£149k	242	31
Spilsby Primary Academy	18.5	£9k	60	16
Springwell Lincoln City Academy	18.5	£10k	213	65
St Bernards Academy Louth	19.0	£58k	199	44
St Giles Academy	18.2	£28k	109	25
St John's Primary Academy	18.8	£16k	87	22
St Lawrence Academy	17.2	£30k	130	34
St Michaels CofE Primary	19.7	£9k	73	18
St Norberts Catholic Primary	19.1	£1k	19	5
Stamford Malcolm Sargent	18.5		129	40
Stamford St Augustines	18.8	£3k	37	11
Stamford St Gilberts	18.6	£8k	54	14
Stamford Welland Academy	20.6		67	19
The Deepings Academy	19.7		239	73
The Gainsborough Academy	18.8		193	51
The Garth School	18.2		120	31
The Marton Academy	20.5	£5k	24	5
The Priory School	18.4	£19k	86	21
The Priory Pembroke	20.1	£15k	89	21
Theddlethorpe Primary Academy	21.5	£6k	25	5
Thomas Cowley Academy	19.0	£27k	161	44
Thomas Middlecott Academy	18.0	£149k	89	28
Tower Road Academy	19.5	£17k	126	27
University Academy Holbeach	19.1	£39k	257	70
Utterby Primary Academy	19.5	£1k	19	5
Waddington All Saints Primary	19.8	£7k	67	17
Wainfleet Magdalene Primary	18.5	£16k	73	17

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	Contributions received £k Employee
Warren Wood Specialist	19.5	£33k	118	19
Washingborough Academy	19.3		57	17
Welton William Farr CE	19.2	£48k	307	73
Welton St Mary's CofE	18.8	£1k	60	17
West Grantham Federation	18.6	£11k	229	69
Weston St Mary	16.3	£1k	7	2
Whaplode CofE Academy	19.9	£4k	48	13
White's Wood Academy	18.5	£9k	53	16
William Lovell Academy	19.9	£28k	99	20
Witham St Hughs Academy	17.6	£4k	52	16
Woodhall Spa St Andrews	17.8	£5k & 0.5%	53	15
Woodlands Academy Spilsby	19.9	£34k	77	13
ADMITTED BODIES				
Active Lincolnshire	21.9	£3k	49	7
Active Nation	26.9	£6k	17	3
Adults Supporting Adults	29.1		107	7
Aspens Services	31.7		16	3
Lincolnshire Housing Partnership	26.2	£113k	226	34
Caterlink	32.2		16	2
Compass Contract Services (UK) Ltd	30.2		31	6
Consultant Services Ltd	28.4		1	0
Easy Clean Contractors (Baston)	33.0		2	0
Easy Clean Contractors (Linchfield)	30.4		1	0
Edwards & Blake	25.9	£5k	13	2
Future Cleaning Services	29.1		22	4
G4S (for rate see Police pool)			725	286
GLL	29.0		370	101
Kier	26.3		217	56
Lincoln Arts Trust	25.6		15	4
Lincoln BIG	22.3		9	2
Lincolnshire Home Independence Agency	26.2	£113	37	10
Magna Vitae	14.9		296	124
Making Space			19	5
New Linx Housing	26.0	£642k	916	81
Nightingale Cleaning Ltd	29.1		0	0
Outspoken Training	31.5		1	0

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received £k Employer	Contributions received £k Employee
Person Shaped Support			0	0
Serco	16.4	6.5%	864	239
Taylor Shaw (Branston)	31.3		17	3
Vinci	28.8		10	2

* indicates employer has ill health insurance with Legal and General therefore actual rate paid reduced by 1.75% for insurance premium

Contribution payments are paid by the employers directly to the Lincolnshire Pension Fund bank account, and monthly data submissions are sent to the Fund's administrator, WYPF, through a secure portal.

The timely receipt of contribution payments and data submissions is monitored closely. Late payers (either actually paying cash or submitting data after the statutory deadline of the 19 of the month following payroll) are reported quarterly to both the Pensions Committee and the Pension Board.

A policy is in place to fine employers where they are late in three of any six months over a rolling period, to cover additional administrative costs. However the Fund and its administrator work closely with employers to ensure that employers understand their responsibilities and the processes required to meet them.

Over the year to 31 March 2019 there were 22 fines raised to employers.

Asset Pooling

Introduction

In the LGPS (Management and Investment of Funds) Regulations 2016, enacted in November 2016, the Government required all Local Government pension funds to combine their assets into a small number of asset pools, in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

a. Benefits of scale - a minimum asset size of £25bn;

b. Strong governance and decision making;

c. Reduced costs and value for money; and

d. Improved capacity to invest in infrastructure.

These regulatory changes do not affect the sovereignty of the Lincolnshire Pension Fund, and the pooling of LGPS assets will have no impact on the employee contribution rates or pension entitlement of members of the fund (pensioners, current employees and previous employees who are yet to draw their pension).

Lincolnshire Pension Fund's Solution

Having assessed the various options available, it was decided that the Fund would pool its assets with eleven other like-minded funds, and create a new entity to implement the investment strategy and manage the investments. Some core principles were agreed at the very beginning, these included:

- One Fund one vote – regardless of size all Funds will be treated equally;
- Equitable sharing of costs; and
- To drive efficiencies and work effectively, partner funds must have a complimentary investment ethos, risk appetite and strategy.

This new entity was to be a fully regulated asset management company, jointly owned by the twelve partner funds' administering authorities, with each Fund having an equal share in that company. It would have capabilities for internal management and appointing external managers. Its role would be to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions. The new entity was called Border to Coast Pensions Partnership Ltd (BCPP), and the proposal was approved by Government in December 2016. BCPP started managing assets in July 2018.

Border to Coast Pensions Partnership

BCPP is based in Leeds and has around 60 employees. This includes a large team to directly manage assets, alongside a team to select external managers. As a FCA (Financial Conduct Authority) regulated company, BCPP has to comply with all the requirements that any other asset manager has to, and is subject to company legislation.

Governance

BCPP has twelve LGPS partner funds – Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, Northumberland, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire, with assets in excess of £45bn as at March 2019. The Chairs of the Pensions Committees of these funds sit on a Joint Committee, to exercise oversight of the investment performance of the company and report back to, and take feedback from, the various Pensions Committees. In addition there is a scheme member representative that has a non-voting seat on the Joint Committee, who is nominated by the twelve Partner Funds' Local Pension Boards. The Joint Committee represents the Funds as investors in BCPP. As BCPP is jointly owned by the administering authorities of the Pension Funds, there is also a shareholder role that the authorities provide, and the responsibilities are all set out in a shareholder agreement. Pension Fund Officers provide day-to-day oversight and work closely with BCPP to ensure that the company provides the investment vehicles the funds need to implement their investment strategies.

As at 31 March 2019, the Lincolnshire Fund had not transitioned any assets. The first transition is expected in Q2/3 2019 to the Global Equity Alpha Fund.

Border to Coast set-up costs

The table below shows set-up costs incurred by the Fund this year and since inception:

			2018/19	*Since Inception*
	Direct £000's	Indirect £000's	Total £000's	*Cumulative £000's*
Recruitment				*17.1*
Legal				*26.6*
Procurement				*36.2*
Other support (e.g. IT)				*2.0*
Share purchase	833.3		833.3	*833.3*
Other working capital				*-*
Staff costs				*61.9*
Other costs				*41.3*
Total Set-up Costs	833.3		833.3	*1,018.4*

	Direct £000's	Indirect £000's	2018/19 Total £000's	*Since Inception Cumulative £000's*
Governance		171.0	171.0	*171.0*
Implementation		239.4	239.4	*239.4*
Development		12.2	12.2	*12.2*
AUM		0.3	0.3	*0.3*
Total Running Costs		422.9	422.9	*422.9*
Total Costs to Date				*1,441.3*

*AUM is notional figure based on asset allocation

The costs identified above have been incurred as a result of creating Border to Coast in order to meet the Governments requirements, in a way suited to the core principles that the Fund and the partner funds agreed at the beginning of the pooling process. As no transitions have yet taken place, no real savings have been made, however it is expected that over the medium to longer term investing with Border to Coast will create fee savings through reduced manager turnover and improve net of fee performance.

Border to Coast contact details:

Border to Coast Pensions Partnership
5th Floor, Toronto Square, Leeds, LS1 2HJ

More information can be found at their website at www.bordertocoast.org.uk

Annual Report of the LGPS Local Pension Board 2018/2019

Introduction

I am pleased to present the report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2018/2019.

Pension Boards were introduced in to the Local Government Pension Scheme (LGPS) from April 2015 under the Public Sector Pensions Act 2013 with the responsibility to assist administering authorities, in particular pension managers, and to secure compliance with the LGPS regulations.

The Lincolnshire Local Pension Board was established by the Administering Authority in June 2015 and operates independently of the Pensions Committee.

Purpose

The Board's role is to work closely in partnership and assist the Administering Authority in its role as Scheme Manager in relation to the following matters:

- Securing compliance with the Scheme Regulations and any other legislation relating to the governance and administration of the Scheme;
- Securing compliance with the requirements imposed by the Pension Regulator (tPR) in relation to the Scheme;
- Ensuring any breach of duty is considered and followed under the Scheme's procedure for reporting to tPR and to the Scheme Manager;
- Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme; and
- Such other matters as the Scheme Regulations may specify.

Further detailed information on the Board's functions is set out in the Terms of Reference.

Constitution and Membership

The membership of the Board during the period was as follows:

- **Independent Chair** (non-voting)
  Roger Buttery

- **2 Employer Representatives** (both voting)
  Councillor Mark Whittington (Lincolnshire County Council)
  Kirsty McGauley (Grantham College)

- **2 Member Representatives** (both voting)
  David Vickers
  Ian Crowther

Four meetings were held within the period – 25 July and 11 October 2018, and 10 January and 21 March 2019.

All the Board Members have completed the Pension Regulator's Public Service toolkit. All the Board Members have also attended a variety of externally organised conferences and seminars throughout the year as well as several internal training sessions on LGPS Asset Pooling, the forthcoming actuarial valuation and Club Vita longevity update.

The Work Programme

At each of the four meetings, the Board considered several standard reports. Lincolnshire's compliance to the Code of Practice produced by tPR is regarded as a very important report.

The eleven elements of the Code are:

a) Reporting duties;

b) Knowledge and understanding;

c) Conflicts of interest;

d) Publishing information about schemes;

e) Managing risk and internal controls;

f) Maintaining accurate member data;

g) Maintaining contributions;

h) Providing information to members and others;

i) Internal dispute resolution;

j) Reporting breaches of the law; and

k) Scheme advisory board.

A checklist of 99 items covering the above was produced in a traffic lights format. It is pleasing to report that Lincolnshire was largely compliant throughout the year. At the March 2019 meeting, there were 94 green and 1 not relevant. There were still 4 partially compliant and progress continues to achieve green. The Board considered that the compliance to tPR's Code was very good.

Each quarter, the Board considered a report from the Business Development Manager (BDM) from WYPF on current administration issues within the Lincolnshire Pension Fund. The Key Performance Indicators (KPIs) are a key consideration. Throughout the year, the Board has been comfortable with the performance of WYPF and most of the KPIs have been in the 90%+ range.

At the January meeting, the Board questioned the BDM on the data scores as reported to tPR; these were Common 95.71% and Conditional 94.81%. At the March meeting, the scores had improved slightly to Common 96.01% and Conditional 95.78%. The target is 100%, particularly for Common data. WYPF are currently working on a data improvement plan and using a tracing company in an attempt to track lost members. Overall, the Board's conclusion was that the administration continues to be sound. It was also noted that the partnership between LCC and WYPF continued to develop well.

Each quarter, the Board considered a report from the Head of Pensions on any current issues within the fund including investment matters. In last year's Annual Report, I mentioned that the Board had written to an employer concerning a huge backlog of outstanding leaver forms. The employer self-reported to tPR and produced an improvement plan. It is pleasing to report that in addition to clearing the historic backlog, the in-year leavers for the particular employer had reduced to normal levels. The Board acknowledged the improvements made and suggested to the employer that it would be appropriate to notify tPR that all backlogs had been cleared.

The Head of Pensions also reported on the employers' monthly submissions and contribution monitoring at each Board meeting. Generally, the payment of contributions and the employer data submissions on a timely basis are good but there are a few outliers. This is both disappointing and unacceptable. The officers felt that it was important to work with the employers to attempt to resolve issues before taking further action. The Board will keep this issue under close review.

At the July meeting, consideration was given to the Pension Fund's draft Annual Report & Accounts for 2017/2018 which had been approved by the Pensions Committee on 19 July, 2018. The Board subsequently received a report from KPMG giving their opinion on the Pension Fund Accounts and Annual Report. Overall, the audit of the Pension Fund Accounts did not identify any material mis-statements and there were no adjusted or unadjusted audit differences that they needed to be reported. An unqualified audit opinion was issued on the Pension Fund accounts as part of the Lincolnshire County Council Statement of Accounts. The Board concluded that the Report and Accounts was an excellent document.

At the January meeting, at the request of the Board, the Head of Pensions produced a report which detailed the governance structure of the Border to Coast Pensions Partnership (BCPP). The report was excellent and identified the key stakeholders of BCPP and explained what each of the roles entailed.

It is also a pleasure to report that not only was the Head of Pensions awarded the Rising Star of the Year Award at the UK Institutional Investor Awards, but she went on to the win the Rising Star of the Year at the Institutional Investor European Peer-to-Peer awards. This is a fantastic achievement for both Jo Ray and the Lincolnshire Pension Fund.

Conclusion

This is the fourth report of the Board. The Board considers the governance and administration of the Scheme to be sound. Lincolnshire's compliance to the vast majority of tPR's Code of Practice is particularly impressive. The Report and Accounts for 2017/2018 is an excellent document and there was an unqualified audit report. The Board will continue to monitor the LGPS pooling arrangements as the proposals unfold.

The Board would like to express its thanks to Jo Ray, Head of Pensions, her Team and the staff of the WYPF for the huge amount of work undertaken during the year. Finally, I should like to thank the four Board Members for their considerable input and support during the year.

Roger Buttery
Pension Board Chair
April 2019

Any questions regarding the Pensions Board or its work can be addressed through the Head of Pensions.

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Information on Board membership and meetings can be found on the Council's website: http://lincolnshire.moderngov.co.uk/

Lincolnshire County Council Pension Fund Actuarial Statement for 2018/19

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017, updated July 2018. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,759 million, were sufficient to meet

77% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £529 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	24.1 years	26.6 years

* aged 45 at the 2016 valuation

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

Experience over the period since 31 March 2016

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

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

Prepared by **Peter Summers FFA**
For and on behalf of Hymans Robertson LLP
2 May 2018

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

Investment Background

Returns for Major Markets

The twelve months to 31 March 2019 produced mainly positive returns across all asset classes, with equities generally performing the best.

Equity market returns were positive, in the main, ranging from -1.8% in Japan to 17.7% in the US.

Bond asset returns were better than previous years, with UK Gilts and Index Linked Gilts returning 3.7% and 5.5% respectively, and UK Corporate Bonds returning 4.1%.

Property returns improved on last year, returning 4.8% for investors.

Investment Returns to sterling based investors 1 April 2018 to 31 March 2019

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	6.4
Global Equities	FTSE World	10.7
United States	S&P 500	17.9
Europe ex UK	FTSE Developed Europe	2.9
Japan	TOPIX	(1.8)
Emerging Markets	FTSE Emerging	1.9
Fixed Interest		
UK Gilts	FTSE UK Gilts	3.7
UK Index Linked Gilts	FTSE Index–Linked	5.5
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	4.1
Property	CBRE Index	4.8
Cash	LIBID Seven Day Rate (compounded)	0.5

World Equity Markets

Global equity markets reported gains over the twelve months to March 2019 (in GBP terms), with US equities outperforming their European counterparts.

A brief summary of the highlights of each quarter of the financial year is shown below:

Quarter 2 2018

Global equity markets ended the second quarter of 2018 in positive territory, despite concerns about trade tensions and increased political and economic uncertainty. In particular in May, markets remained on a strong footing. Macro data had been largely supportive in the US with unemployment falling to the lowest level since the end of 2000. In terms of corporate news, global deal-making reached US$2.5 trillion in the first half of 2018, breaking the all-time high for the period in spite of an increasingly challenging geopolitical backdrop. A wave of mega deals led by the US media and telecoms sector helped to lift worldwide deal volumes. Regarding monetary policy, the US Federal Reserve (Fed) raised interest rates in June for the second time in the year, as expected. It also signaled that it expected two further increases in 2018 – one more than it had previously forecast. In the eurozone, the European Central Bank (ECB) announced its intention to end its bond buying programme by the end of this year.

Quarter 3 2018

In the third quarter 2018, global equity markets ended in positive territory despite mounting political, trade and policy headwinds. Despite the sharp decline in share prices in US mega-cap technology stocks in July after their latest earnings and the political concerns about ongoing trade tensions, the main US equity markets continued its record-setting run in August to reach twin landmarks: an all-time high and the longest bull-run in history. September also rounded off a strong quarter for the US equity market, as it clocked its best quarterly performance since 2013. The quarter-point interest rate hike from 2% to 2.25% reflected an upbeat assessment of the US economy. UK and eurozone equities were broadly flat during September after the more challenging environment in August, mainly driven by concerns over the Italian budget combined with contagion fears over Turkish Lira weakness. Meanwhile, Japan's equity market ended September with solid gains, shrugging off investor concerns about the outlook for Chinese economy and escalating trade tensions between the US and China.

Quarter 4 2018

Global equity markets ended the fourth quarter 2018 in negative territory to round off their worst year since the global financial crisis. October 2018 was one of the worst months for equity markets in more than six years. Investors grew cautious in the face of a cocktail of factors including signs that trade tensions are fueling a global economic slowdown. Meanwhile, increases in US interest rates signaled the end of cheap money that had driven a near decade-long bull market for equities. The combination of a less aggressive Fed and the easing of trade tensions between the US and China saw global equity markets deliver positive returns in November. The

UK and eurozone equity markets continued to struggle during November. In December, markets were rattled by a myriad of concerns including the US Federal Reserve raising interest rates too quickly, US economic growth being revised down for the third quarter, political turmoil in Washington, as well as the UK's exit from the EU and the ongoing US-China trade talks.

Quarter 1 2019

It was a good start into the new year for global equities over the first quarter 2019. Driven mostly by gains in the US equity market, global stocks saw their largest quarterly gains since 2010. The positive investor sentiment offset concerns over the health of the global economy and was fueled by optimism over trade talks between the two largest economies, China and the US, and a dovish rhetoric from several central banks, including the Fed and the European Central Bank. Markets were especially boosted by the Fed's announcement that it would put further interest increases on hold. All three months in the first quarter saw positive returns in global equity markets. Despite the question of UK's departure from the European Union, which dominated headlines throughout the first quarter of the year, the UK equity market along with the European equity market provided positive returns three months in a row.

