



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

Report to:	Pensions Committee
Date:	11 January 2024
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 September 2023 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard and Code of Practice
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Budget and Workplan Update
7. TPR Annual Survey Results 2022/23
8. Independent Advisor
9. Conference and Training Attendance

Recommendation(s):

That the Committee:

- 1) consider and discuss the report and agree whether any action or additional information is required; and
- 2) discuss their requirements for independent advice, and whether this should be postponed until the outcome of the Good Governance Review is published and guidance from that can be considered.

Background

1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund's invested assets increased by £55.0m (+1.8%) to £3,121.0m on 30 September 2023.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 September. At an asset class level, property is below its tolerance level. Funds being committed to the Border to Coast Global Property Fund will help rebalance this underweight, but this will take a period of time. Cash is overweight, as this is being used to fund expected drawdowns in property and infrastructure investments.

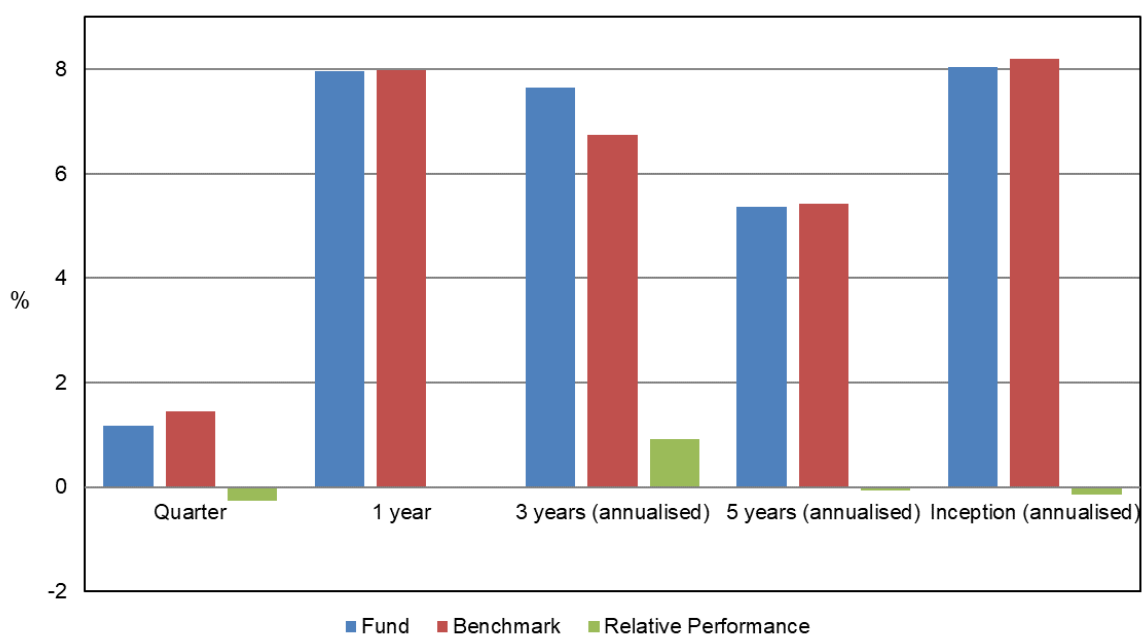
1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q3 2023 £m	Q2 2023 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	442.8	436.2	14.3	15.0	(0.7)
Global Equities	1,237.6	1,244.8	39.7	40.0	(0.3)
Alternatives	780.0	738.6	25.2	22.5	2.7
Property	233.9	232.5	7.5	10.0	(2.5)
Fixed Interest	356.8	334.2	11.5	11.5	0.0
Cash	56.1	79.8	1.8	1.0	0.8
Total *	3,121.0	3,066.0	100.0	100.0	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

1.6 The graph and table below show 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	1.18	1.45	(0.27)
1 year	7.96	7.98	(0.02)
3 years*	7.65	6.74	0.91
5 years*	5.36	5.42	(0.06)
Inception**	8.04	8.19	(0.15)

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

1.7 Over the quarter, the Fund produced a positive return of 1.18% (as measured by Northern Trust) but underperformed the benchmark by (0.27%). The Fund was also slightly behind the benchmark over the one year, 5 years and since inception periods, but was ahead on the three years period. Details of individual managers' performance are covered at the Investment and Responsible Investment meetings of the Pensions Committee.

1.8 Appendix B shows the market returns over the three and twelve months to 30 September 2023.

Funding Level

1.9 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 2022, to the current quarter end, 30 September 2023. The accuracy of this type of funding update will 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 higher funding level.

1.10 The latest funding update from Barnett Waddingham (BW) is attached at appendix C. This report details:

- the roll forward method used;
- the assumptions, both now and at the last valuation; and
- the results.

1.11 Further to the change detailed in the September Fund Update report to this Committee, another change has been made to the Actuary's funding model. This change is to allow for the impact of known inflation on a monthly basis (up to the valuation date), according to the latest ONS CPI inflation figures. BW's long-term CPI inflation assumption would therefore be a combination of known monthly CPI inflation up to the date it is available, and assumed CPI inflation thereafter.

1.12 This change has been implemented as the default approach following experiences with auditors this year, both for the accounting work to incorporate known inflation up to the accounting date, and following the same approach for funding work. Given that it is known what actual inflation has been since the previous September to a

recent date, allowing for the latest available information up to the effective date of the work will lead to a more accurate valuation of the liabilities. The impact of this change can be seen in the BW Funding Update report attached, at appendix 2, where the observed inflation has reduced the funding level by £285m.

- 1.13 Over the period 31 March 2022 to 31 March 2023 the funding level, in real money, has fallen from an £18m surplus to a £201m deficit, reflecting the outcome of the changed approach. Since the valuation, contributions and transfers have been slightly greater than the accrual of new benefits, but investment returns and inflation impacts have been negative. The funding level has moved from 101% to 94%.

2. TPR Checklist Dashboard and Code of Practice

- 2.1 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 D. 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.
- 2.2 There have been no changes since the last quarter's report. 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 – As set out in the Fund's Training policy, it is a mandatory requirement that all PC members complete this in addition to the PB members and provide copies of the completion certificate to the Head of Pensions. However, there has been some turnover of members on the Committee who all have a period of six months to complete their training. Two members were due to have completed it before December but certificates have yet to be received and there are two new members who have until May 2024.

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. 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 – Training is a standing agenda item and opportunities are shared with the Pension Board as they arise. Pension Board members all complete a training log annually to record all training undertaken.

3. Breaches Reporting - update

3.1 The Fund and those charged with its governance have a requirement to log and, where necessary, report breaches to the Pensions Regulator. The Breaches Register attached at appendix E shows those breaches logged over the last twelve months. Since the last quarter end, one breach has been added, detailed below:

- **Late payment of contributions** – there have been some late employers over the quarter, but nothing of significance that requires reporting to TPR. A separate paper is at agenda item 8 of this meeting covering this and other employer monitoring.

4. Risk Register Update

4.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee each October to be approved. There has been one risk added to the register, at I6, relating to the outcome of the Governments asset pooling consultation.

Risk Description	Current Risk Score	Target Risk Score	Assurance Status	Assurance Direction of Travel	Actions	Notes / Comments
<p>Governments direction of investment pooling creates inefficiencies due to:</p> <ul style="list-style-type: none"> imposed timescale of pooling assets forced pool or fund mergers requirements to invest in specific asset classes or to meet specific government policies distraction from the funds objectives 			Substantial		<p>Existing</p> <ul style="list-style-type: none"> fiduciary duty and role of Committee regular meeting across all levels with Border to Coast and Partner Funds <p>New & Developing</p> <ul style="list-style-type: none"> plan of how to manage potential new funds to Border to Coast, merger proposals etc. clear transition plan with appropriate timescales and justifications for assets not pooled 	<p>LPF has already pooled the majority of its listed assets, with work underway for the options for the remaining listed assets, property transition planned and discussions with Border to Coast on private market options. Meetings have already been held to discuss the outcome of the consultation and work is underway to ensure that Border to Coast and Partner Funds are prepared for all eventualities.</p>