Fixed Interest

A brief summary of each quarter of the financial year is shown below.

Q2 2018

In was a bumpy quarter for global government bonds. While risk aversion mounted in May on the prospect of a trade war between the US and China, government bond yields were more heavily influenced by the Federal Reserve (Fed) indications that US interest rates could rise more quickly than had previously been expected. Core government bond prices in the US, Germany and the UK fell in response. Thereafter, however, political uncertainty in Italy and Spain fuelled demand for core government bonds, driving prices higher. In June, the Fed's interest rate hike was accompanied by signals that two further increases would be necessary in 2018, causing a further fall in government bond yields. Corporate bonds began well, but struggled to make headway as the period progressed. First, the credit market was unnerved by political uncertainty in Italy as the country's president vetoed the soon-to-be government's choice of finance minister. Then, as things began to stabilise in Italy, volatility in financial markets picked up once again as the spectre of global trade wars returned. The US traded verbal blows with its major trading partners – China and Europe – creating a more febrile political environment and increasing, in many peoples' eyes, the risk of higher inflation and the potential for economic slowdown.

Q3 2018

The primary influences on global government bonds were risk aversion and the move towards policy normalisation in the major economies. Risk aversion was largely rooted in an escalation in the trade spat between the US and China. Against that, a slew of encouraging US economic data caused the market to price in two interest rate rises before the end of 2018, and pushed the 10-year Treasury yield decisively above the 3% mark. Towards the end of Q3, Italian bond yields reached a five-year high after its government unveiled plans to sharply increase public spending, risking a conflict with Brussels. It was a challenging but positive quarter for corporate bonds, with fears of faster-than- expected US interest rate rises and escalating global trade tensions fuelling volatility. Concerns surrounding the sustainability of the Italian budgetary position also contributed to some periods of markedly risk-off sentiment. Despite such worries, the global economic and corporate backdrop remained resolutely supportive, enabling modest returns for corporate bonds over the period as a whole.

Q4 2018

It was a relatively good quarter for government bonds, as risk-averse investors flocked to safe-haven assets. Driving sentiment was the deteriorating outlook for the world's economy and uncertainty over US monetary policy. The same underlying themes continued to trouble the market. These included the trade war between the US and China, and unease as the Brexit deadline grew closer. Meanwhile, Italy's clash with the European Union over fiscal spending weighed on sentiment. The fall in the oil price was also an influencing feature. It was a tough period for corporate bonds. Primary concerns were the global economy and longevity of the corporate earnings cycles. This came against the backdrop of tightening global liquidity and the elevated level of non-financial corporate debt. Beyond this, the escalating US-China trade war depressed investor sentiment. There were also more localised worries. These included Brexit and Italy's budget drama. Unsurprisingly, corporate bond spreads widened. However, the impact on higher-quality investment grade bonds was lessened by the sharp decline in government bond yields.

Q1 2019

The main factors influencing global government bonds were the outlook for world economic growth and US monetary policy. Underlying themes included the US/China trade war, and unease as the Brexit deadline grew closer. Other significant factors were Italy's clash with the European Union over fiscal spending, and the falling oil price. An escalation of risk aversion in March drove German bund and UK gilt yields to their lowest points since 2016 and 2017 respectively. Meanwhile, the US yield curve inverted for the first time since 2007. Global corporate bonds bounced back strongly following a poor final quarter of 2018. In large part, this reflected the Fed's unexpected shift to a dovish stance. This led to investors pricing out any further US interest rate hikes for the remainder of 2019. Treasury yields fell in response. The other big external headwind for corporate bonds had been increasing US/China trade tensions. Here too, optimism increased as talks resumed. Investors hoped a deal was now possible.

UK Commercial Property

A brief summary of each quarter of the financial year is shown below.

Q2 2018

UK commercial real estate delivered modest capital growth during the quarter, but at the sector level, there was further divergence in performance. While industrials continued to outperform the wider UK real estate market, signs of a slowdown in offices were more apparent and there was further distress on the high street. Mothercare and House of Fraser were the latest retailers to resort to CVAs (company voluntary arrangements), while others like M&S looked to rationalise their physical store portfolios. In this environment, real estate investors remained focused on assets in good locations, offering resilient income.

Q3 2018

UK commercial property remained stable, although there were some indications during the quarter that the market was moderating. Total returns had been marginally weaker in recent months, with the return for August (the latest data available) the lowest since September 2016. Although capital growth was weaker, rents held up fairly well – particularly for industrial and office property. Market trends continued to see industrial and retail property move in opposite directions. Industrials were still outperforming all the other commercial sectors as the relentless demand for all types of storage and distribution facilities drove the sector higher.

Q4 2018

Total returns continued to slow amid a difficult period for the UK commercial property market. As expected, 2018 was a weaker year for real estate. Full-year returns were unlikely to match the double figures achieved in 2017. Ongoing uncertainty surrounding the Brexit withdrawal agreement caused investors to be more cautious. Over the last nine years, real estate had delivered returns of more than 10% per year. However, the market was at a late stage in the cycle and valuations appeared expensive relative to their long-term worth, therefore returns were expected to be lower going forwards.

Q1 2019

It was a weak start to the year for UK commercial real estate. Monthly total returns continued to slow and were barely positive. As property values were reassessed, capital growth turned negative at an all-property level. This was largely a result of weakening values for large-scale retail assets (e.g. retail warehouses and shopping centres). Industrials in the South East remained the strongest sector and capital values continued to rise for these assets. Central London offices continued to slow having defied the odds in the face of heightened levels of Brexit uncertainty.

Administration of Benefits

The shared service arrangement with West Yorkshire Pension Fund (WYPF) to provide Pensions Administration services for the Lincolnshire Pension Fund is now four years old. This arrangement was made to improve efficiency and reduce costs in the provision of the Pensions Administration service, and this is being seen. In August 2018, and third partner joined the shared service – Hounslow Pension Fund. It is expected that this will add further benefits and efficiencies over the medium term.

A satellite office for the WYPF administration team is based in Lincoln, co-located with the LCC Pension Fund team, to enable scheme members to have a point of contact in Lincolnshire. Members are always able to visit County Offices and speak to someone regarding their pension arrangements.

The monthly data return from employers is a considerable benefit to the administration process, and has improved the quality of data held in the administration system, enabling a better service to be provided to scheme members. However some employers and their payroll providers still need to improve their own processes for submitting accurate data. WYPF continues to work with the Lincolnshire Fund and its employers to improve all aspects of administering the scheme.

The Pensions Committee and Pension Board take a keen interest in the administration of the Fund, and receive regular reports and presentations (see the Board's annual report on p29) on all aspects of the administration service.

The Head of Pensions is part of the overall shared service management team, and attends the bi-monthly management review meetings held in Bradford. In addition, as part of the overall governance of the service, the County Finance Officer and the Head of Pensions sit on the Collaboration Board of the shared service, alongside the senior management of WYPF, to ensure that the original aims of the partnership with WYPF are met.

The service is monitored through a number of performance indicators. These are detailed in the table below, showing the performance achieved over the last year against the expected performance, and highlighted with a red, amber or green to show where expectations have not been met. Performance is reported quarterly to the Pensions Committee and Pension Board, and regular meetings are held between LCC and WYPF to understand and manage any performance issues. The critical business areas impacting on pensioners and their family take priority, these being members requiring immediate payment for retirements, redundancies, dependents pensions and death grants.

Key Service Performance Indicators

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken
AVC in-house	344	10	334	85	97.1	2.2
Age 55 Increase	6	20	6	85	100	5.5
Change of address	972	5	926	85	95.3	1.0
Change of bank details	288	5	260	85	90.3	2.4
Death grant nomination received	3,781	10	48	85	98.0	3.4
DWP request for information	49	20	3,256	85	86.1	8.5
Death grant set up	124	5	121	85	97.6	1.3
Death in retirement	568	5	527	85	92.8	2.4
Death in service	14	5	13	85	92.9	1.7
Death in deferment	36	5	30	85	83.3	3.2
Deferred benefits into payment – actual	1,071	5	944	90	88.1	2.2
Deferred benefits into payment – quote	1,362	35	1,315	85	96.6	9.6
Deferred benefits set up on leaving	5,021	20	4,738	85	94.4	7.0
Divorce quote	194	20	188	85	96.9	4.6
Divorce settlement – pension sharing order implemented	1	80	1	100	100	0.0
Estimates for deferred benefits into payment	464	10	295	90	63.6	12.8
General Payroll Changes	295	5	280	85	94.9	1.2
Initial letter death in service	14	5	14	85	100	1.0
Initial letter death in retirement	568	5	559	85	98.4	1.1
Initial letter death in deferred	36	5	32	85	88.9	10.3
Life certificate received	17	10	15	85	88.2	13.9
Monthly posting	3,245	10	2,828	95	87.2	5.3
NI adjustment at state pension age	24	20	24	85	100	12.8
Pension estimate	1,158	10	1,040	75	89.8	6.1
Refund payment	961	10	938	95	97.6	1.6
Refund quote	1,996	35	1,906	85	95.5	7.2
Retirement actual	625	3	592	90	94.7	1.0
Spouse – set up new pension	254	5	219	85	86.2	6.7

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken
Spouse potential	31	20	30	85	96.8	8.2
Transfer in payment received	116	35	98	85	84.5	25.0
Transfer in quote	168	35	168	85	100	2.9
Transfer out payment	55	35	49	85	89.1	14.0
Transfer out quote	460	20	390	85	84.8	12.6

As can be seen from the table above, overall performance has met or exceeded targets. Those below target are shown below:

One area is highlighted in red:

- Estimates for deferred benefits into payment – following the regulations changing in May 2018, allowing deferred members to take their pension from age 55 without their previous employer's consent, there has been a sharp rise in the number of estimate requests. To reduce the number of requests going forwards, changes have been made to the annual benefit statements for 2018/19 showing what reduced pensions would look like at ages 55, 60 and 65.

Four areas are highlighted in amber, however three are very close to their target. The one area worth commenting on is below:

- Monthly posting – all employers are required to submit their data on a monthly basis, however over the year this KPI was at 87.2% (a big improvement from 64.5% last year) against a target of 95%. The KPI is to be able to process the data from the employers within 10 working days of receipt. Much work has been put into ensuring the timeliness of payments and data submissions, and work continues with the employers and their payroll providers to improve the data quality, and therefore the ability for straight through processing. Employer numbers are rising each year, with the growing numbers of academies and out-sourcings, so this is an ever-increasing challenge. The Fund is working closely with WYPF to communicate to employers on the importance of clean and accurate data.

Industry standard performance indicators

The service is also monitored against industry standards and national averages. These are not directly comparable to the figures above as they are measured at different points, but do provide a useful indicator of the overall level of service in comparison to others.

Industry Standard Performance Indicators	Target days	Achieved %	National average %
Letter detailing transfer in quote	10	98.4	84.9
Letter detailing transfer out quote	10	91.8	85.9
Process and pay refund	5	97.4	89.3
Letter notifying estimate of retirement benefit	10	92.1	91.0

Industry Standard Performance Indicators	Target days	Achieved %	National average %
Letter notifying actual retirement benefit	5	91.4	92.4
Process and pay lump sum retirement grant	5	100	94.2
Letter acknowledging death of a member	5	95.5	90.4
Letter notifying amount of dependants benefit	5	92.6	90.4
Calculate and notify deferred benefit	10	93.8	79.1

New Pensions Paid

New pensions paid over the financial year are shown below, both from an active member status and a deferred member status. This is split across the various types of events that can cause a retirement:

- Normal – retirement at normal retirement age (NRA)
- Early – retirement before NRA – generally with reduced benefits
- Late – retirement after NRA – generally with increased benefits
- Ill health – release of pension through certified ill health
- Redundancy – release of pension from age 55 when made redundant

New pensions paid	2018/19 Member numbers
Active Status	
Normal	256
Early	323
Late	113
Ill health	38
Redundancy	50
Total active	780
Deferred status	
Normal	401
Early	597
Late	13
Ill health	20
Total deferred	1,031

Pension Overpayments

Occasionally, pensions are paid in error. When this happens, processes are in place to recover the overpayments. The table below shows a summary of the value of the overpayments involved. Every effort is made to recover these, whilst managing the financial impact on the overpaid pensioners.

Overpayments	2018/19 £'000
Annual payroll	75,503
Overpayments value	25
Overpayments written off	2
Overpayments recovered	12

The table below shows a summary of transactions processed during the year:

Analysis of overpayments	2018/19 Number of payments
Pensions paid during period	258,792
Cases overpaid	48
Cases written off	2
Cases recovered	31

Fraud Prevention – National Fraud Initiative

Lincolnshire Pension Fund, West Yorkshire Pension Fund and Hounslow Pension Fund with fourteen Fire authorities are in shared service arrangement hosted by West Yorkshire Pension Fund. The Funds participate twice a year in the National Fraud Initiative (NFI). The data that is submitted includes pensioners, beneficiaries and deferred member information for Local Government Pension Scheme and Fire Services Pension members managed by the Fund.

A summary of the latest NFI results for the whole shared service is shown below:

Pensioners, beneficiaries and deferred members	No. of records sent	No. and percentage of mismatches		Over payments identified	Possible frauds	Mismatches carried forward at 31 March
2018/19	260,387	3,339	1.3%	3	2	2
2017/18	229,994	518	0.2%	35	2	10
2016/17	224,122	1,425	0.6%	5	4	5
2015/16	219,313	868	0.4%	61	3	10

Value for money - Cost per member

The latest published data (2017/18) for all LGPS funds administration costs shows that LPF pensions administration cost per member is £13.50, the 5th lowest cost amongst 88 LGPS funds and well below the national average of £20.85

LPF has a below average total cost per members (administration, investment and oversight & governance) at £154.48, the national average for LGPS in 2017/18 is £205.24.

The 2018/19 annual cost of administering the Lincolnshire Pension Fund per member is £15.50, investment management cost per member is £129.60, oversight and governance cost per member £6.33 and the total management cost per member is £151.42. These figures compare favourably with the average cost for authorities in the MHCLG –SF3 results for 2017/18 as shown in the table below.

Cost per member 2017/18	Position	Lincolnshire Pension Fund	LGPS Lowest	LGPS Highest	LGPS Average
Administration	5th	£13.50	£8.83	£60.98	£20.85
Investment	27th	£135.11	£20.48	£566.69	£175.44
Oversight and governance	25th	£5.87	£0.00	£42.19	£8.96
Total Cost per member	22nd	£154.48	£36.45	£634.93	£205.24

Staffing

The table below identifies the numbers of staff across the areas of the shared service providing the administration service.

Share service staff full time equivalent (FTE)	2015/16	2016/17	2017/18	2018/19
Service Centre	53.2	54.7	58.1	59.5
Payroll	17.6	16.6	19.0	17.6
ICT	12.6	12.6	13.7	14.4
Finance	14.0	14.0	16.0	14.5
Business support	24.1	26.0	27.4	28.8
Technical	4.6	4.5	3.9	4.9
Total	126.1	128.4	138.1	139.7

Key activities undertaken during the year

Employer workshops

The free one-day and half-day workshop sessions for employers are a regular part of the training and support offered. Four different types of workshops were provided for employers over the year:

- Complete guide to administration (half day)
- Secure administration (half day)
- Employer Responsibilities (half day)
- Ill Health Retirement
- Pensionable Pay

The workshops were delivered by the shared service WYPF staff and were designed to give employers a good understanding of the pension scheme. Feedback from participants on these events has been very positive again.

Workshop on 'Planning for a positive retirement'

The workshops run by Affinity connect, to support and guide members who are considering what retirement might mean to them, continue to be well attended.

The workshops raise awareness of key issues to consider and the decisions that members need to make as they approach this new stage in their life. It is especially useful for members thinking of retiring in the next couple of years, but valuable even if they're not yet sure when they want to retire.

Pension Increase

Each year, LPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred members benefits are also increased by CPI. For the 2018/19 year an increase of 3.0% was applied on 9 April 2018.

Accreditation

The shared service delivery continues to be underpinned by accreditation to the International Organisation for Standardisation - ISO 9001:2000. The quality management systems ensure that the Fund is committed to providing the best possible service to customers, and will continue to ensure that best value is delivered to all stakeholders.

Communications

The contact centre hosted in Lincoln and in Bradford continues to be a popular way for members to communicate with the Fund about their pensions.

100% of annual pension benefit statements for active and deferred members were produced on time giving members information on their benefits accrued to date and what their potential benefits will be at retirement age, as well as other useful information.

Regular newsletters continue to be issued to members to keep them informed of important pensions news.

The shared service has Facebook and Twitter accounts to encourage members of all ages to engage more with the Fund through social media.

MyPension

With the shared services 'MyPension' service members can view their pension record and statements, update personal details, tell us they've moved house and more. Members are being encouraged to sign up as the service moves to more online communications. Enhancements to be introduced shortly include the facility for members to run their own estimate of retirement benefits calculations.

General Data Protection Regulation (GDPR)

The General Data Protection Regulations came into effect on 25 May 2018. This is EU legislation intended to strengthen and unify data protection for all individuals within the EU. These impose new requirements for organisations relating to the protection and management of personal data. It is no longer just about organisations storing and securing data, it is about capturing the context of data and being able to prove everything is being done to protect the member's data and the rights of the member. These new regulations impact almost every area of the business – hardcopy, electronic, website data, images, recordings and written records. Over the year much work was undertaken to ensure to ensure compliance with these regulations.

Data quality

This year LGPS Funds were required to report on their data quality to the Pensions Regulator as part of the annual scheme returns. The Pensions Regulator has set a target of 100% accuracy for new common data received after June 2010.

Current data quality figures for LPF are shown below:

Common data field	Data score %
Forename	100
Surname	100
Membership status	99.88
Date of birth	99.99
NI number	99.89
Address	95.93
Postcode	99.96

Much work is being undertaken to improve address data and this work will continue over the next twelve months and beyond.

Disaster recovery and risk management monitoring

The shared service partnership systems are hosted by WYPF administered by Bradford Council. Bradford Council use a pair of geographically separated data centres, which are 3.2km apart. Both purpose-built data centres are protected by redundant power, UPS, a backup generator and cooling. The data centres are connected by point-to-point council-owned fibre runs. Datacentres have secure access systems and are monitored 24/7 by Bradford's CCTV Unit. Both sites are permanently live and accessible to the internal end users who are networked to the sites via diverse fibre cable routes. Where possible, servers are virtualised, using Microsoft Hyper-V. The servers and data are replicated between the Hyper-V hosts at both sites to ensure a short recovery time.

Data is backed up to disk medium in a 24-hour cycle and written to tape archive on robotic tape libraries at both sites. An encrypted archive copy is sent to a dedicated offsite storage facility every week. WYPF's server, disk and core network infrastructure is monitored for errors and warnings, and these generate a ticket on the WYPF IT ITIL system for investigation and resolution. Critical data stores are also replicated at disk level between sites. In the event of serious system failures WYPF would re-provision testing hardware and infrastructure environment for live running.

In the event of WYPF office accommodation becoming unavailable, staff will be relocated to other council offices or work remotely, one of these remote offices is in Lincoln. WYPF is covered by Bradford Council's comprehensive disaster recovery plan for all services they deliver for the shared service.

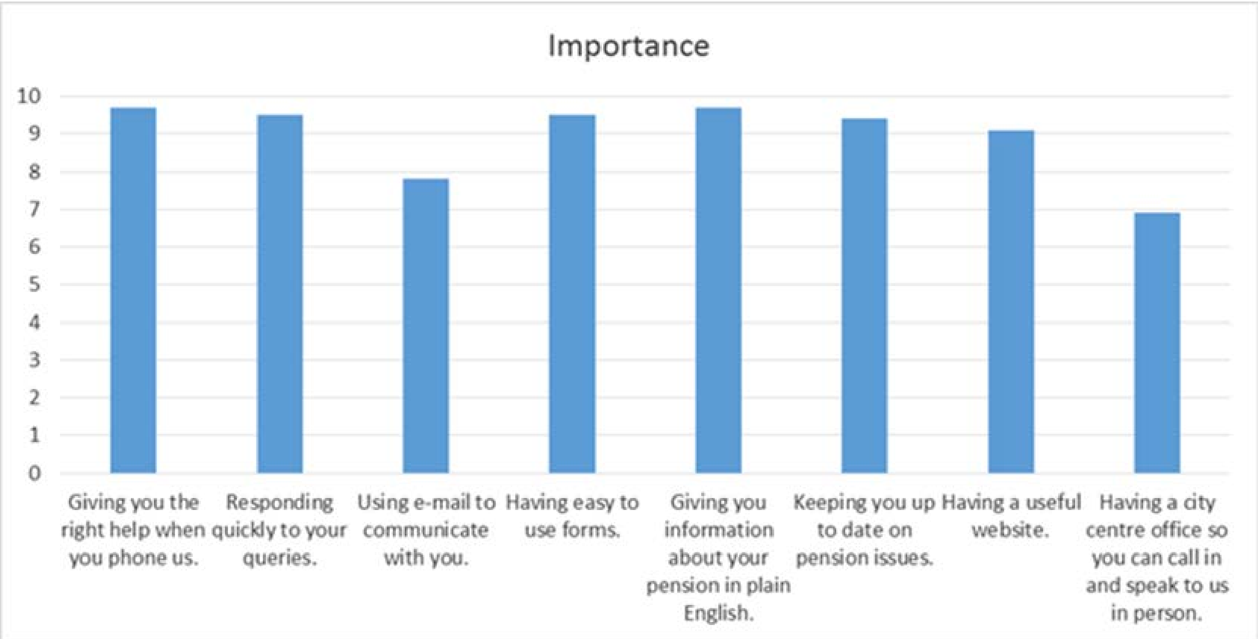
Customer satisfaction

Customer surveys are regularly sent to a sample of scheme members that have contacted the service centre or been involved in an event (e.g. retirement). In addition, the website has an online form for completion to obtain feedback.

The quarterly scores are presented to the Pensions Committee and Pension Board, in order to monitor satisfaction with the shared service by the end users. The table below shows the scores for the year.

April – June 2018	July - Sept 2018	Oct - Dec 2018	Jan - March 2019
72.1%	81.6%	81.0%	81.3%

This chart shows how members rate the importance of the various services described below:



Summary of LGPS Contributions and Benefits

The LGPS is a defined benefit scheme, however there are three different benefit tranches, based on when scheme changes were brought in with new regulations. The three tranches are Pre 2008, April 2008 to March 2014 and Post April 2014. The benefits scheme members will be entitled to will depend upon when they joined and left the LGPS – and scheme members may have benefits across all three tranches.

Membership from 1 April 2014

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below.

Contributions

Employee's contribution rates from 1 April 2014 are based on actual pensionable pay using the pay band table below. The bands are increased each April in line with inflation by the Ministry of Housing, Communities and Local Government. The bands, as they stood at 31 March 2019, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £14,100	5.5%
More than £14,100 and up to £22,000	5.8%
More than £22,000 and up to £35,700	6.5%
More than £35,700 and up to £45,200	6.8%
More than £45,200 and up to £63,100	8.5%
More than £63,100 and up to £89,400	9.9%
More than £89,400 and up to £105,200	10.5%
More than £105,200 and up to £157,800	11.4%
Over £157,800	12.5%

Benefits

The retirement age for scheme members is their Normal Pension Age which is the same as their State Pension Age (but with a minimum of age 65). However, employees may retire and draw their pension at any time between age 55 and 75. If an employee chooses to retire before their Normal Pension Age it will normally be reduced, as it is being paid earlier, and if taken later than Normal Pension Age then it will be increased, as it is being paid later. Retirement before age 55, other than on ill-health grounds, is not possible.

Annual Pensions

Pensions are calculated at a rate of 1/49 of the employee's pensionable pay in each scheme year. Inflation increases will be added to ensure that pension accounts keep up with the cost of living.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of the capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two. The three tiers are explained below:

Tier 1 – The member is unlikely to be capable of gainful employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus the pension that would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 2 – The member is unlikely to be capable of gainful employment within three years of leaving, but is likely to be capable of undertaking such employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus 25% of the pension that would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 3 – The member is likely to be capable of gainful employment within three years of leaving, or before Normal Pension Age if earlier. Benefits are based on the pension already built up at leaving. Payment of these benefits will be stopped after three years, or earlier if the member is in gainful employment or becomes capable of such employment, provided Normal Pension Age has not been reached by then.

Death-benefits

Death in service attracts a tax free lump sum of three times final pensionable pay. An annual pension is payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and co-habiting partners pensions are based on post 5

April 1988 membership only. If a member dies within ten years of their retirement (or up to age 75), a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1 April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160 accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £6,822 per annum, in blocks of £250, through Additional Pension Contributions (APCs.). As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

Membership from 1 April 2008 to 31 March 2014

Membership of the LGPS was available to all contracted employees of participating employers whether whole time or part time. Casual employees may also have been members, providing their contract of employment was for a minimum of three months. Whilst membership of the Scheme was not compulsory, employees of Scheme employers who were eligible were deemed to have joined unless they specifically opted out, whilst employees of transferred Admission Bodies were eligible only if they were employed in connection with the service transferred.

National legislation and regulation covered the LGPS, including the benefit entitlements of Scheme participants and their families. Such benefits were not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits under this tranche are outlined below:

Contributions

Employees contributed between 5.5% and 7.5% of their pensionable pay towards their pension.

Benefits

The retirement age for scheme members was 65. However, employees could retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60*, other than on ill-health grounds, was not possible without the permission of the employer (*superseded by LGPS (Amendment) Regulations 2018, with effect from 14 May 2018, to enable deferred members to take their pension from age 55 (with reductions) without employer consent).

Annual Pensions

Pensions were calculated at a rate of 1/60 of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) were increased each April in line with inflation.

Lump Sum Payments

On service from 1 April 2008 there was no automatic lump sum, but members had the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two. The three tiers are explained below:

Tier 1 – The member is unlikely to be capable of gainful employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus the pension that would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 2 – The member is unlikely to be capable of gainful employment within three years of leaving, but is likely to be capable of undertaking such employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus 25% of the pension that would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 3 – The member is likely to be capable of gainful employment within three years of leaving, or before Normal Pension Age if earlier. Benefits are based on the pension already built up at leaving. Payment of these benefits will be stopped after three years, or earlier if the member is in gainful employment or becomes capable of such employment, provided Normal Pension Age has not been reached by then.

Death-benefits

Death in service attracted a tax free lump sum of three time's final pensionable pay. An annual pension was payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5 April 1988 membership only (now superseded to allow payment without a nomination form). If a member died within ten years of their retirement (or up to age 75), a single lump sum payment was made of ten times the member's annual pension, less any pension paid since retirement. The surviving spouse was entitled to an annual pension based on 1/160 accrual of the member's membership.

Supplementary Pensions

Scheme members could purchase additional pension of up to a maximum of £6,755 per annum, in blocks of £250, through Additional Pension Contributions (APCs). As an alternative, Scheme members could increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, was Prudential.

Membership up to 31 March 2008

Membership of the LGPS was available to all contracted employees of participating employers whether whole time, part time or casual.

National legislation and regulation covered the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits were not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits of this tranche are outlined below:

Contributions

Employees contributed 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who paid 5%.

Benefits

The normal retirement age for Scheme members was 65 but employees in the Scheme prior to 1 April 1998 could retire at 60* provided they had 25 years' service. Retirement before these ages, other than on ill-health grounds, was not possible without the permission of the employer (*superseded by LGPS (Amendment) Regulations 2018, with effect from 14 May 2018, to enable deferred members to take their pension from age 55 (with reductions) without employer consent).

Annual Pensions

Pensions were calculated at a rate of 1/80 of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over were linked to the movement in inflation.

Lump Sum Payments

A member received a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a member's pension could be taken as tax free cash.

Ill Health Retirement

Benefits were as for normal retirement but with additional years added dependent on the length of pensionable membership.

Death-benefits

Death in service attracted a lump sum grant equivalent to up to twice final pensionable pay. An annual pension was payable to the surviving spouse and any eligible children. For death after retirement a single payment was made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse was entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members could purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members could increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority. The Lincolnshire AVC provider was Prudential plc.

The principal points of contact in respect of questions about the LGPS are:

Pensions Administration	West Yorkshire Pension Fund WYPF, PO Box 67, Bradford, BD1 1UP Tel: 01274 434999 | Email: pensions@wypf.org.uk
Pension Fund and Investments	Jo Ray, Head of Pensions Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 | Email : jo.ray@lincolnshire.gov.uk

Pension Fund Knowledge and Skills Policy and Report

As an administering authority of the Local Government Pension Scheme, Lincolnshire County Council recognises the importance of ensuring all staff and individuals charged with the financial management and decision making with regard to the Pension Fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. Within the management of the Pension Fund, LCC seeks to appoint individuals who are both capable and experienced, and will provide and arrange training for staff and individuals involved to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

An annual training plan is agreed by the Pensions Committee each year, setting out what training will be covered over the coming year and linking it back to the CIPFA Knowledge and Skills Framework. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas, and attendance at seminars and conferences. In addition, all members are offered the opportunity to attend the three-day fundamentals training arranged by the Local Government Association (or an equivalent course) and all new members are offered a one-to-one training session with the Head of Pensions.

The County Finance Officer is the delegated officer responsible for ensuring that policies and strategies are implemented.

Activity in 2018/19

A full training plan was taken to Pensions Committee in July 2018 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

1. Pensions Legislative and Governance Context
2. Pensions Auditing and Accounting Standards
3. Financial Services Procurement and Relationship Management
4. Investment Performance and Risk Management
5. Financial Markets and Products Knowledge
6. Actuarial Methods, Standards and Practices

The table below details the various areas covered in training and Committee presentations during the year, and the areas within the Knowledge and Skills Framework that they relate to.

Date	Subject matter	KSF area(s)
June 2018		
Reports	External Manager Presentations	4,5
19 July 2018		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Asset Pooling Update	1
	Investment Management Report	4,5
	Annual Property and Infrastructure Report	4,5
	Policies Review Report	1,4
	Risk Register Annual Review	1
	Annual Training Plan and Policy	1
	Draft Annual Report and Accounts	1,2
	Voting Services	3
11 September 2018		
Training	Asset Allocation in a Post Pooling World	1,4,5
4 October 2018		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	Risk Register Comparison Report	4
	Performance Measurement Annual Report	1,4
	Asset Pooling Update and Investment Strategy	1,4,5
	Pension Fund External Audit Report	2
8/9 November 2018		
Training	Border to Coast Annual Conference	1,4,5
13 December 2018		
Reports	Custodian Tender and Appointment	3
	Border to Coast presentation	4,5
	Club Vita Presentation	4,6
	Actuarial Presentation	6
10 January 2018		
Reports	Independent Advisor Market Update	4,5
	Pension Board Report	1
	Fund Update	1,3,4
	Pensions Administration Report	1
	Employer Monthly Submissions Report	1
	Investment Management Report	4,5
	Border to Coast RI and Corporate Governance Voting Policies	1,4
	Mazars External Audit Presentation	2
	CEM Benchmarking Presentation	4

Date	Subject matter		KSF area(s)
26 February 2019			
Training	Valuation		6
	Low Carbon Indices		4,5
21 March 2019			
Reports	Independent Advisor Market Update		4,5
	Pension Board Report		1
	Fund Update		1,3,4
	Pensions Administration Report		1
	Employer Monthly Submissions Report		1
	Investment Management Report		4,5
	Valuation Process		6
	Fund Policies Review		1,4
	MHCLG Guidance on Asset Pooling Consultation		1
	Pensions Administration Shared Service		1

As the officer responsible for ensuring that the training policies and strategies are implemented, the County Finance Officer can confirm that the officers and individuals charged with the financial management of and the decision making for the Pension Fund collectively possess the requisite knowledge and skills necessary to discharge those duties and decisions required during the reporting period.

Committee Meeting Attendance 2018/19

The table below shows attendance of each of the eleven members at each Committee meeting and training meeting held over the year:

	June 2018	July 2018	Sep 2018	Oct 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019
Cllr E W Strengiel (Chairman)	√	√	√	√	√	√	√	√
Cllr P E Coupland (Vice Chairman)	√			√	√	√	√	√
Cllr B Adams	√	√			√	√	√	√
Cllr R D Butroid		√	√	√	√			√
Cllr P Key	n/a	n/a		√			√	√
Cllr C Perraton-Williams	n/a			√	√	√		√
Cllr S Rawlins	√			√	√			√
Cllr Dr M E Thompson	√	√	√	√	√	√	√	√
Cllr J Summers		√	√	√	√	√	√	√
J Grant		√	√		√			
A Antcliff	√	√	√	√	√	√	√	√
Total Attendance	6	7	6	9	10	7	7	10

All members of the Pensions Committee have full voting rights.

Pension Fund Account

Year Ended 31 March 2019

	See note	2017/18 £000	2018/19 £000
Contributions and Benefits			
Contributions Receivable	6	(97,471)	(98,278)
Transfers In from other Pension Funds	7	(6,861)	(7,312)
		(104,332)	**(105,590)**
Benefits Payable	8	86,584	92,904
Payments To and On Account of Leavers	9	4,605	7,803
		91,189	**100,707**
Net (additions)/withdrawals from dealings with Fund Members		**(13,143)**	**(4,883)**
Management Expenses	10	11,978	11,018
Net (additions)/withdrawals including Management Expenses		**(1,165)**	**6,135**
Returns on Investments			
Investment Income	11	(17,743)	(20,403)
Change in Value of Investments	12a	(35,084)	(178,619)
(Profit)/Loss on Forward Foreign Exchange	13	(19,943)	21,050
Net Returns on Investments		**(72,770)**	**(177,972)**
Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(73,935)	(171,837)
Opening Net Assets of the Fund		(2,115,422)	(2,189,357)
Closing Net Assets of the Fund		**(2,189,357)**	**(2,361,194)**

Net Asset Statement as at 31 March 2019

	See note	2017/18 £000	2018/19 £000
Long Term Investments	12	-	833
Total Long Term Investments		**-**	**833**
Investment Assets	12	2,169,901	2,344,965
Investment Liabilities	12	(2,018)	(1,277)
Total Net Current Investments		**2,167,883**	**2,343,688**
Total Net Investments		**2,167,883**	**2,344,521**
Long Term Debtors	19	426	-
Current Assets	20	23,427	19,802
Current Liabilities	21	(2,379)	(3,129)
Net Assets of the Fund Available to Fund Benefits at the end of the Reporting Period		**2,189,357**	**2,361,194**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18.

Notes to the Pension Fund Account

Note 1. Description of the Pension Fund

The Lincolnshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by West Yorkshire Pension Fund (WYPF) in a shared service arrangement.

General

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

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

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee and Local Pension Board.

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant employer. Admitted bodies include charitable organisations and similar not-for-profit bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 234 contributing employer organisations in the Fund including the County Council and over 72,500 members, as detailed below (information reported based on March processed data):

	31 March 2018	31 March 2019
Number of Employers with Active Members	**219**	**234**
Number of Employees in the Fund		
Lincolnshire County Council	12,193	9,879
Other Employers	13,960	12,941
Total Active Members	**26,153**	**22,820**
Number of Pensioners		
Lincolnshire County Council	13,768	14,398
Other Employers	6,775	7,317
Total Pensioner Members	**20,453**	**21,715**
Number of Deferred Pensioners		
Lincolnshire County Council	19,540	19,753
Other Employers	7,816	8,468
Total Deferred Pensioners	**27,356**	**28,221**

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2016, and employer primary contribution rates were set ranging from 15.9% to 29.1% of pensionable pay. In addition, the majority of employers are paying secondary deficit contributions as cash payments.

Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre April 2008	Service post April 2008
Pension	Each year is worth 1/80 x final pensionable salary	Each year is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3/80 x salary In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits. For more details, please refer to the shared pensions website at www.wypf.org.uk.

Note 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations. The Pension Fund has opted to disclose this information in note 18.

The accounts have been prepared on a going concern basis.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

Accounting standards that have been issued but have not yet been adopted

On an annual basis the Pension Fund is required to consider the impact of accounting standards that have been issued but have not yet been adopted. For 2019/20 there are a number of new accounting standards:

- Annual improvements to IFRS Standards 2014 to 2016 cycle;
- IFRIC22 Foreign Currency Transactions and Advance Considerations;
- IFRIC23 Uncertainty over Income Tax Treatments; and
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation.

It is not thought that any of these standards will have a significant impact on the Pension Fund Accounts for 2019/20.

Note 3. Significant Accounting Policies

Fund account - revenue recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.

Additional employers' contributions, for example in respect of early retirements, are accounted for in the year the event arose.

Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund and are calculated in accordance with the LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c) Investment Income

i) Interest income
Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

d) Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the headings shown below. All items of expenditure are charged to the fund on an accruals basis.

i) Administrative expenses
All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) Oversight and Governance
All staff costs associated with the governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

iii) Investment expenses
Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Threadneedle Asset Management - Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

Net assets statement

g) Financial assets

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is valued at transaction price i.e. cost. The pool's main trading company only became licensed to trade in July 2018 and they do not have any reliable trading results or profit forecasts available yet. Consequently, the Pension Fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other Inve4stment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2019 are shown in Note 28.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 18).

m) Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

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

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 25 and 26).