4.2 More detail on the consultation outcome is at item 10 on this agenda.

5. Asset Pooling Update

Sub Funds

- 5.1 Work has continued with the development of the real estate funds, with the next transition for Lincolnshire expected to be into the Core Global Property fund, which launched in December. This transition will be managed over a period of time, as cash is invested and redemptions are received from existing overseas property funds.
- 5.2 Since the last Committee meeting, Border to Coast has held workshops and meetings with officers and advisors covering quarterly external and internal funds, property, UK opportunities, responsible investment and the pooling consultation.

Joint Committee Meetings

- 5.3 The last Joint Committee was held on Tuesday 28 November 2023 and papers were shared with the Committee. The agenda items were:
- Joint Committee Budget
 - Joint Committee Effectiveness Review
 - Responsible Investment Policies Annual Review 2023
 - Responsible Investment Update
 - Summary of Investment Performance and Market Returns
 - Development of Investment Capabilities
 - Alternatives 2024
 - CEO Report
 - Investment Review Quarter Ended 30 September 2023
- 5.4 The next meeting of the Joint Committee is being held on 26 March and papers will be shared with this Committee once they become available. Any questions or

comments on the papers should be directed to Cllr Strengiel, Chairman of the Pensions Committee, who can raise them at the meeting.

Shareholder Matters

- 5.5 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 recently updated following review and approved by Full Council in February 2023.
- 5.6 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.
- 5.7 There were no shareholder resolutions since the last Committee meeting.

6 Budget and Workplan Update

- 6.1 The Pension Fund budget and business plan were brought to the Committee at the March 2023 meeting. The paragraphs below update the Committee on the budget position to 30 September, and to highlight any areas on the key tasks from the business plan for 2023/24 where progress is behind expectations.
- 6.2 The budget for operating the Lincolnshire Pension Fund for 2023/24 plus actual costs incurred up to the end of September 2023 are set out in the table below, with additional narrative at 6.3:

	Budget 2023/24 £'000	Profiled Budget Q2 £'000	Actuals Q2 £'000	Variance Q2 £'000
<u>Administration Costs</u>				
- Charge from Shared Services Administrator	1,430	1,430	1,560	130
- Other (*1)	1	0.50	-1	-2
<u>Investment Management Expenses</u>				
- Management Fees	10,200	1,000	187	-813
- Performance Related Fees	1,500	0	0	0
- Other Fees (*2)	840	60	-2	-62
<u>Oversight and Governance Costs</u>				
- Contracted Services	349	50	100	50
- Recharge of Actuarial Services	-102	-15	-35	-20
- Recharge from Administering Authority	295	130	139	9
- Border to Coast Governance Costs	320	315	0	-315
- Other Costs (*3)	21	8	14	6
	14,854	2,979	1,962	-1,017

6.3 **Administration Costs:** The annual administration charge from West Pension Fund has been received and paid. The actual cost is higher than the budget, as the number of members was higher than originally forecast.

Investment Management Costs: Most of the Fund's investments are made via pooled vehicles. The costs for these investments are mainly accounted for annually in March from the sector wide Cost Transparency Initiative, where investment managers provide information on indirect costs deducted from investments at source. For directly charged fees billing from managers is in arrears. Costs for the first six months of the year were not billed by the end of quarter two.

Costs incurred on management fees reflect the size of the portfolio and investment returns. Costs in this area are very difficult to predict, particularly when markets and volatile.

Oversight and Governance Costs: Contracted services, the recharge of actuarial services and the recharge from the admin authority are spread throughout the financial year. It is expected that these budgets will be fully utilised by year end. The Border to Coast governance charge was received and paid at the beginning of quarter three.

Pension Fund Business Plan Update

6.4 The key tasks set out in the Business Plan are set out below, with narrative to explain whether it is on track or otherwise:

Subject	2023/24 Actions	Progress
Pensions Committee and Board meetings	Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and, or Board. Induction and training for any new Committee or Board members to be arranged at the earliest opportunity.	On-going – all meetings held as expected. Five new Committee members and one Board over the period. Four mandatory TPR training outstanding.
Asset Pooling with Border to Coast	Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. Expected investment into Overseas Property sub-fund (Quarter 2 or 3) and further development of the UK property.	On-going. Overseas Property launched December. Government consultation on asset pooling has created new challenges.
Administration Service (including employer data quality)	Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information. Working with WYPF to improve and clearly document the governance structure of the shared service. Undertake the required actions to meet the recommendation taken to the March Pensions Committee on the administration provider.	On-going – generally a good administration service provided. Work progressing on the reporting. Update of the shared service agreement is underway.
Annual Report and Accounting	A detailed project plan has been put in place, built on experience from previous years and updated for new requirements.	Delayed receipt of opinion for 21/22 due to issues with the Council's

	<p>On-going engagement with the external auditors to ensure all requirements can be met in a timely manner.</p>	<p>accounts, finally received in November 2023.</p> <p>22/23 Pension Fund accounts still awaiting an opinion, alongside the Council's accounts, with an expected unqualified opinion to be received.</p> <p>Work underway with the new external auditor for 23/24 accounts (KPMG) to minimise the issues experienced with the current auditor (Mazars).</p>
Responsible Investment (RI)	<p>Continued information and training for the Committee to understand RI. Working with external managers and Border to Coast to ensure that it is embedded across all investment decisions.</p> <p>Ensure the investment strategy reflects the RI beliefs. Consider and develop climate change policy and any net zero target.</p> <p>Respond to the requirements from the Climate Reporting consultation once the guidelines are published.</p>	<p>On-going – improved stewardship reporting, close working with Border to Coast and Stewardship Code Statement submitted for 22/23 and awaiting FRC approval.</p> <p>To begin developing the climate change policy and net zero discussions in 2024.</p> <p>Still awaiting DLUHC's response from the Climate Reporting consultation.</p>
Work by the Scheme Advisory Board (SAB)	<p>Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality.</p> <p>Undertake a high-level governance review in Summer 2022 to identify potential gaps against the Good Governance proposed recommendations.</p>	<p>Progress delayed due to other priorities in SAB.</p> <p>Still awaiting Good Governance guidance from DLUHC.</p> <p>High level review undertaken, awaiting final guidance to do full review and take recommendations to Committee.</p>

Employer Accounting	Work with employers, the Actuary and WYPF to ensure employers understand their choices, accurate and timely data is sent to the Actuary and accounting reports are received and understood by employers.	On-going – all reports issued as required to date.
Staffing and Structure Review	To successfully recruit to the two new career graded Principal Investment, Accounting and Governance Officer posts and integrate them into the team.	Recruitment partially successful. Appointed to one post. To wait a further 12-18 months to go out to advert again for the second post.
Independent Advisor Review	The Committee will review their requirements for independent advice, having considered the Good Governance Review, and appropriate action will be taken to meet those needs.	Recommendation to discuss requirements once the Good Governance Review outcome has been published.
Custodian Tender	Officers will undertake a call-off from the National Framework for Custody Services and recommend an appointment at the December Pensions Committee.	12 months extension granted with current custodian and search postponed to 2024 due to resource issues.

6.5 As can be seen from the table above, work plans have been impacted by delays from DLUHC, external audit issues and resourcing in the team. It is expected that the external audit work going forwards will improve and the resourcing issues are being addressed.

7 TPR Annual Survey Results 2022/23

7.1 The Fund participates in the annual TPR survey on administration and governance across the public service pension schemes. The primary objective of the survey was to track governance and administration practices among public service pension schemes, including the approach to risk management, annual benefit statements and breaches of the law. As in the previous year's survey, the questionnaire also covered schemes' awareness and perceptions of the pensions dashboards, and the actions taken by Local Government schemes in relation to climate-related risks and opportunities. In addition, the 2022-23 survey also included new questions on data

management plans, investment in data management and technology, TPR codes of practice and guidance, TPR's new-look enforcement policy and pension board diversity.