Note 4. Critical Judgements in Applying Accounting Policies

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licenced to trade in July 2018; and
- No published trading results are available which would allow a fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

Note 5. Assumptions Made About the Future and Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £359m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £28m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £320m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £151m.
Private Equity (Note 14)	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines (2012). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Private Equity valuations within the Pension Fund accounts are all based on the reported information held by the Council on 31 March each year.	The total private equity investments in the Fund are £23m. There is a risk that these may be over or understated in the accounts by £5.5m.

Note 6. Contributions Receivable

Contributions receivable are analysed below:

	2017-18 £000	2018-19 £000
Employers		
Normal	55,197	58,966
Deficit Recovery Funding	21,334	17,138
Additional – Augmentation	1,519	1,632
Members		
Normal	19,341	20,466
Additional Years	80	76
Total Contributions Receivable	**97,471**	**98,278**

These contributions are analysed by type of Member Body as follows:

	2017-18 £000	2018-19 £000
Lincolnshire County Council	37,659	40,061
Scheduled Bodies	48,461	53,239
Admission Bodies	11,351	4,978
Total Contributions Receivable	**97,471**	**98,278**

Note 7. Transfers In From Other Pension Funds

	2017-18 £000	2018-19 £000
Individual Transfers from Other Schemes	6,861	7,312
Group Transfers from Other Schemes	-	-
Total Transfers In from Other Pension Funds	**6,861**	**7,312**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2019.

Note 8. Benefits Payable

	2017-18 £000	2018-19 £000
Pensions	68,800	73,016
Commutations and Lump Sum Retirement Benefits	14,482	17,791
Lump Sum Death Benefits	3,302	2,097
Total Benefits Payable	**86,584**	**92,904**

These benefits are analysed by type of Member Body as follows:

	2017-18 £000	2018-19 £000
Lincolnshire County Council	45,951	49,350
Scheduled Bodies	36,214	39,423
Admission Bodies	4,419	4,131
Total Benefits Payable	**86,584**	**92,904**

Note 9. Payments To and On Account of Leavers

	2017-18 £000	2018-19 £000
Individual Transfers to Other Schemes	4,390	6,990
Group Transfers from Other Schemes	-	419
Refunds to Members Leaving Service	215	394
Total Payments To and On Account of Leavers	**4,605**	**7,803**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2019.

Note 10. Management Expenses

	2017-18 £000	2018-19 £000
Administrative Costs	1,047	1,128
Investment Management Expenses	10,476	9,429
Oversight and Governance Costs	455	461
Total Management Expenses	**11,978**	**11,018**

The external Audit fee for the year was £0.019m (£0.024m in 2017/18):

A further breakdown of the investment management expenses is shown below.

	2017-18 £000	2018-19 £000
Transaction Costs	690	738
Management Fees	6,982	7,999
Performance Related Fees	2,146	609
Custody Fees	658	83
Total Investment Management Expenses	**10,476**	**9,429**

Note 11. Investment Income

	2017-18 £000	2018-19 £000
Equities	16,173	18,192
Pooled Investments		
Property	1,384	1,629
Infrastructure	(7)	18
Alternatives	3	3
Cash Deposits	61	97
Stock Lending	129	464
Total Investment Income	**17,743**	**20,403**

Note 12. Investments

	2017-18 £000	2018-19 £000
Long Term Investments		
Unquoted Equity Holding in Border to Coast Pensions Partnership	-	833
Total Long Term Investment	**-**	**833**

	2017-18 £000	2018-19 £000
Investment Assets		
Equities	751,286	818,260
Pooled Investments		
Property	194,461	194,973
Infrastructure	35,420	44,437
Private Equity	29,345	22,962
Bonds	264,097	283,158
Equities	582,508	649,490
Alternatives	268,167	290,056
Cash Deposits	38,746	36,413
Investment Income Due	4,412	5,216
Amounts Receivable from Sales	1,409	-
Open Forward Foreign Exchange (FX)	50	-
Total Investment Assets	**2,169,901**	**2,344,965**
Investment Liabilities		
Open Forward Foreign Exchange (FX)	-	(1,276)
Investment Income payable	(2)	(1)
Amounts Payable for Purchases	(2,016)	-
Total Investment Liabilities	**(2,018)**	**(1,277)**
Total Net Investment Assets	**2,167,883**	**2,343,688**

Note 12A. Reconciliation of Movements in Investments

2018/19	Market Value 31 March 2018 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2019 £000
Equities	751,286	350,985	(335,249)	51,237	818,259
Pooled Investments					
Property	194,461	42	(4,989)	5,459	194,973
Infrastructure	35,420	6,835	(3,294)	5,476	44,437
Private Equity	29,345	423	(13,271)	6,465	22,962
Bonds	264,097	12,317	(2,317)	9,061	283,158
Equities	582,508	-	(1,832)	68,815	649,491
Alternatives	268,167	78,966	(89,183)	32,106	290,056
	2,125,284	**449,568**	**(450,135)**	**178,619**	**2,303,336**
Cash deposits	38,746				36,413
Other Investment balances:					
Open Forward FX	50				(1,276)
Amounts receivable for sales	1,409				-
Investment income due	4,410				5,215
Amounts payable from purchases	(2,016)				-
Net investment assets	**2,167,883**				**2,343,688**

2017/18	Market Value 31 March 2017	Purchases and derivative payments	Sales and derivative receipts	Change in market value during the year	Market Value 31 March 2018
	£000	£000	£000	£000	£000
Equities	726,451	347,673	(330,951)	8,113	751,286
Pooled Investments					
Property	187,038	82	(17,625)	24,966	194,461
Infrastructure	31,381	4,211	(7,190)	7,018	35,420
Private Equity	43,334	663	(3,300)	(11,352)	29,345
Bonds	262,168	4,578	(4,578)	1,929	264,097
Equities	577,302	-	(1,650)	6,856	582,508
Alternatives	245,375	53,814	(28,576)	(2,446)	268,167
	2,073,049	**411,021**	**(393,870)**	**35,084**	**2,125,284**
Cash deposits	26,609				38,746
Other Investment balances:					
Open Forward FX	(3,668)				50
Amounts receivable for sales	301				1,409
Investment income due	4,188				4,410
Amounts payable for purchases	(714)				(2,016)
Net investment assets	**2,099,765**				**2,167,883**

Note 12B. Analysis of Investments

Geographical Analysis of Fund Assets as at 31 March 2019:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	429,766	539,193	498,791	1,467,750
Bonds	283,158	-	-	283,158
Alternatives incl. PE, Property & Infrastructure	220,639	36,406	295,383	552,428
Cash and Equivalents	36,413	-	-	36,413
Other Investment Balances - Assets				5,216
Total Investment Assets	**969,976**	**575,599**	**764,174**	**2,344,965**
Other Investment Balances - Liabilities				(1,277)
Total Investment Liabilities				**(1,277)**
Total as at 31 March 2019				**2,343,688**

Geographical Analysis of Fund Assets as at 31 March 2018:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	403,797	498,160	431,837	1,333,794
Bonds	264,097	0	0	264,097
Alternatives incl. PE, Property & Infrastructure	212,465	43,795	271,133	527,393
Cash and Equivalents	38,746	0	0	38,746
Other Investment Balances - Assets				5,871
Total Investment Assets	**919,105**	**541,955**	**702,970**	**2,169,901**
Other Investment Balances - Liabilities				(2,018)
Total Investment Liabilities				**(2018)**
Total as at 31 March 2018				**2,167,883**

An analysis of the type of pooled investment vehicles is given below:

	2017-18 £000	2018-19 £000
Property -		
Unit Trusts	175,574	178,634
Other Managed Funds (LLP's)	18,887	16,339
Infrastructure - Other Managed Funds (LLP's)	35,420	44,437
Private Equity - Other Managed Funds (LLP's)	29,345	22,962
Bonds - Other Managed Funds	264,097	283,158
Equities - Other Managed Funds	582,508	649,490
Alternatives - Other Managed Funds	268,167	290,056
Total Pooled Vehicles	**1,373,998**	**1,485,076**

Note 12C. Investments Analysed by Fund Manager

Fund Manager	31 March 2018 £'000	%	31 March 2019 £'000	%
Externally Managed				
Invesco	504,993	23.4	545,516	23.2
Schroders	123,942	5.7	136,451	5.8
Columbia Threadneedle	133,095	6.1	149,422	6.4
Morgan Stanley (Global Brands)	178,705	8.2	219,728	9.4
Morgan Stanley (Alternatives)	280,716	12.9	303,948	13.0
Morgan Stanley (Private Equity)	31,634	1.5	24,679	1.1
Blackrock	264,122	12.2	283,157	12.1
Legal & General	403,793	18.6	429,762	18.3
Internally Managed				
Property	207,567	9.6	202,956	8.7
Infrastructure	35,650	1.6	44,686	1.9
UK Equity	334	-	344	-
Unallocated Cash	3,322	0.2	3,039	0.1
Total	**2,167,883**	**100.0**	**2,343,688**	**100.0**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The investments that fall into this category are as follows:

Investment	31 March 2018		31 March 2019	
	£000	%	£000	%
Legal & General UK Equity Fund	403,793	18.4	429,762	18.2
Morgan Stanley Alternative Investments	268,167	12.2	290,056	12.3
Morgan Stanley Global Brands	178,715	8.2	219,728	9.3
Blackrock 1-5yr Corporate Bond Fund	126,293	5.8	139,253	5.9

Note 12D. Stock Lending

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JPMorgan. The total amount of stock on loan at the year-end was £0.001m (£37.464m at 31 March 2018) and this value is included in the net assets statement to reflect the Fund's continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £0.001m (£40.314m at 31 March 2018), which represented 107.2% of the value of securities on loan.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. Income received from stock lending activities, before costs, was £0.437m for the year ending 31 March 2019 (£0.123m at 31 March 2018) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

Note 13. Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets.

Open forward Currency Contracts

Settlement	Currency Brought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	None					
Over one month	AUD	1,829	GBP	993		(7)
	CAD	7,754	GBP	4,448		(33)
	EUR	8,672	GBP	7,483	6	
	USD	303,513	GBP	231,967		(1,242)
Total					**6**	**(1,282)**
Net Forward Currency Contracts at 31 March 2019						**(1,276)**
Prior Year Comparative						
					77	(27)
Net Forward Currency Contracts at 31 March 2018						**50**

Profit (Loss) of Forward Currency Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of normal trading of the Fund's managers who manage multi-currency portfolios. For 2018/19 this was a loss of £21.050m (£19.943m gain in 2017/18).

Note 14. Fair Value – Basis of Valuation

The Fund's unquoted equities holding in Border to Coast Pensions Partnership is valued at cost (i.e. transaction price), as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2019 because the main trading vehicle of Border to Coast Pensions Partnership only became licenced to trade in July 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted Equities and Alternatives	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors and investment managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Private Equity	24%	22,962	28,473	17,451
Alternatives	10%	290,056	319,062	261,050

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 24% for Private Equity and 10% for Alternatives is caused by how this profitability is measured since different methods (listed in the first table of Note 14 above) produce different price results.

Note 14A. Fair Value Heirachy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Observable Fair Value	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	1,755,869	239,658	313,024	2,308,551
Financial liabilities at fair value through profit and loss	-	-	(1,276)	(1,276)
Net Investment Assets	**1,755,869**	**239,658**	**311,748**	**2,307,275**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Observable Fair Value	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	1,603,710	229,931	297,512	2,131,153
Financial liabilities at fair value through profit and loss	-	(2,016)	-	(2,016)
Net Investment Assets	**1,603,710**	**229,931**	**297,512**	**2,129,137**

The following assets have been carried at cost (no investment assets were carried at cost in 2017/18):

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Carried at Cost	**£000**	**£000**	**£000**	**£000**
Investment in Border to Coast Pensions Partnership	-	-	833	833
Investments held at cost	**-**	**-**	**833**	**833**

14B Reconciliation of Fair Value Measurements within Level 3

Period 2018/19	Market value at 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2019
	£000	£000	£000	£000	£000	£000
Private Equity	29,345	423	(13,271)	(5,350)	11,815	22,962
Alternatives	268,167	78,966	(89,183)	52,093	(21,257)	288,786
Total	**297,512**	**79,389**	**(102,454)**	**46,743**	**(9,442)**	**311,748**

Period 2017/18	Market value at 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2019
	£000	£000	£000	£000	£000	£000
Private Equity	43,334	663	(3,300)	(26,693)	15,341	29,345
Alternatives	245,375	53,814	(28,576)	(24,408)	21,962	268,167
Total	**288,709**	**54,477**	**(31,876)**	**(51,101)**	**37,303**	**297,512**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and change in market values line of the Fund account.

Note 15. Financial Instruments

Note 15A. Classification of Financial Instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2019			
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership				833
Equities	818,260			
Pooled investments				
Property	194,973			
Infrastructure	44,437			
Private Equity	22,962			
Bonds	283,158			
Equities	649,490			
Alternatives	290,056			
Cash		47,123		
Other Investment Balances	5,215			
Debtors		9,092		
	2,308,551	**56,215**	**-**	**833**
Financial Liabilities				
Other Investment Balances	(1,276)			
Creditors			(3,129)	
	(1,276)	**-**	**(3,129)**	**-**
Grand Total	**2,307,275**	**56,215**	**(3,129)**	**833**

	31 March 2018			
	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair value through comprehensive income £000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership				
Equities	751,286			
Pooled investments				
Property	194,461			
Infrastructure	35,420			
Private Equity	29,345			
Bonds	264,097			
Equities	582,508			
Alternatives	268,167			
Cash		54,894		
Other Investment Balances	5,869			
Debtors		7,705		
	2,131,153	**62,599**	**-**	**-**
Financial Liabilities				
Other Investment Balances	(2,016)			
Creditors			(2,379)	
	(2,016)	**-**	**(2,379)**	**-**
Grand Total	**2,129,137**	**62,599**	**(2,379)**	**-**

15B Net Gains and Losses on Financial Instruments

	2017/18 £000	2018/19 £000
Financial Assets		
Fair Value through Profit and Loss	35,084	178,619
Total	**35,084**	**178,619**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 16. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

a) Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Other Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument.

The Fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for 2019/20, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset Type	Potential Market Movements (+/-)
UK Bonds	5.0%
UK Equities	13.0%
Overseas Equities	13.0%
Property	15.0%
Infrastructure	17.0%
Private Equity	24.0%
Alternatives	10.0%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31 March 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	283,158	5.0%	297,316	269,000
UK Equities	429,765	13.0%	485,634	373,896
Overseas Equities	1,037,956	13.0%	1,172,923	903,047
Property	194,973	15.0%	224,219	165,727
Infrastructure	44,437	17.0%	51,991	36,883
Private Equity	22,962	24.0%	28,473	17,451
Alternatives	290,056	10.0%	319,062	261,050
Total	**2,303,336**		**2,579,618**	**2,027,054**

Asset Type	Value at 31 March 2018 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	264,097	6.0%	279,943	248,251
UK Equities	403,796	10.0%	444,176	363,416
Overseas Equities	929,997	10.0%	1,022,997	836,997
Property	194,461	16.0%	225,575	163,347
Infrastructure	35,420	18.0%	41,796	29,044
Private Equity	29,345	26.0%	36,795	21,715
Alternatives	268,167	10.0%	294,984	241,350
Total	**2,125,283**		**2,346,446**	**1,904,120**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Assets Exposed to Interest Rate Risk	Value at 31 March 2019 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	36,413	-	36,413	36,413
Cash balances	10,710	-	10,710	10,710
Bonds	283,158	2,832	285,990	280,326
Total	**330,281**	**2,832**	**333,113**	**327,449**

Assets Exposed to Interest Rate Risk	Value at 31 March 2018 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	38,746	0	38,746	38,746
Cash balances	16,148	0	16,148	16,148
Bonds	264,097	2,641	266,738	261,456
Total	**318,991**	**2,641**	**321,632**	**316,350**

Income Exposed to Interest Rate Risk	Value at 31 March 2019 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	97	1	98	96
Bonds	-	-	-	-
Total	**97**	**-**	**98**	**96**

Income Exposed to Interest Rate Risk	Value at 31 March 2018 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	61	1	62	60
Bonds	0	0	0	0
Total	**61**	**1**	**62**	**60**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

Following analysis of historical data and in consultation with an investment manager, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 8%, as measured by one standard deviation (8% in 2017/18). An 8% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net asset available to pay benefits as follows:

Assets Exposed to Currency Risk	Value at 31 March 2019	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	818,256	65,460	883,716	752,796
Pooled Investments:				
Overseas/Global Equities	219,728	17,578	237,306	202,150
Overseas/Global Property	14,792	1,183	15,975	13,609
Overseas/Global Infrastructure	3,979	318	4,297	3,661
Overseas/Global Private Equity	22,962	1,837	24,799	21,125
Overseas/Global Alternatives	290,056	23,204	313,260	266,852
Total	**1,369,773**	**109,580**	**1,479,353**	**1,260,193**

Assets Exposed to Currency Risk	Value at 31 March 2018	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	751,282	60,103	811,385	691,179
Pooled Investments:				
Overseas/Global Equities	178,715	14,297	193,012	164,418
Overseas/Global Property	15,918	1,273	17,191	14,645
Overseas/Global Infrastructure	1,498	120	1,618	1,378
Overseas/Global Private Equity	29,345	2,348	31,693	26,997
Overseas/Global Alternatives	268,167	21,453	289,620	246,715
Total	**1,244,925**	**99,594**	**1,344,519**	**1,145,331**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund is additionally exposed to credit risk through securities lending and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

The Pension Fund's bank account is held at Barclays, which holds an 'A' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices.

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2019, these assets totalled £1,751.908m (£1,598.890m as at 31 March 2018), with a further £47.123m held in cash (£54.893m as at 31 March 2018). Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

d) Outsourcing risk

An additional area of risk is in the outsourcing of services to third party service organisations. The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration

This service is undertaken by West Yorkshire Pension Fund (WYPF), through a shared service agreement. WYPF present to the Pensions Committee on a quarterly basis and both the County Finance Officer and the Head of Pensions sit on the Collaboration Board which meets quarterly.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $21 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodian's records match those of the managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management

The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

Note 17. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
2) to ensure that employer contribution rates are as stable as possible;

3) to minimise the long-term cost of the scheme by recognising the link between assets and adopting an investment strategy that balances risk and return;
4) to reflect the different characteristics of employing bodies in determining contribution rates where reasonable to do so; and
5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates, where possible. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 76.9% funded (71.5% at the March 2013 valuation). This corresponded to a deficit of £529m (2013 valuation: £597m) at that time.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£000)		
1 April 2017-31 March 2020	2017/18	2018/19	2019/20
17.4%	18,004	20,539	23,222

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report on the Fund's website.

The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. The calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The principal assumptions were as follows:

Financial Assumptions

Future Assumed Returns at 2016	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property	3.8
Cash	2.5

Other Financial Assumptions	31 March 2013 % p.a.	31 March 2016 % p.a.
Discount rate	4.6	4.0
Price inflation (RPI)	3.3	3.2
Pay increases*	3.8	2.6
Pension increases	2.5	2.1
Revaluation of deferred pension	2.5	2.1
Revaluation of accrued CARE pension	2.5	2.1
Expenses	0.4	0.5

*An allowance is also made for promotional pay increases

Demographic Assumptions

The baseline longevity assumptions are a bespoke set specifically tailored to fit the membership profile of the Fund. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% per year. The assumed life expectancy from age 65 is as follows:

		31 March 2013	31 March 2016
Male			
	Current Pensioners	22.2 years	22.1 years
	Future Pensioners	24.5 years	24.1 years
Female			
	Current Pensioners	24.4 years	24.4 years
	Future Pensioners	26.8 years	26.6 years

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option

It is assumed that 2% of active members (evenly distributed across age, service length and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

Note 18. Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson; to provide the Actuarial present value of the promised retirement benefits as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2019 for IAS19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Lincolnshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2019	31 March 2018
Active members (£m)	1,793	1,465
Deferred members (£m)	843	750
Pensioners (£m)	1,131	1,128
Total (£m)	**3,767**	**3,343**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £289m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.9%	2.8%
Discount Rate	2.4%	2.7%

Longevity assumptions

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

	Males	Females
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 years	26.6 years

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

Commutation assumptions

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

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	320
0.5% p.a. increase in the Salary Increase Rate	1%	56
0.5% p.a. decrease in the Real Discount Rate	11%	400

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

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2019 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared on 17 April 2019 by:

Anne Cranston AFA

For and on behalf of Hymans Robertson LLP

Note 19. Long Term Debtors

	31 March 2018 £000	31 March 19 £000
Magistrates Court – deferred member liabilities	426	-
Total	**426**	**-**

Note 20. Current Assets

	31 March 2018 £000	31 March 19 £000
Short Term Debtors		
Contributions due - Employers	4,561	5,238
Contributions due - Employees	1,288	1,375
Sundry Debtors	1,430	2,479
Total Short Term Debtors	**7,279**	**9,092**
Cash Balances	16,148	10,710
Cash Balances	**16,148**	**10,710**
Total Current Assets	**23,427**	**19,802**

Note 21. Current Liabilities

	31 March 2018 £000	31 March 19 £000
Creditors		
Contributions – paid in advance	(19)	(34)
Sundry Debtors	(2,360)	(3,095)
Total	**(2,379)**	**(3,129)**

Note 22. Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £8.683m (£8.651m in 2017/18). Member contributions of £0.998m (£1.021m in 2017/18) were received by the Prudential in the year to 31 March and £1.700m (£1.814m in 2017/18) was paid out to members.

The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

Note 23. Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. During the reporting period, the Council incurred costs of £0.236m in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £31.312m to the Fund in 2018/19. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £10.804m and interest of £0.088m was earned over the year.

Each member of the Pensions Committee is required to declare their interests at each meeting, and asked to sign an annual declaration disclosing any related party transactions. One Committee member, A Antcliff (employee representative), is a contributing member of the Pension Fund as at 31 March 2019.

Note 24. Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of the Accounts and Audit (England) Regulations 2015) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The Fund does not employ any staff directly. Lincolnshire County Council employs the staff involved in providing the duties as Administering Authority for the Fund (the pensions administration service is provided is provided by West Yorkshire Pension Fund in partnership with the Lincolnshire Pension Fund). Disclosure of the remuneration awarded to key management personnel is included in the officers' remuneration disclosure in the notes to the Lincolnshire County Council Statement of Accounts for 2018/19 (at note 34), which is available on the Council's website at www.lincolnshire.gov.uk/finances.

Note 25. Contingent Liabilities and Contractual Commitments

At 31 March 2019 the fund had outstanding capital commitments (investments) to twenty investment vehicles, amounting to £37.346m. These commitments relate to outstanding call payments due on unquoted limited partnerships making investments in private equity, property or infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over the lifetime of the funds.

Note 26. Contingent Assets

Six admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

No such defaults have occurred in 2018/19 (also none for 2017/18).

Note 27. Impairment Losses

The Fund has no recognised impairment losses.

Note 28. Exchange Rates Applied

The exchange rates used at 31 March 2019 per £1 sterling were:

Australian Dollar	1.8344	Japanese Yen	144.2281
Brazilian Real	5.0711	Korean Won	1,479.0921
Canadian Dollar	1.7408	Norwegian Krone	11.2213
Swiss Franc	1.2977	Swedish Krona	12.0861
Danish Krone	8.6635	Singapore Dollar	1.7650
Euro	1.1605	Taiwan Dollar	40.1606
Hong Kong Dollar	10.2289	US Dollar	1.3030
Indonesian Rupiah	18,555.4328		

Glossary of Terms

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure and property, and financial assets such as private equity and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Asset Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: 'significantly reducing costs whilst maintaining investment performance'.

Auto Enrolment – UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria, and repeat this process every three years to re-enrol any employees that have opted out of the pension scheme.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Consumer Price Index (CPI) – The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Counterparty – The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to complete. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of assets, income collection and settlement of trades for a portfolio, independent from the asset management function.

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes are defined benefit schemes.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Fiduciary Duty – A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – One type of defined benefit pension scheme where employee benefits are based on the person's final salary when they retire. The LGPS Scheme has moved from this to a CARE (career average revalued earnings) scheme in 2014.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Infrastructure – The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – The investor's long-term distribution of assets across various asset classes taking into consideration their objectives, their attitude to risk and timescale.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pensions benefits and payments that are due to be paid when someone retires.

Market Value – The price at which an investment can be bought or sold at a given date.

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Portfolio – Block of assets generally managed under a single mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or designating bodies that have an automatic right and requirement to be an employer within the LGPS.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance, such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Lincolnshire Fund and produces a report on the Fund's financial position.

Audit Opinion

Additional Information Available

Additional information regarding the Pension Fund and the scheme is available by going to the shared service website **www.wypf.org.uk**

The following documents are included in this report, and can also be found by selecting Policy Statements on the home page, and then Lincolnshire Policies, on the WYPF shared website.

Funding Strategy Statement

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

Investment Strategy Statement

This document describes the key issues that govern the investment of the Pension Fund, including the approach to risk, the approach to pooling and the approach to environmental, social and governance (ESG) factors.

Communications Policy

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that individuals and employers receive accurate and timely information about their pension arrangements.

Governance Compliance Statement

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Ministry of Housing, Communities and Local Government.

Pensions Administration Strategy

This document details how the Pension Fund is administered within the shared service. It outlines the processes and procedures to allow the Funds and employers to work together in a cost-effective way to administer the LGPS, whilst maintaining an excellent level of service to members.

Lincolnshire Pension Fund

Funding Strategy Statement

March 2017

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers, investment adviser and approval by the Pensions Committee. It is effective from 31 March 2017.

1.2 What is the Lincolnshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Lincolnshire Pension Fund, in effect the LGPS for the Lincolnshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's discretionary policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Jo Ray, Head of Pensions in the first instance at e-mail address jo.ray@lincolnshire.gov.uk or on telephone number 01522 553656.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**				**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**	**Designating Bodies**
Sub-type	**Local Authorities, Police and Crime Commissioner**	**Small Scheduled Bodies**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**	**Internal Drainage Board**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, assumes long – term Fund participation (see Appendix E)
Primary rate approach	(see Appendix D – D.2)							
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	15 years	20 years	Outstanding term, subject to a maximum of 15 years	Outstanding term, subject to a maximum of 15 years	Outstanding contract term, subject to a maximum of 15 years	20 years
Secondary rate – Note (d)	Monetary amount (other than maintained schools where % of payroll)	% of payroll	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority					Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the	Preferred approach: contributions kept at Primary rate. However, reductions may be

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies	Designating Bodies
							Administering Authority to reduce the surplus over the remaining contract term	permitted by the Administering Authority
Probability of achieving target – Note (e)	66%	70%	75%	75%	75%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	n/a	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	n/a
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).				Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for	Can be ceased subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see

Type of employer	Scheduled Bodies	Community Admission Bodies and Designating Employers	Transferee Admission Bodies	Designating Bodies
			future deficits and contributions arising.	Note (j)

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the standard stabilisation arrangements that will apply for employers are as follows. Other stabilisation arrangements may, on occasion, be allowed if the actuary considers them to be prudent.

Type of employer	Local Authority Council	Police and Crime Commissioner Pool
Stabilisation Mechanism	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer, covering the three year period until the next valuation, will normally be set as a monetary amount. However, the Administering Authority reserves the right to amend these rates between valuations.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor may pay the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Small scheduled bodies e.g. Town and Parish Councils (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Academies will be regarded as separate employers in their own right and will not be pooled with other employers in the Fund, the only exception being when the Academy is part of a Multi Academy Trust (MAT).

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. As at the 2016 valuation, separate pools were operated for:-

- Lincolnshire County Council;
- Police and Crime Commissioner for Lincolnshire;
- East Lindsey District Council;
- Lindsey Marsh Internal Drainage Board
- Small Scheduled Bodies;
- The following Multi Academy Trusts:-
    - David Ross Education Trust
    - Boston Witham Academies Trust

- o Phoenix Family of Schools
- o Priory Federation of Academies
- o Tall Oaks Academy Trust
- o West Grantham Federation.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

It is generally expected that such strain costs are paid immediately, however, in exceptional circumstances and with the agreement of the Administering Authority the payment may be spread.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.7 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and

- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.8 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in February 2017 for comment;
b) Comments were requested within 4 weeks, and answers provided;
c) There was an Employers Forum on 23 March 2017 at which questions regarding the FSS could be raised and answered;
d) Following the end of the consultation period the FSS was updated where required and approved at the Pensions Committee meeting on 8 March 2017, then published before the month end.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.wypf.org.uk;

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Pension Board;

A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.wypf.org.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Ministry of Housing, Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning.

Risk	Summary of Control Mechanisms
	Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, monetary amounts to be continued to be paid rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be

Risk	Summary of Control Mechanisms
	brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular

Risk	Summary of Control Mechanisms
	intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;

6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

Until 31 March 2016 the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted until 31 March 2016 meant that there were inevitably some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided to adopt a different apportionment approach going forward.

With effect from 1 April 2016, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for employers' benefit.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.6% p.a. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8% p.a.), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.2 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong

as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Investment Strategy Statement

INVESTMENT STRATEGY STATEMENT

INTRODUCTION

The Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS has been agreed by the Committee having taken advice from the Investment Consultant and Head of Pensions.

The ISS, which was last approved by the Committee on 19th July 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS, which was last approved by the Pensions Committee on 19th July 2018, complies with these Regulations.

INVESTMENT STRATEGY

The primary objective of the Fund is to provide pension benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market risk and the nature of the Fund's liabilities.

Asset class	Strategic allocation	Range	Maximum
Equities	60%	+/- 6%	66%
UK equities	20%	+/- 2%	22%
Global equities	40%	+/- 5.5%	45.5%
Alternatives	15%	+/- 1.5%	16.5%
Property	9%	+/- 1.5%	10.5%
Infrastructure	2.5%	+/- 1.5%	4%
Fixed Income	13.5%	+/- 1.5%	15%
Cash	0%	+/- 0.5%	0.5%

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee reviews the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equities	
UK Equities	FTSE All Share
Global Equities (ex UK)	MSCI World ex UK Index
Global Equities	MSCI All Countries World Index
Bonds	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Corporate Bonds	iBoxx £ Non-Gilts Index
All Stocks UK Gilt Index Fund	FTSE UK Gilts Index-Linked All Stocks Index
Corporate Bonds up to 5 Years	iBoxx Sterling Non-Gilts 1-5 Year Index
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Alternatives	LIBOR 3 Months + 4%

The suitability of particular investments and types of investments

The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 1.8% over the long term, a nominal return of 4.0% assuming inflation (CPI) to be 2.2%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund’s custodian on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of overall fund performance.

The approach to risk

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges,

		determined on a triennial basis. The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Investment Mangers present to the Committee on an annual basis.
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging where appropriate.
Foreign exchange	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.
Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is	The Fund regularly monitors

	unaware of changes to the Fund's membership which increases the value of its liabilities.	membership information and communicates with employers.

Approach to pooling investments

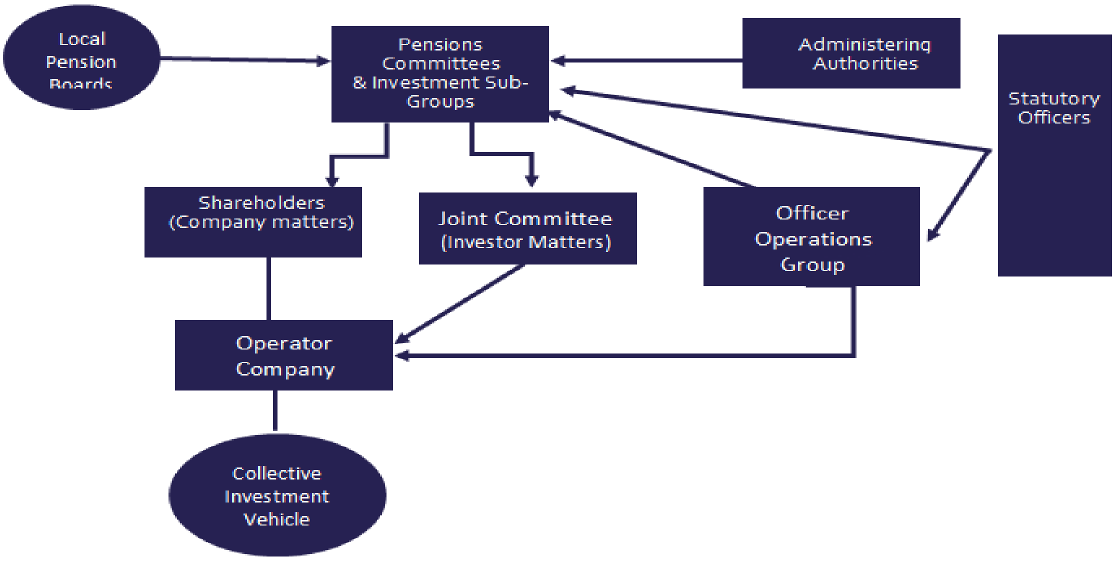
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border to Coast). Border to Coast is a FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

Border to Coast is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Minister to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015.

The governance structure of Border to Coast is as follows:



The Fund will hold Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.

- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to Border to Coast.

It is anticipated that a significant proportion of the Fund's investments will be made through Border to Coast. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include legacy unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred, it is expected that once these investments mature the proceeds will be reinvested into Border to Coast. At the current time it is estimated that c. 66% of the Fund's assets will be invested in Border to Coast subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and corporate governance (ESG) factors

The Fund considers itself to be a responsible investor and take ESG matters very seriously and monitors investment managers' approach to ESG.

All of the Fund's investment managers consider that ESG factors can have a material impact on an investments financial return. As a result, ESG factors are fully incorporated into their respective investment processes.

The Fund's external Investment Managers also consider the impact of climate change risks and opportunities in the investment process to engage with companies in which they invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy. External investment managers are required to report quarterly on their engagement activity.

The Fund does not hold any investments that it deems to be social investments.

The Fund will take non-financial considerations into account when making investments, but not where it is considered to have a detrimental financial impact.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

The Fund has published its Responsible Investment Policy and Voting Guidelines on the shared website at www.wypf.org.uk.

It is considered that the Pensions Committee represents the views of the Fund membership and, in addition, the views of the Local Pension Board will be taken into account as part of their review of this document.

The exercise of rights attaching to investments (including voting rights)

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long term value for shareholders. The Fund believes that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors, the Fund expects the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this the Fund has summarised its compliance with the UK Stewardship code and principles relating to good stewardship below.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, and has a Responsible Investment Policy that is aligned with our asset pool, Border to Coast. This can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatement s_Lincoln_Index.aspx. It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

In practice the Fund applies the Code in two ways; through arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group for Local Authority Pension Funds. Through these channels, LPF seeks to improve long term share performance through investment in better governed companies, therefore improving the funding level of the LPF and reducing the cost to stakeholders in the Local Government Pension Scheme.

As part of the manager appointment process, the Fund selects managers who show how their stewardship responsibilities are built in as an integral part of their investment process. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by LAPFF and an officer regularly attends the LAPFF meetings. The Fund also attends the LAPFF Annual Conference to ensure a full understanding and input into the work programme of LAPFF.

Voting is carried out at by the external fund managers, who are expected to vote in line with best practice. Managers report detail of voting undertaken quarterly to officers, and the Fund reports quarterly to the Pensions Committee in summary on all voting activity undertaken.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee and the Pension Board review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all members are required to sign an annual declaration form in line with the published policy. The policy can be found on the shared LPF website at www.wypf.org.uk. In addition, Committee members are required to make declarations of interest prior to committee meetings which are documented in the minutes of each meeting and available on the Council's website at www.lincolnshire.gov.uk.

Principle 3 - Institutional investors should monitor their investee companies.

As investors we own a portion of the companies we invest in. With working through our external managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for managing our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity and impact can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through LAPFF are received by the Pensions Committee on a quarterly basis.

Resources do not currently allow for a dedicated role to monitor investee companies at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. We review each manager's policy on engagement and escalation prior to appointment and we review their engagement activity during regular review meetings with them, and support it when required. Escalation routes across our managers involve meetings with company management, meetings with Non-Executive Directors, collaborating with other institutional shareholders, submitting resolutions at general meetings and in the most extreme instances divestment of shares. The outcome of any engagement is reported to the Fund through the normal reporting routine.

On occasion, the Fund may itself choose to escalate activity through its participation in the Local Authority Pension Fund Forum. The areas where escalation might occur would be aligned with the LAPFF work programme. Fund involvement would be by either co-signing a shareholder resolution or publically supporting a shareholder resolution. This would happen following a request from LAPFF explaining the engagement activity taken so far and the reasons why a shareholder resolution is required. The Fund had an agreed process for this internally which requires a paper taken to our Pensions Committee (time allowing) or through delegation to the Council's Executive Director of Finance and Public Protection in consultation with the Chair and Vice Chair of the Pensions Committee to agree. Examples of escalation activity from LAPFF that the Fund has supported are shown below:

- Supporting the Human Rights Capital shareholder resolution at Sports Direct
- Part of the 'Aiming for A' investor coalition – successfully co-filing at BP, Shell, Anglo American, Rio Tinto and Glencore on strategic resilience resolutions
- Supported shareholder resolutions at National Express on workplace rights

The Fund monitors and participates in shareholder litigation through its contracts with IPS (Institutional Protection Services) and US law firm Labaton Sucharow. In addition, supplementary monitoring is provided by BLBG.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.
The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings. This plan sets out the engagement areas for activity for the coming year. Lincolnshire Pensions Team Accounting, Investment and Governance Manager Claire Machej is the named representative responsible for attending these meetings and actively participates in any discussions and setting of the work programme. She raises any concerns that the Fund may have and feeds back to the Pensions Committee on a quarterly basis.