7.2 The survey was conducted online between January and March 2023, and for Lincolnshire responses were completed by the Chair of the Local Pension Board, with input from WYPF where required. It was completed by representatives from 191 of the 204 public service pension schemes (94%), and these schemes accounted for 99% of all memberships. The Executive Summary of the survey results is attached at appendix F. Key highlights relating to the LGPS were:

- the top risk for LGPS funds is cyber risk (51%); up from 23% in 2020/21 and much higher than other PSPSs (second highest is the Police schemes at 22%),
- 60% of LGPS funds indicate that recruitment, training and retention of staff knowledge is a barrier to improving governance and administration (up from 29% in 2021). This is higher than for all other PSPSs (second highest was Police schemes at 42%). It is also the second highest governance and administration risk for LGPS funds (49% in 2023; up from 22% in 2021).
- the challenges of the LGPS's multi-employer structure are evident from the findings, with only 8% of LGPS funds having monthly data submitted by all employers on time and accurately (these figures are much higher for Police schemes (71%) and Firefighters schemes (67%)). 36% of LGPS funds suggest employer compliance is a barrier to improving governance and administration.
- LGPS funds focus on improving service to members, with LGPS funds most likely (72%) to have increased investment in administration technology/automation over the last two years. In addition, 95% of LGPS funds said they did this to deliver improved service to members.

8 Independent Advisor

8.1 The Committee's Independent Investment Adviser, Peter Jones, retired from the Fund in March 2023. Since that date, additional advice and information has been provided by the Fund's Investment Consultant, Hymans Robertson, who attend all investment and stewardship Committee meetings.

8.2 The Fund is awaiting the publication of the Good Governance Guidance which will set out what funds should be doing to ensure they meet the requirements set by DLUHC and the Scheme Advisory Board in managing the scheme. This will provide direction on the types of advice a fund should consider, amongst other areas.

8.3 The Committee are asked to discuss if they want additional independent advice, what type of advice they require, whether they wish to begin the appointment process now

or whether they would rather await the guidance from DLUHC to fully assess and future-proof their requirements.

9 Conference and Training Attendance

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

9.2 There have been three conferences since the last meeting:

- The Room 151 LGPS Investment Forum was held on 8 and covered a wide range of investment-related issues for Local Government Pension Scheme funds, including asset allocation, investing in sustainable infrastructure and inflation & interest rates. Conference notes produced by Hymans Robertson are attached at appendix G.
- The LGPS Pensions Managers' Conference was held in late November and was an opportunity to hear from the new Pensions Ombudsman as well as hearing from officers on how they are coping with challenges such as recruitment and retention, communication and managing expanding workloads. Conference notes produced by Hymans Robertson are attached at appendix H.
- The LAPFF Annual Conference was held in Bournemouth in December and attended by the Chairman and the Head of Pensions. This covered subjects such as managing climate related risk, proxy voting, modern day slavery and executive pay.

9.3 The Committee and officers are requested to share information on relevant events they have participated in since the last Committee meeting.

9.4 Upcoming training opportunities are shared in the weekly and monthly email. Any member wishing to attend or require more information should contact Jon Haw (Jonathan.haw@lincolnshire.gov.uk):

Conclusion

10. The Fund is 94% funded (on a roll-forward basis, following the adjustments mentioned to the Barnet Waddingham funding model) as at the end of September, with an overall value of invested assets of £3,121.0m.

11. There are a number of members who have still to complete TPR's toolkit, as part of the mandatory training agreed by this Committee. Certificates of completion should be forwarded to the Head of Pensions as soon as possible.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Market Returns
Appendix C	BW Funding Update
Appendix D	TPR Checklist Dashboard
Appendix E	Breaches Register
Appendix F	TPR Annual Survey Results
Appendix G	Conference Highlights – Room 151 LGPS Investment Forum
Appendix H	Conference Highlights – Pensions Managers Conference

Background Papers

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

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