The asset pooling arrangements with Border to Coast currently being implemented will enable additional collaborative working.

The contact for any potential collective action with the Fund is the Head of Pensions, Jo Ray, at jo.ray@lincolnshire.gov.uk.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights is delegated to the Fund's appointed asset managers. The Fund has a Corporate Governance Voting Guidelines and Voting Guidelines policy that can be found on the Pension Fund's shared website at http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx. This is aligned to the Border to Coast policy.

The quarterly reports presented to the Pensions Committee include high level voting activity and are available on the Council's website, alongside all committee reports.

The Fund participates in stock lending through its Custodian. Stock is not recalled ahead of company meetings to allow voting on the holdings participating in the stock lending programme, due to the restricted resources within the internal team.

Principle 7 - Institutional investors should report periodically on their stewardship and

voting activities.

The Fund reports quarterly to the Pensions Committee on stewardship activity through a specific section on voting undertaken each quarter, in the Fund Update. This includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website.

Data to produce these reports is taken from the Fund's external managers, and from reports produced by LAPFF.

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate or amendments are required.

Approved by Lincolnshire Pension Committee 21st March 2019

Communication Policy Statement

COMMUNICATION POLICY STATEMENT

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with over 260 employers and over 75,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Ministry of Housing, Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with:

- members;
- representatives of members;
- prospective members; and
- employing authorities.

b) In particular, the statement must set out the Fund's policy on:

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
ii. the format, frequency and method of distributing such information or publicity; and
iii. the promotion of the Scheme to prospective members and their employing authorities.

The day-to-day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by West Yorkshire Pension Fund (WYPF), in a shared service arrangement. Communication material is produced by WYPF in collaboration with the Pensions Team in Lincolnshire. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with WYPF.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website (www.wypf.org.uk).

WYPF provide a dedicated enquiry phone numbers and emails for both scheme members and employers for pension related enquiries. For scheme members it is 01274 434999 and pensions@wypf.org.uk, and for employers it is 01274 434900 and wypf.pfr@wypf.org.uk.

The appropriately qualified staff from the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund's objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

Communications events - Scheme Members

Communication	**Format**	**Frequency**	**Method of Distribution**
LGPS active members (including representatives of retired members)	Newsletter	2 per year	Mail
	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Annual benefit statement	1 per year	Mail
	Roadshows	Quarterly	Face to face
	Mid-Life course	Monthly under trial	Face to face
	Pre-retirement course	Monthly	Face to face
LGPS deferred members (including representatives of deferred members)	www.wypf.org.uk	Constant	Web
	Contact Centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Newsletter	1 per year	Mail
LGPS pensioner members (including representatives of retired members)	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail
	County Offices,	8.00 to 5.00	Face to face

	Lincoln	Monday to Friday	
	Pension advice slips	As and when net pension varies by 25p or more	Mail
	P60	1 per year	Mail
	Social media	Constant	Web
	Newsletter	1 per year	Mail

Communications events - Employers

Communication	**Format**	**Frequency**	**Method of Distribution**
Employers	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	Ad hoc training	As and when required	Face to face
	Update sessions	2 per year	Meeting
	Annual meeting	1 per year	Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Social media	Constant	Web
	Workshops	5 per year	Face to face
	Introduction to Pensions	Bi-monthly	Face to face
	Training webinars	Constant	Web
	Online training video	Constant	Web

Reviewed 21st March 2019 by the Pensions Committee

Governance Policy and Compliance Statement

Lincolnshire County Council, as administering authority (and Scheme Manager) for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director of Finance and Public Protection. The Public Service Pensions Act (2013) required all administering authorities to introduce a local Pension Board to assist the Scheme Manager.

Pensions Committee

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- Drawing upon appropriate professional advice, to set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, and approval of the Investment Strategy Statement.
- To review the performance of Border to Coast Pensions Partnership Limited and its sub-funds, legacy fund managers and associated professional service providers.

- To approve the annual Report and Statement of accounts of the fund.

- To consider any other matters relevant to the operation and management of the fund.

- As necessary and appropriate issue instructions to the Council's representative as shareholder of Border to Coast Pensions Partnership Limited on matters affecting the exercise of the Council's rights as shareholder in the company.

- To respond to any relevant consultations impacting upon the benefit provisions of the Local Government Pension Scheme.

In fulfilling its functions the Committee shall have regard to the advice of the Lincolnshire Local Pension Board established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and shall receive and consider recommendations from the Border to Coast Pensions Partnership Joint Committee.

The Pensions Committee has four regular meetings, two manager monitoring meetings and two training meetings each year. In addition, one or more special meetings may be held to appoint new investment managers or other professional advisers.

The Pensions Committee's regular quarterly meetings are open to the public and agendas, reports and minutes are made available through the County Council's website. An annual report on the management of the fund is provided to all scheme employers with an abbreviated version distributed to scheme members.

Executive Director of Finance and Public Protection

The Executive Director of Finance and Public Protection is responsible for the day-to-day administration of the benefits and assets of the pension scheme, specifically to:

- authorise payment of statutory pensions and allowances,

- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and

- agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

The Lincolnshire Pension Board will ensure the Scheme Manager effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board will also ensure that it complies with the knowledge and understanding requirements in the Pensions Regulator's Code of Practice.

In addition to the local structure, the Lincolnshire Pension Board is accountable to the Pensions Regulator and the National Scheme Advisory Board.

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti-fraud and corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

The role of the Lincolnshire Pension Board is set out below:

- Assist Lincolnshire County Council as Scheme Manager;

- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;

- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and

- In such other matters as the scheme regulations may specify.

The terms of reference for the Board are available on the Funds shared website with WYPF at www.wypf.org.uk.

The Lincolnshire Pension Board consists of five members:

- two employer representatives (to represent all employers within the Scheme)
- two scheme members representatives (to represent all members of the Scheme (active, deferred and pensioner))
- an independent member (to act as Chairman)

The employer and scheme member representatives can vote. The Independent Chairman cannot vote.

The Lincolnshire Pension Board has a minimum of four meetings each year. In addition, Board members must attend regular training events.

The Lincolnshire Pension Board meetings are open to the public and agendas, reports and minutes are made available through the Funds shared website with WYPF at www.wypf.org.uk. An annual report on the work of the Board is included in the Fund's annual report, which is published on the Council's website and provided to all scheme employers with an abbreviated version distributed to scheme members.

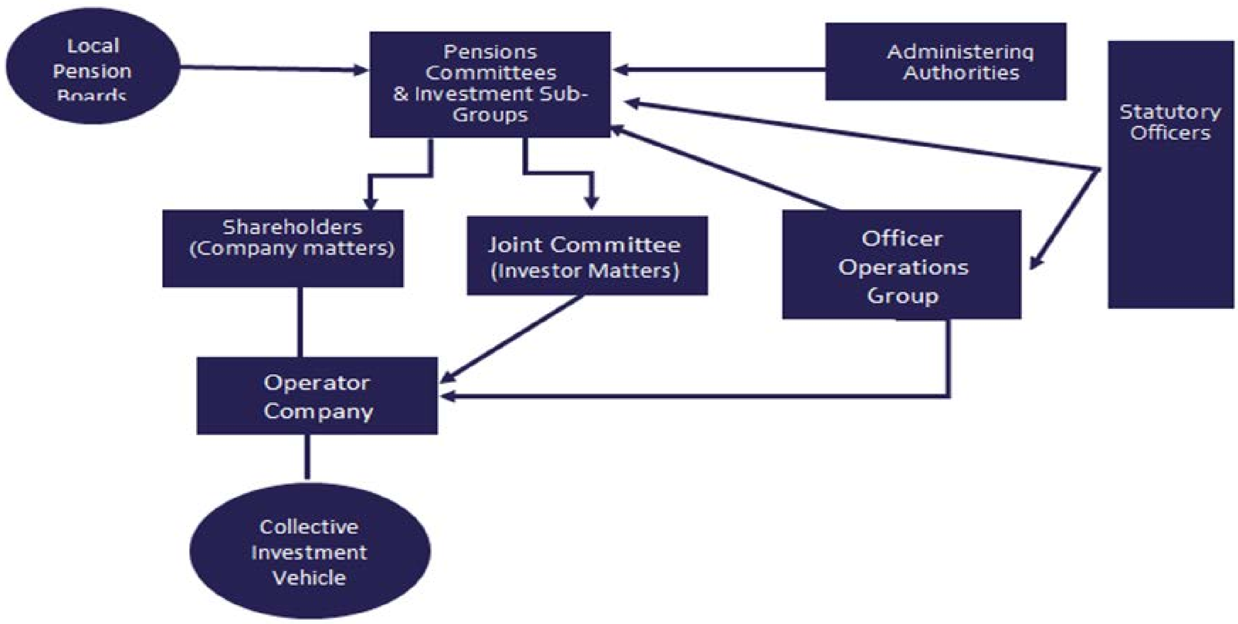
Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Code of Practice as published by the Pensions Regulator.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Head of Pensions (email: jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Asset Pooling Governance

In response to the change in regulations, LGPS Funds have to pool the investment of their assets. Lincolnshire Pension Fund is a Partner Fund in the Border to Coast Pensions Partnership Limited (Border to Coast), one of the eight asset pools created.

The diagram below shows the governance structure for Border to Coast.



The Fund will hold Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast (LCC S151 Officer).

- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast (Pensions Committee Chairman).

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group (Head of Pensions).

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to Border to Coast.

Reviewed 21st March 2019 by the Pensions Committee.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
A - Structure	**a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**	Yes	See terms of reference for the Pensions Committee in the Policy Statement above.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partial	The Council has not, to date, seen the need to establish a secondary committee/panel. It will, however, keep this aspect under review and does establish working groups from the Committee to deal with specific issues. Pensioner and deferred beneficiaries are not presently represented directly on the Committee – see B a. below.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Relevant	As discussed above, no such forum has been established as yet.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Relevant	As discussed above, no such forum has been established as yet.

B - Representation	**a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-** • **Employing authorities (including non-scheme employers, e.g. admitted bodies);** • **Scheme members (including deferred and pensioner scheme members),** • **Where appropriate, Independent professional observers, and** • **Expert advisors (on an ad hoc basis)**	Partial	The Committee has 11 members, all with voting rights, of which 8 are County Council Councillors. Other members include one representing other local authorities (district councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.
	b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee have full voting rights and equal access to information, training, etc.
C – Selection and Role of Lay Members	**a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**	Yes	Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered

			on set dates.
	b. That at the start of any meeting, committee members are invites to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of member's interests is a standard item on the agenda of the Pensions Committee.
D - Voting	**a. That the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.**	Yes	Full voting rights are given to all members of the Committee.
E – Training/Facility Time/Expenses	**a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**	Yes	See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All members are treated equally in every respect.

Lincolnshire Pension Fund

	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.
F – Meetings - Frequency	**a. That an administering authority's main committee meet at least quarterly.**	Yes	See Compliance Policy Statement above.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Relevant	As discussed above, no such forum has been established as yet.
	c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not Relevant	Three added members exist and have equal rights with all mainstream members in all respects.
G – Access	**a. That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to**	Yes	All members are treated equally in every respect.

	committee papers, documents and advice that falls to be considered at meetings of the main committee.		
H – Scope	**a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**	Partial	The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance arrangements of the Council. A report on the administration of the scheme is taken to each quarterly committee meeting. At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.
I - Publicity	**a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.**	**Yes**	The County Council publishes the many governance documents and communicates regularly with employers and scheme members.

Pensions Administration Strategy

Contents

1. Regulatory framework and purpose

The Regulations

This strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

In line with these regulations Lincolnshire Pension Fund (LPF), West Yorkshire Pension Fund (WYPF) and Hounslow Pension Fund (HPF) employers have been consulted on the strategy, and a copy has been sent to the secretary of state.

Purpose

This strategy covers all three Funds within the shared service, being Lincolnshire Pension Fund West Yorkshire Pension Fund and Hounslow Pension Fund, administered under a collaboration agreement. Within this document the shared service administration (based in Bradford with a satellite office in Lincoln), will be referred to as 'the administrator'.

This strategy outlines the processes and procedures to allow LPF, WYPF, HPF and employers to work together in a cost- effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

2. Review of the strategy

This strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy or on a triennial basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers and a copy of the updated strategy will be sent to the secretary of state.

The administrator will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with the administrator at any time and may make suggestions for improvement to the strategy.

3. Liaison and communication

Authorised contacts for employers

Each employer will nominate a contact to administer the three main areas of the LGPS:

- a <u>strategic contact</u> for valuation, scheme consultation, discretionary statements and IDRP;

- an administration contact for the day-to-day administration of the scheme, completing forms and responding to queries; and
- a finance contact for completion and submission of monthly postings and co-ordination of exception reports.

If they wish, employers may also nominate additional contacts.

All contacts will receive a login name and password that allows them to access the Civica employer portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a **Main contact registration** form and **Authorised user list** form, and sign the administrator's user agreement for the secure administration facility.

The three main contacts are responsible for ensuring that contacts are maintained by notifying the administrator when one leaves and registering new contacts where necessary.

Liaison and communication with employers

The administrator will provide the following contact information for employers and their members:

- a named Pension Fund Representative for regulatory or administration queries, training, advice and guidance;
- a named finance business partner to assist with the monthly returns process; and
- a dedicated contact centre for member queries.

In addition to this, the administrator takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Face-to-face/telephone/e-mail
Website	Constant	Web
Fact card	1 per year	Mail
Fact sheets	Constant	Web
Employer guide	Constant	Web/electronic document
Ad hoc training	As and when required	Face-to-face
Update sessions	2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
Pension Matters and *round-up*	12 per year and as and when required	Wordpress blog and e-mail
Social media	Constant	Web

Ad hoc meetings	As and when required	Face-to-face
Workshops	10 per year	Face-to-face

4. Employer duties and responsibilities

When carrying out their functions, employers must have regard to the current version of this strategy.

Events for notification

Event	Preferred method of notification	Other methods	Target	Acceptable performance
Monthly postings (submitted via secure portal)	Approved spreadsheet	None	19th day of the month following the month in which contributions were deducted.	100% compliance of returns received in target
New starters	Monthly return		Notified via the monthly return, the administrator will process the data within 2 weeks following monthly return submission.	90% compliance or better
Change of hours, name, payroll number or job title	Monthly return (exception report)	Web form	Notified via monthly returns, the administrator will process the data within 2 weeks following monthly return submission. For exception report output from the monthly return, change data response must be provided to the administrator within 2 weeks of receipt of the exception report. If the employer is not using monthly return, then information is due within 6 weeks of change event.	90% compliance or better

50/50 & main scheme elections	Monthly return	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission.	90% compliance or better
Service breaks/absence	Web form	None	Within 6 weeks of the date of the absence commencing.	90% compliance or better
Under 3 months opt-outs	Monthly return	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission.	90% compliance or better
Leavers	Monthly return Web form Exception reports	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission, else within 6 weeks of leaving. For exception reports leaver forms must be provided within 2 months of receipt of the exception report.	90% compliance or better
Retirement notifications	Web form		10 days before the member is due to retire unless the reason for retirement is ill health or redundancy.	90% compliance or better
Death in service notification	Web form		Within 3 days of the date of notification.	100% compliance

Responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions.

The administrator is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer.

In the event of the administrator being fined by The Pensions Regulator, this fine will be passed on to the relevant employer where that employer's actions or inaction caused the fine.

Discretionary powers

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy to employees in respect of the key discretions as required by the regulations.

Member contribution bands

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

Internal dispute resolution procedure (IDRP)

Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

5. Payments and charges

Payments by employing authorities

Employing authorities will make all payments required under the LGPS regulations, and any related legislations, promptly to LPF and /or its Additional voluntary contribution (AVC) provider (Prudential) as appropriate.

Paying contributions

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission. The latest date contributions can be paid is the 19th day of the month following the month in which the deductions were made.

Where the 19th falls on a weekend or bank holiday, the due date becomes the last working day prior to the 19th.

AVC deductions

Employers will pay AVCs to the relevant provider within one week of them being deducted.

Late payment

The employer may be reported to The Pensions Regulator where contributions are received late, in accordance with the regulator's code of practice.

Payment method

Contributions (but not AVCs) should be paid to the administrator by BACS payment direct to WYPF, LPF or HPF's bank account.

Early retirement and augmentation costs

Employers have the option to pay the full early retirement cost or pay by instalments over up to 5 years, depending on their ability to pay and if agreed by the Pension Fund. Interest is charged if the option to pay by instalments is taken, and the annual interest used Base Rate + 1%.

All augmentation costs must be paid in full in one payment.

Interest on late payment

In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.

Employer contributions

Employers' contributions rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

Actuarial valuation

An actuarial valuation of the fund is undertaken every three years by the fund actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and deficit payment, if appropriate, for each employer for the subsequent three years.

Administration charges

The cost of running the administrator is charged directly to the fund; the actuary takes these costs into account in assessing employers' contribution rates.

Administering authority duties and responsibilities

When carrying out their functions the administrator will have regard to the current version of the strategy.

6. Scheme administration

The administrator will ensure that workshops and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events:

- Employer annual meeting;
- Pre-retirement courses;
- New starters induction courses;
- Complete guide to administration workshops;
- Your responsibilities workshops;
- Monthly contributions workshops; and
- Ill Health retirement workshops.

Responsibilities

The administrator will ensure the following functions are carried out:

- Provide a helpdesk facility for enquiries, available during normal office hours, providing a single point of access for information relating to the LGPS;
- Create a member record for all new starters admitted to the LGPS;
- Collect and reconcile employer and employee contributions;
- Maintain and update members' records for any changes received by the administrator;
- At each actuarial valuation, the administrator will forward the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that they can determine the assets and liabilities for each employer;
- Communicate the results of the actuarial valuation of the fund to each employer;
- Provide every active, deferred and pension credit member with a benefit statement each year;
- Provide estimate of retirement benefits on request by the employer;
- Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits; and
- Comply with HMRC legislation.

Decisions

The administrator will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

Discretionary powers

The administrator will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

Internal dispute resolution procedure (IDRP)

The administrator will deal with employer appeals at stage two of the IDRP for WYPF and LPF. A nominated officer of the London Borough of Hounslow will undertake this role for HPF.

The administrator will nominate an adjudicator to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision the administrator has made or is responsible for making.

Fund performance levels

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member records created	10	75%
2. Update person al records	10	75%
3. Posting monthly contributions to member records	10	90%
4. Calculate and action incoming transfer values	2 months	100%
5. Deferred benefits – payment of lump sums	3	75%
6. Provide details of deferred benefit entitlement	10	75%
7. Refund of contributions – notification of entitlement	5	75%
8. Refund of contributions – payment	10	75%
9. Action agreed transfers out on receipt of acceptance	10	75%
10. Provide estimate of retirement benefits	10	75%
11. Retirement benefits – payment of lump sum	3	75%
12. Retirement benefits – recalculations of pension/lump sum	10	75%
13. Calculation and payment of death benefits on receipt of all necessary information	5	75%
14. Make death grant payment to the member's nomination (provided all relevant information is received)	1 month	100%
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members by		31 May
17. Annual benefit statements issued to active members by		31 August
18. Make payment of pensions on the due date		100%
19. Issue P60's to pensioners within statutory deadlines		100%
20. Provide information on request in respect of pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%

7. Unsatisfactory performance

Measuring performance

Both employer and administrator targets will be measured on a quarterly basis using the Civica document management system. Employers will be notified of their performance level each quarter.

Administrator performance levels will be published on a quarterly basis in the employer newsletter. Overall employer and administrator performance will be published by LPF in the Report and Accounts.

Unsatisfactory performance

Where an employer materially fails to operate in accordance with the standards described in this strategy, and this leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

Lincolnshire Pension Fund

Appendix A – Main contact registration and authorised user list

West Yorkshire Pension Fund | Lincolnshire Pension Fund

main contact registration oct 2016

Main contact registration form

Employer name and location code
Employer address

Important: please read the guidance note on **Managing your WYPF contacts** before you complete this form.

Strategic contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Administration contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Finance contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Contact at third-party payroll provider (if applicable and not listed above)

Name	Company name and address
Job title	
Phone	Specimen signature
Email	

Date signatures valid from	**Signed (by current authorised signatory)**

authorised payroll user list oct 2016

West Yorkshire Pension Fund

Employer name

Authorised payroll user list

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

Full name	Phone number	Email address
Date authorised users valid from		
Signed (by current authorised signatory)		

Appendix B – Schedule of charges

Performance areas	Reason for charge	Basis of charge
Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III), minimum half day charge of £110 + VAT + cost of recovery actions (court and legal fees). Any part or all of this charge may be waived at head of service discretion. Number of days late interest charged at base rate plus 1%.
Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th).	Due by 19th month – late receipt of funds, plus cost of additional time spent chasing payment.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 a day. This may be waived at head of service discretion.
Monthly return due anytime but latest by 19th month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months.	Due by 19th month, any additional work caused by late receipt of information incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 a day. This may be waived at head of service discretion.
Change in member detail	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to the administrator within 2 weeks of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Early leavers information	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to the	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.

	administrator within two months of receipt of the exception report.	
Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
Death in membership	Due within 3 working days of the notification – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III) at £220 + VAT a day. This may be waived at head of service discretion.
AVC deducted from pay to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th).	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in admin charge (at pension officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers.	Costs of additional work resulting from employer's failure to notify the administrator of change in authorised officers list.	Failure to comply by employer, causing additional work for the administrator will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Security breach on system re data protection.	Recharge employers any fines imposed on us in this event.	Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III) at £220 + VAT a day. This charge may

		be waived at head of service discretion.
Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable.	1st request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made. This charge is for each member's record folder reference.
Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order.	The charge is £250 + VAT for this work.
Miscellaneous items: • Benefit recalculation • Member file search and record prints • Supplementary information requests	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + VAT will be levied. This charge is for each members record folder reference.

Appendix C – Charging Levels

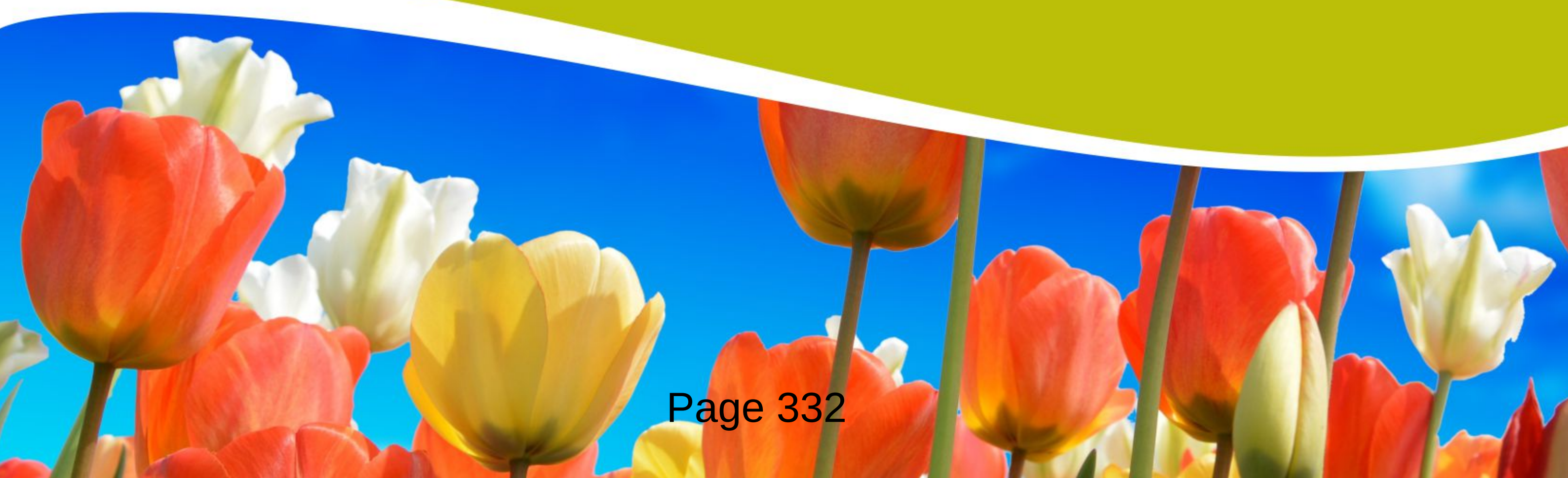
Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made.

Charge levels	**I**	**II**	**III**
Daily charge	£96	£136	£220
Half day charge	£48	£68	£110

Level I – work at Pensions Officer level

Level II – work at Senior Pensions Officer level

Level III – work at Pensions Manager level



Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 July 2019**
Subject:	**2019 Valuation Assumptions**

Summary:

This report details the final assumptions that the Fund's Actuary, Hymans Robertson, is proposing to use for the 2019 Triennial Valuation.

Recommendation(s):

That the Committee:
1) note the report; and
2) approve the 2019 Valuation assumptions.

Background

1. The LGPS Regulations require that a valuation of the Fund's assets and liabilities is undertaken every three years by the Fund's appointed Actuary. This is known as the Triennial Valuation and the output provides a funding level percentage (value of assets compared to value of liabilities) and sets the contribution rates (both primary and secondary) that each Fund employer is required to pay for the next three years.

2. The Committee received presentations and training on the Valuation process from the Fund's Actuary on 13 December 2018 and 26 February 2019. This detailed:

   - An overview of how Lincolnshire Pension Fund is funded;
   - Why a valuation is carried out;
   - What assumptions are included;
   - The role of the Committee in the valuation process;
   - How employer contributions are set;
   - The Funding Strategy Statement (FSS);
   - How key assumptions are set; and
   - The timeline and tasks required to complete the Valuation.

3. At the March meeting, the Committee received a further paper to enable them to consider and approve the process of the Valuation, with the two

areas being how the key assumptions are set and the contribution strategy for employers, which feeds into the development of the FSS.

4. This paper details the assumptions now proposed by the Actuary to be used in the Valuation, following further discussion with officers and advisors, for the Committee to approve. The FSS, detailing how contributions are set and the overall funding strategy, will be brought in draft to the October meeting of the Committee, ahead of being circulated to all Fund employers for consultation and then to the March 2020 meeting for final approval.

5. The paper attached at appendix A explains in detail how the financial and demographic assumptions have been set, and the table below summarises the assumptions used in the 2016 valuation, the proposed assumptions for the 2019 valuation and the reason for any changes.

Assumption	2016 assumptions	Proposed 2019 assumptions	Reason for change
Investment return margin → Long term margin above risk free rate from year 20	1.8% p.a.	2.0% p.a.	Increase due to output from modelling of portfolio returns
Pension Increases → RPI-CPI gap	RPI – 1.0% p.a.(=CPI)	RPI – 1.0% p.a.(=CPI)	No change
Salary Increases → Inflationary	RPI – 0.6% p.a.	RPI – 0.7% p.a.	No change in methodology. Expectation that short-term salary increase will remain low.
Longevity → Baseline → Future Improvements	Club Vita analysis CMI model, 2013 version, long-term rate of improvements of 1.25% p.a.	Club Vita analysis CMI model, latest version, long-term rate of improvements of 1.25% p.a.	No change in methodology. Later version of CMI table reflects more recent experience.

6. The Committee are asked to approve the assumptions proposed, as shown above, for use in the 2019 Valuation process.

7. The Actuary will present the draft Fund 2019 Valuation report to the Committee's October meeting, alongside the draft FSS. Individual employer reports and contribution rates will be calculated and sent to all employers in November, with the draft FSS for consultation. The statutory deadline for completing the Valuation process and approving the FSS is 31 March 2020.

Conclusion

8. The Triennial Valuation process is a statutory requirement to provide a funding level for the Pension Fund and contribution rates for the employers to pay over the following three years. Officers work very closely with the Fund Actuary throughout the process of completing the valuation, calculating the employer rates and preparing the FSS.

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	Hymans Robertson Assumptions Setting Paper

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

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Setting assumptions for the 2019 valuation

Executive Summary

The Lincolnshire Pension Fund ("the Fund") will undertake a triennial valuation as at 31 March 2019. The valuation is a statutory requirement of the Local Government Pension Scheme Regulations ("the LGPS") which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. Actuarial assumptions are required to calculate the liabilities that feed into the funding target and plan.

The assumptions are informed estimates about future experience. Over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. We have carried out a review of the financial assumptions that were used at the 2016 valuation to check if they remain fit for purpose at the 2019 valuation. Our current recommendation for the demographic assumptions are also set out at the end of this paper. Our recommendation for longevity is based on recent experience Fund data from our Club Vita team and so is based on updated membership data.

The results of our review are summarised below. Where we have proposed a change in assumption from 2016 we have also noted the reason. Fuller details about the assumptions are contained within this paper.

Assumption	2016 assumption	Proposed 2019 assumption	Reason for change
Investment return margin - Long term margin above risk free rate from year 20	1.8% p.a.	2% p.a.	Increase due to output from modelling of portfolio returns.
Pension Increases - RPI-CPI gap	RPI – 1.0% p.a. (=CPI)	RPI – 1.0% p.a. (=CPI)	No change
Salary increases - Inflationary	RPI – 0.6% p.a.	RPI – 0.7% p.a.	No change in methodology. Expectation that short-term salary increases will remain low.
Longevity - Baseline - Future Improvements	Club Vita analysis CMI model, 2013 version, long term rate of improvements of 1.25% p.a.	Club Vita analysis CMI model (latest version), long term rate of improvements of 1.25% p.a.	No change in methodology. Later version of CMI table reflects more recent experience.

Contents

Addressee

This paper has been commissioned by Lincolnshire County Council in its capacity as Administering Authority to the Lincolnshire Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as actuaries to the Fund.

Purpose

The purpose of this paper is to propose assumptions to set the funding target for the Fund's upcoming formal valuation as at 31 March 2019.

Background

Pension schemes exist to pay benefits earned by their members during their years of eligible service. In the LGPS, the scheme is split into separate funds which pay benefits earned by past and present employees of participating employers; the Lincolnshire Pension Fund is one such fund. The actual cost of paying all the benefits cannot be known with certainty until the final benefit payment is made to the last remaining member. In funded schemes, like the LGPS, the benefits must be paid for out of funds set aside in advance. In order to determine how much money to set aside, it is necessary to make assumptions about the level of the benefits and the returns that will be achieved on the Fund's assets (financial assumptions) and when benefits will be paid to members (demographic assumptions). These assumptions are agreed by the Fund based on advice from its actuary and are used to set the funding target.

The Fund will undertake a triennial valuation as at 31 March 2019. The valuation is a statutory requirement of the Regulations which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience. Over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2019 valuation, we have carried out a review of the financial assumptions used to set the funding target at the 2016 valuation. The results of our review are summarised below. Where we have proposed a change in assumption from 2016 we have also noted the reason.

The following sections examine the main financial and demographic assumptions in detail.

Financial assumptions

Broadly speaking, financial assumptions relate to the level of benefits (i.e. the amount in £) when they are in payment and their equivalent value in today's terms.

Investment returns ("the discount rate")

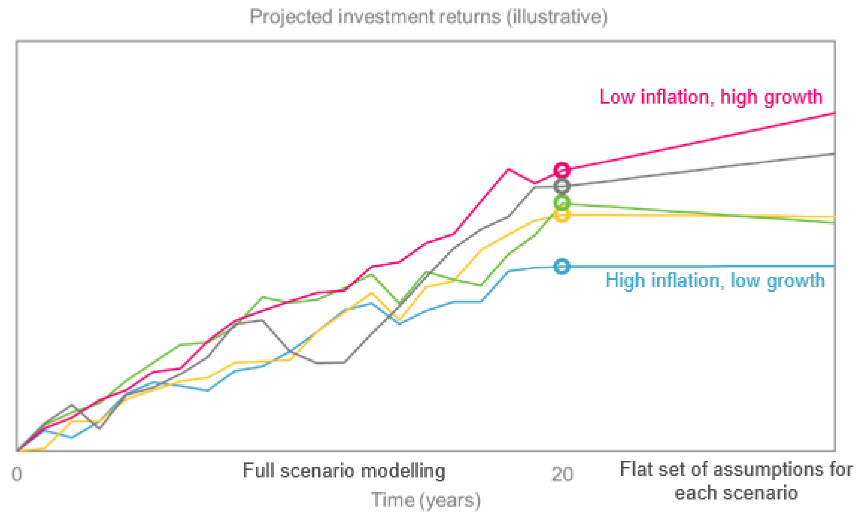
At the 2016 valuation, the Fund adopted a risk-based approach to setting contribution rates. This approach projects the Fund's future investment returns for the next 20 years under a range of different economic scenarios generated by Hymans Robertson's proprietary Economic Scenario Service (ESS). This model projects 5,000 different economic scenarios, on a year by year basis, and then analyses the expected performance of each of the asset classes the Fund holds under each scenario to generate the best possible understanding of the range of possible asset returns over the 20 year period. The range of investment returns over the next 20 years is therefore captured in the risk-based modelling rather than via a single discount rate assumption.

Beyond a 20 year time horizon, the future becomes even more uncertain and we move to valuing future benefit payments by making a fixed assumption about future investment returns, or a long-term target discount rate. This assumption is part of the funding target, and therefore the level of prudence in this assumption dictates the amount of assets the Fund wants to hold to pay for future benefits.

Each of the projected 5,000 scenarios represents different prevailing economic conditions in 20 years. Choosing a single value across all 5,000 scenarios would not be appropriate: e.g. a high discount rate would not be prudent in scenarios with a weak outlook for economic growth. Instead, we need some way of setting the prudent return so it is appropriate in each of the 5,000 scenarios in force in 20 years' time. We do this by expressing the discount rate relative to a variable which serves as a suitable proxy for the economic outlook in each scenario.

Our preferred choice for this variable is the long-term 'risk-free' interest rate, estimated using the yield on long-term UK government bonds at year 20 (as generated by our model for each scenario). This choice is justified on the basis that the Fund's investment strategy will include a proportion of risky assets whose long-term returns can be expected to exceed the 'risk-free' rate. Indeed, the Fund will usually have expectations of what the margin is above 'risk-free' when investing in these different asset classes.

The chart below illustrates how the investment returns generated by the model might vary over time, including the transition to a flat assumption after year 20. Although the assumption stops varying *within* each scenario after this point, it still varies *across* the different scenarios depending on the economic outlook in each one.



Results of our analysis

The following table shows the likelihood of the Fund's assets achieving a specific return (or margin) above the 'risk free' rate, both assessed from year 20. This assumes that the current investment strategy will remain in place.

Likelihood of achieving this margin from year 20	Margin above the risk-free rate (% p.a.)		
	1.8%	2.0%	2..2%
Current strategy	71%	68%	65%

It can be seen that your current investment strategy supports a margin of 2.0% above the risk-free rate 68% of the time – this is above our "2 in 3" (or 66%) threshold for the likelihood of success. We are, therefore, happy for the margin to be increased from 1.8% or 2.0%.

Comparison with 2016 valuation

The long-term margin used in the 2016 valuation was 1.8% p.a. over the risk-free rate. The proposed margin for 2019 has been increased to 2.0% p.a.

What are the implications of choosing a higher margin?

If the Fund was to choose a higher margin, it would be opting to target a less prudent funding position for employers. This would mean that:

- The Fund would gradually hold less money than it otherwise would have (all other things being equal).
- Long term asset liability modelling would show an increased likelihood of full funding assuming a fixed contribution rate (as the funding target would be lower so it will cost less to get there).
- There is less chance of investment performance achieving this return each and every year in the future. If there is any investment underperformance (relative to expectations), all other things being equal, higher than expected contributions would be required to compensate for the lost return.

In summary, reducing prudence tends to lead to immediate downwards pressure on employer contributions, but increases the likelihood of future contribution increases due to a larger risk of investment underperformance (since the 'investment bar' has been raised).

Assessing and declaring LGPS funding positions

For comparison purposes, all LGPS funds will be required by the national Scheme Advisory Board to report their 2019 valuation funding position on a like-for-like basis i.e. using the same actuarial assumptions. This effectively strips out prudence from local funding valuations to allow more meaningful comparisons about the strength (or otherwise) of funding strategies across all LGPS funds. The proposed change to the Lincolnshire margin will, therefore, have no impact on this like-for-like assessment.

At the 2016 valuation, for the purpose of showing a funding level at the valuation date, our approach was to report an assumed investment return that was based on a given margin above the risk-free interest rate at 31 March 2016 (specifically, the yield on long term UK government bonds). At the 2019 valuation, our methodology in calculating the assumed future investment return to be used when assessing a current (single) funding position will be consistent with the risk-based approach adopted in setting contribution rates. In practice, we will use a single value derived from the 5,000 investment return assumptions in the first 20 years that are behind the risk-based approach used for setting contributions. Our choice of investment return (discount rate) will be based on the likelihood of that return being achieved. Whatever value is chosen will determine both how likely that return is to be achieved and also the funding level declared. A higher chosen rate will lead to a higher declaration, but less chance of it being achieved (and vice versa).

Importantly, the use of this risk-based approach to assess the current funding position will have no impact on one of the key valuation outputs – the contribution rates; these will continue to be set with regard to the existing risk-based approach described earlier.

Recommended assumption

We are happy for the long-term margin to be increased to 2% p.a. over the risk-free rate.

Inflation / pension increases

LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. The most objective way to measure future financial values is to use information from the financial markets. In theory, the CPI assumption would be set based on the prices of CPI-linked government bonds, which would give the market's expectation of future CPI increases. If the return on a conventional government bond was 3% p.a. and the return on an (otherwise identical) CPI-linked government bond was 1% p.a., this would imply that the market expects long-term CPI inflation to be 2% p.a. However, in the UK the only inflation-linked government bonds are based on the Retail Prices Index ("RPI"), an alternative measure of price increases. We therefore calculate the market-implied value of future RPI increases and adjust it to get an assumption for CPI.

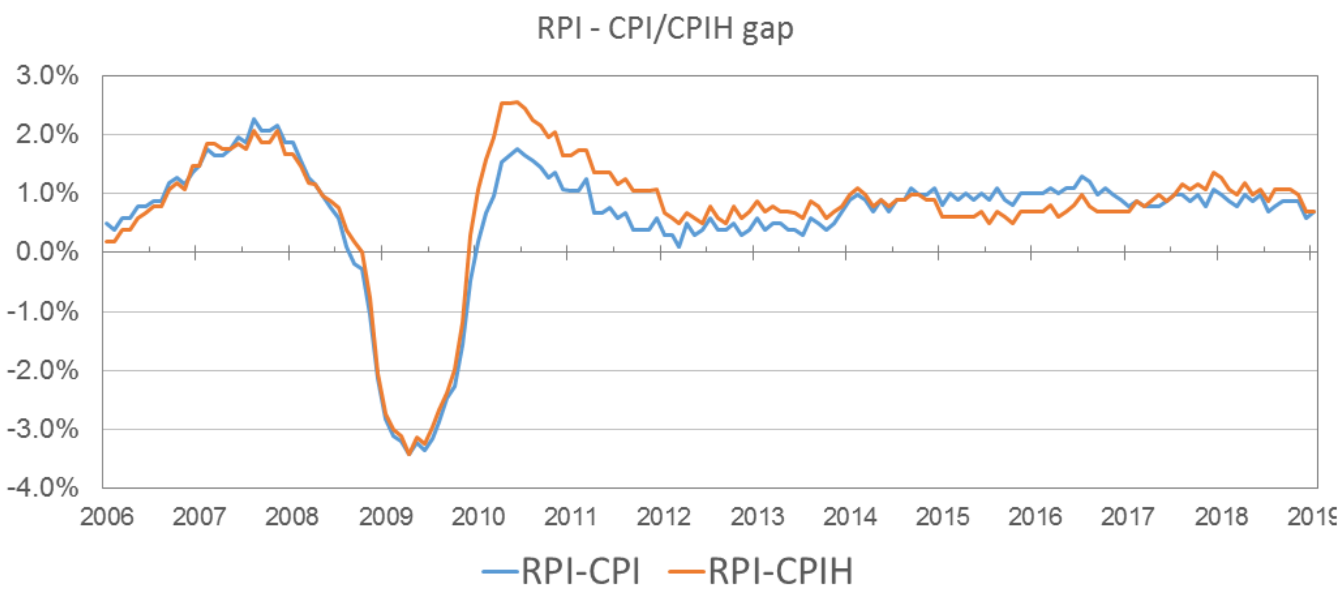
The two main differences between RPI and CPI are

- The 'basket' of goods that each measure is based on (e.g. CPI doesn't include mortgage payments); and
- The 'formula effect' which is related to the way the index is calculated from the price changes of the goods in the basket.

At the 2016 valuation, CPI was assumed to be 1.0% less than RPI.

When considering the assumption for the 2019 valuation, we have taken into account:

- Proposed changes to the indexation measure of public sector pensions: in the 2018 Budget, the Chancellor announced that all public sector pensions, including the LGPS, will move the inflation indexation measure "over time" from CPI to a measure known as CPIH (similar to CPI but it includes owner occupier's housing costs) "when and where practicable". There is no set timeframe on this move, therefore we propose to make no explicit allowance for this change at the 2019 valuation.
- Observed differences between RPI and CPI/CPIH : the chart below tracks these since 2006.



The gap between RPI and CPI has remained relatively steady since the start of the decade at around 1.0%.

Recommended assumption

<u>Based on the above analysis and reasoning, we recommend the CPI assumption at the 2019 valuation remains at 1.0% p.a. less than assumed RPI.</u>

Salary increases

The salary increase assumption comes in two parts:

- Annual 'inflationary' salary awards, historically set in order for employees' pay to at least keep up with the cost of living
- Promotional salary awards or those awarded as part of a defined salary scale.

This part of the paper considers the first element of the salary growth assumption only. Assumptions about promotional salary awards are considered later under Demographic Assumptions.

At the 2016 valuation, the assumption for 'inflationary' increases needed to take into account:

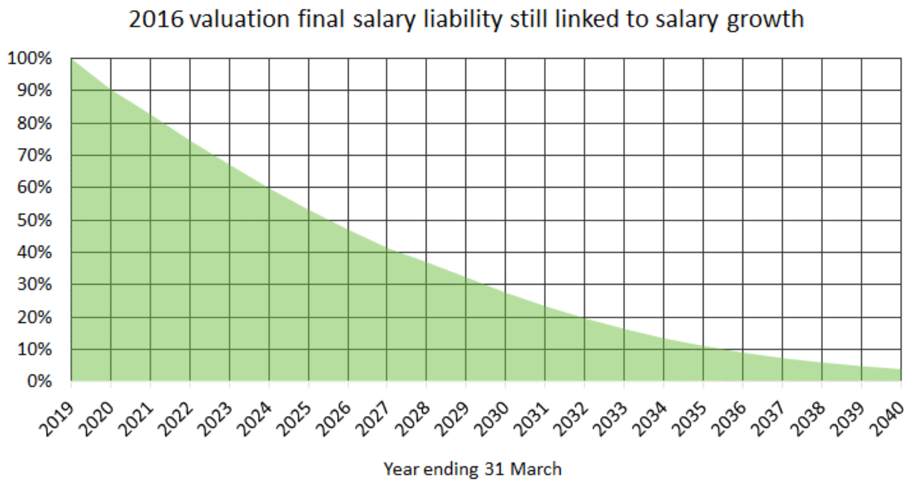
1. A large proportion of the Fund's overall past service liabilities were still linked to final salary i.e. those benefits accrued before 31 March 2014; and
2. The Government's 2015 Summer Budget announced that funding would only be provided to meet public sector salary increases of 1% p.a. up to March 2020.

Therefore the 2016 valuation salary increase was based on an underlying assumption of short term restraint (1% p.a.) to 31 March 2020, followed by long-term increases in line with Retail Prices Index (RPI) inflation. The single equivalent rate based on these assumptions, allowing for the expected run-off of final salary liabilities, was RPI less 0.6% p.a.

When considering the assumption to use at the 2019 valuation, we have revisited the two considerations outlined above.

Run-off of final salary liabilities

The chart below shows the expected run-off of the Fund's pre-2014 active member liabilities from the Fund's analysis at the last valuation i.e. the proportion of final salary liabilities remaining at each future year. The chart starts at 100% and falls eventually to zero as current active members with final salary benefits leave active status (due to retirement, withdrawal or death).



The declining proportion of active liabilities with a link to salary increases means that the importance of the salary growth assumption decreases over time, at least as far as the liability value is concerned. By 2019, around half of the pre-2014 active liability will no longer be active. Furthermore, from 2019 onwards the run-off plateaus and becomes more gradual, which will place more weight on longer term pay expectations compared to the 2016 valuation.

Future pay progression

Short term increases

Public sector pay increases were suppressed for many years following the 2008-09 economic crisis and the introduction of austerity policies, and this restraint had been expected to continue until at least 2020. Until 2017, central government operated a 1% cap on pay increases which was broadly mirrored in local government. However, with higher inflation and low unemployment the pressure to increase wages has risen markedly in recent years, particularly as public sector pay lagged behind the private sector. The government announced in July 2018 that it was awarding the highest pay increases in ten years to a range of public sector workers including teachers, NHS workers and the armed forces, perhaps signalling a return to 'normal' pay increases with a closer link to price inflation.

However, pay increases in local government are determined by local councils rather than central government, and the effects of austerity are still being felt in strained local authority budgets. It may therefore be reasonable to expect some continued restraint in the short term albeit higher than the 1% previously assumed. An assumption of 2% p.a. until 31 March 2024 was proposed following discussion with officers.

Long term increases

Similar arguments apply now as at the previous valuation in 2016. In the long term, increases are likely to fall between two extremes:

- Pay is increased substantially from current levels in order for public sector pay to 'catch-up' with historic averages (and the private sector).
- Continued low real pay rises reflecting, for example, higher inflation, economic uncertainty, outsourcing to private sector contractors, etc.

In practice, long term public sector salary growth beyond 2020 will depend on a variety of factors and it is extremely difficult to predict with any certainty what it is likely to be.

The RPI measure of inflation is arguably the better measure experienced by the 'in-work' population, due to the inclusion of housing costs (which are not included in the official CPI measure of inflation). In addition, some of the key elements of an individual's expenditure are set relative to RPI, for example regulated rail fares are currently increased each year in line with RPI plus 1% p.a. However, the expectation is there will be continued pressure on local council budgets in the longer term and it is expected that future salary increases will be lower than RPI – closer to RPI less 0.5%.

When we combine the short term pay restraint of 2% p.a. until 31 March 2024, and the longer term pay growth view, we can calculate a weighted average single pay increase assumption. Based on the Fund's membership profile, and assuming long term pay growth in line with RPI less 0.5%, the weighted average single pay increase assumption is equal to RPI less 0.7%.

Recommended assumption

Based on the above analysis and reasoning, we recommend a pay growth assumption of RPI less 0.7% for the 2019 valuation.

Demographic assumptions

Broadly speaking, demographic assumptions relate to the timing of benefits, i.e. when they start and for how long they are paid.

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty to an LGPS fund. There are two components when setting an assumption for longevity:

1 How long people live for based on current observed life expectancies ('baseline longevity'); and

2 An allowance for possible future improvements to longevity ('future improvements').

The LGPS Longevity Index[1] shows that life expectancy in the LGPS has been steadily increasing over the last 20 years. This has been reflected in the longevity assumptions set by actuaries at successive valuations, which have often led to an increase in the value of the past service liabilities and higher contribution rates payable by employers, as improvements outstrip expectations.

However, death experience in recent years has bucked the trend. Evidence from Club Vita, our specialist longevity consulting company, tells us that there have been more deaths of LGPS pensioners than expected since 2016. We would therefore anticipate there to be fewer pensions in payment in 2019 than expected. This will, for a typical scheme, lead to a reduction in liabilities at the 2019 valuation (although the actual effect will vary across different funds and employers depending on the actual experience of their members).

The increase in deaths at the population level over recent years has been attributed to a range of different factors[2], including limited scope for future improvements in cardio-vascular mortality (after decades of falling rates), increases in deaths attributable to dementia and an increasingly frail elderly population. Some commentators have recently suggested that changes in the amount and availability of health and social care, linked to austerity policies, may also be a contributing factor.

Baseline longevity

The effect of recent experience will be reflected and allowed for (in part) in the 2019 valuation baseline longevity assumption. As the Fund is a member of Club Vita it benefits from a greater understanding of longevity risk, we recommend that the baseline longevity assumptions to adopt at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile (based on age, sex, affluence, retirement health and occupation) of the Fund. These curves are based on data the Fund provides us for the purposes of the valuation. This method is more accurate than trying to fit standard mortality tables to reflect the Fund's membership.

Further details regarding how these longevity assumptions are derived can be found in the report entitled "Tailoring Vita Curves to the Lincolnshire Pension Fund", which was issued to the Administering Authority.

Evidence has shown over the years that this assumption closely reflects the actual experience of LGPS funds, meaning that there are rarely any significant surprises in terms of the financial effect of baseline mortality. This is the same approach that was adopted at the 2016 valuation.

Future improvements

As mentioned above, recent evidence suggests that death rates were higher than expected based on the trend over the previous decade. This may strengthen the view that we are seeing the beginnings of a new trend. However it is not totally conclusive.

[1] LGPS Longevity Index has been developed as a joint venture between Hymans Robertson, Club Vita and the Local Government Association

[2] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786515/Recent_trends_in_mortality_in_England.pdf

The headlines about the slowdown in life expectancy improvements have been based on national population data. Therefore, we need to understand the extent to which this apparent change in trend in general population data is relevant to LGPS funds' membership. Recent analysis from Club Vita has shown that in fact not all pensioners have seen a similar downturn in life expectancy improvements over recent years. In particular, the more affluent members (those with high pensions or living in affluent areas) appear to have seen less of a downturn in the rate of increase of life expectancy. Given such members will typically represent a reasonable proportion of the Fund's liabilities, we would be cautious about assuming future improvements will follow the same trajectory as the general population.

The 2016 assumption for future longevity improvements was based on a 'wait and see' approach. This was on the basis that:

- The longevity risk faced by funds is mitigated in part by the link between Normal Retirement Age and State Pension Age for future service benefits (which in turn, is expected to increase in the future in line with increases in life expectancy);
- The LGPS 'employer cost cap' includes longevity as a cost control mechanism, thus mitigating the impact of future longevity improvements; and
- Local authority funds have a long-term time horizon over which to fund improvements in longevity if they emerge.

As such we based our 2016 assumption on the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, which is published by the Actuarial Profession, and allowed only for data up to 2014, rather than the heavier experience of more recent years, when setting initial rates of improvement. We assumed that these improvements would immediately start to tail off to a long-term rate of 1.25% p.a.

Our recommended assumption for the 2019 valuation will be based on the latest available version of the CMI longevity improvements model. This version includes a number of structural changes compared to previous versions of the model – in part due to concerns around sensitivity to recent experience. This model is built using England & Wales population data to estimate current rates of improvement. As such, simply moving to this version of the CMI model would reflect recent heavy experience in the short term.

Given that there remains some uncertainty around whether there is sufficient evidence to conclude that recent heavier than expected mortality experience is the start of a new trend, and the extent to which any such change in trend at the general population level would be relevant for the specific membership of the Fund, we recommend adjusting the model to reduce the impact of the last few years of observed heavy mortality experience. This is in line with the 'wait and see' approach adopted at the 2016 valuation and reflects the very long-term nature of the Fund.

Our view of the longer term is unchanged; therefore, we recommend retaining the assumption for the long-term rate of improvements of 1.25% p.a. (equivalent to around an extra 1 month of life expectancy per year). In addition, we recommend that this long term rate will tail off above age 90, down to 0% at age 120, in line with the assumption at the previous valuation.

Overall, we would describe the recommended assumptions as reflecting recent longevity experience whilst retaining a 'wait and see' approach on the future (as we continue to monitor how longevity experience for LGPS members evolves over time) in order to avoid understating the likely rates of improvement.

Recommended assumption

Baseline: bespoke VitaCurves set at individual member level

Future improvements: latest version of the CMI model, adjusted to dampen the impact of recent heavier than expected mortality, long term improvement rate of 1.25% p.a.

Retirement demographics

Assumptions such as the rate at which members are assumed to leave local government employment with a deferred pension and the assumed incidence of ill-health early retirements affect the assessed cost of benefits accrued to date ("past service liabilities") and the cost of benefits accrued in future ("future service rate").

The starting point for our proposed 2019 valuation assumptions was to analyse past experience over the period 1 April 2013 to 31 March 2016 for all the LGPS funds that Hymans Robertson advises (40 funds in England & Wales). We use such a large data set to give us a big enough sample size for our analysis to be statistically credible. Some of the experience we analyse is rare, therefore we need a sufficiently large number of events to enable credible analysis.

Withdrawals (excluding ill health)

The rate of withdrawal only affects final salary liabilities, as CARE benefits are revalued in the same way for active and deferred members (both in line with CPI). Based on our analysis of withdrawal experience from 2013 to 2016 at a national level we have made small increases to the likelihood of withdrawals at each age, so our assumption better reflects recent experience.

Ill health early retirements

The national analysis carried out for the 2019 valuation suggests that the incidence of ill-health retirements is lower than expected at 2016. Therefore, we have lowered the national assumption for the 2019 valuation which will result in slightly lower contribution rates.

Promotional salary scale

As mentioned earlier, our assumption for pay growth has historically been split into general inflationary pay increases and promotional pay growth. At the 2016 valuation we used the same promotional pay scale for all members i.e. there is no split between men/women, full-time/part-time employees and officers/manual workers. The national analysis carried out for the 2019 valuation does not suggest that any change is required to the salary scale used for the 2016 valuation.

Death in service

The incidence of death in service is very low. Our analysis at national level for the period 2013 to 2016 was very similar to the 2016 valuation assumption. Therefore, we have not made any change from the assumption used for the previous valuation.

50:50 take-up option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98). This option affects future service only (past service is protected) and the employer's cost will fall as a result of members choosing this option. This benefit is known as the *50:50 benefit*.

At the 2016 valuation we assumed that 2% of members (uniformly distributed across the age, service and salary range) would choose to take up the 50:50 option. This was agreed by considering the actual Fund take-up at 2016.

As far as we are aware, and based on our analysis, there has not been any noticeable uptake in the 50:50 option nationwide. It is not still not clear whether take-up will remain low or increase in future due to the impact of more awareness campaigns and lower tax allowances. This assumption will be reviewed again once the final membership data is received.

Other demographic assumptions

In light of our analysis, at the 2019 valuation we propose no change to assumptions (compared to 2016) regarding:

- Allowance for dependant's benefits
- Recommended cash commutation assumption of 50% of HMRC limits for service to 1 April 2008 and 75% of HMRC limits for service from 1 April 2008 (if the Fund wishes, we can carry out analyse to examine commutation take-up and amend if appropriate).

At the 2016 valuation, our retirement age assumption was set to mirror the assumption used by the Government Actuary's Department for the purpose of costing the LGPS 2014 scheme. GAD have recently updated this assumption in light of emerging experience based on analysis of data at national level. We will update our assumption in line with these changes (this will have minimal impact on the past service liabilities or future cost of benefits).

Reliances and limitations

This information is addressed to Lincolnshire County Council as Administering Authority to the Lincolnshire Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing the proposed assumptions for the 2019 formal valuation. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

TAS100; and

TAS300.

Peter Summers FFA

Fund Actuary

27 June 2019

For and on behalf of Hymans Robertson LLP