Lincolnshire COUNTY COUNCIL
Working for a better future

LGPS LOCAL PENSION BOARD

WEDNESDAY, 18 OCTOBER 2017 at 10.00 AM

COMMITTEE ROOM TWO, COUNTY OFFICES, NEWLAND, LINCOLN LN1 1YL

MEMBERS OF THE BOARD

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

Employer Representatives (voting)**:** Councillor M A Whittington and Kirsty McGauley

Scheme Member Representatives (voting)**:** Ian Crowther and David Vickers

AGENDA

Item	Title	Pages
1	**Apologies for Absence**	
2	**Declarations of Members' Interests**	
3	**Minutes of the previous meeting of the LGPS Local Pension Board held on 25 July 2017**	3 - 10
4	**Pension Fund External Audit Completion Report** *(To receive a report by Jo Ray, Pension Fund Manager, and a presentation from Mike Norman, KPMG, on the Audit Completion Report to the Board by KPMG, the Council's external auditors)*	11 - 20
5	**Pensions Administration Report** *(To receive a report by Yunus Gajra, Business Development Manager for West Yorkshire Pension Fund, which provides a quarterly update on current administration issues)*	21 - 42

6	**Pensions Administration Data Report** *(To receive a report and presentation by Yunus Gajra, Business Development Manager from West Yorkshire Pension Fund, on the data cleansing activity undertaken as the Fund's administrator and the common data requirements of the Pensions Regulator)*	43 - 46
7	**Pension Fund Update Report** *(To receive a report by Jo Ray, Pension Fund Manager, which provides an update on Pension Fund matters including any current issues)*	47 - 62
8	**Pension Fund Annual Report and Accounts** *(To receive a report by Jo Ray, Pension Fund Manager, which provides the Annual Report and Accounts for the Pension Fund, for consideration by the Board)*	63 - 214
9	**Training Needs** *(This is a standard agenda item which is considered at every meeting of the Board)*	Verbal Report
10	**Work Programme** *(This item provides an opportunity for the Board to agree the business for consideration at forthcoming meetings)*	Verbal Report

Published on Tuesday, 10 October 2017

Should you have any queries on the arrangements for this meeting, please contact Andrea Brown via telephone 01522 553787 or alternatively via email at andrea.brown@lincolnshire.gov.uk

Lincolnshire COUNTY COUNCIL
Working for a better future

LGPS LOCAL PENSION BOARD
25 JULY 2017

PRESENT:

Independent Chair: Roger Buttery

Employer Representatives: Councillor M A Whittington

Scheme Member Representatives: Ian Crowther and David Vickers

No Councillors attended the meeting as observers

Officers in attendance:-

Andrea Brown (Democratic Services Officer), Omaira Deen (West Yorkshire Pension Fund), Jo Ray (Pension Fund Manager) and Tracy Weaver (West Yorkshire Pension Fund)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Kirsty McGauley (Employer Representative).

2 DECLARATIONS OF MEMBERS' INTERESTS

Mr D Vickers highlighted a potential interest due to an ongoing issue between Mouchel Pension Scheme, of which he is a Trustee, and the Lincolnshire Pension Fund which was administered by West Yorkshire Pension Fund. Although not relevant to any item on the agenda, the Board was asked to note the potential conflict of interest during consideration of future items.

Councillor M A Whittington declared that his wife was in receipt of a pension from the Fund.

There were no other declarations of interest at this point of the proceedings.

3 MINUTES OF THE PREVIOUS MEETING OF THE LGPS LOCAL PENSIONS BOARD HELD ON 15 MARCH 2017

Jo Ray, Pension Fund Manager, requested an amendment to Minute Number 34, bullet point six. Where stated "first employer event" this should read "first scheme member event" The date of the event, noted as 23 March 2017, was also incorrect and was confirmed as having taken place on 23 November 2016.

RESOLVED

That the minutes of the previous meeting of the LGPS Local Pension Board, with the amendments noted above, be approved as a correct record and signed by the Chairman.

It was reported that The Pensions Regulator Toolkit had been completed by three members of the Board and it was requested that the remaining two members, Mr D Vickers and Councillor M A Whittington, complete this prior to the next meeting in October 2017.

Minute Number 36 – confirmation was given that an asset pooling update would be provided within the training scheduled for 21 September 2017. Additionally, an email had been issued to the Board which included further information regarding the role of the Joint Committee. Ian Crowther raised the issue of scheme member representation, and asked whether this would be revisited by the Joint Committee in the future. The Pension Fund Manager confirmed that the Joint Committee documentation allowed membership of the body to be reconsidered at any point.

Minute Number 39 – it was clarified that the total figure for the issue of annual benefit statements mentioned related to the 2016 exercise. The 2017 exercise was well underway and the expectation was that 100% of Annual Benefit Statements would be issued within the Pension Regulator's deadline.

4 PENSIONS ADMINISTRATION REPORT

The Chair of the Board welcomed Tracy Weaver and Omaira Deen of the West Yorkshire Pension Fund (WYPF) to the meeting and invited them to give a presentation on the Internal Dispute Resolution Procedure (IDRP).

The presentation covered the following areas of the procedure:-

- Regulatory Requirements;
- LGPS IDRP Two-stage process;
- WYPF Process;
- Pension Decision;
- Stage 1 Adjudicator's Responsibilities;
- Stage 2;
- Adjudicator's Role;
- The Pensions Advisory Service;
- The Pensions Ombudsman; and
- Examples of Stage 1 Appeals.

The difference between disputes and complaints was explained to the Board. Complaints dealt with general maladministration of pensions and disputes referred to a potential inappropriate decision made by an employer which had been challenged by the scheme member. It was clarified that an employee scheme member could not instigate an IDRP until a pension offer had been accepted, even if they disagreed with the initial offer.

The adjudicator did not give a decision but reviewed the processes and considerations made by the employer in making that decision. It was clarified that in the case of an IDRP concerning an ill health retirement decision, any medical information considered must be dated before the date of the initial decision even if it was received after the decision had been made. This information was to be authenticated by an independent medical practitioner to enable its submission.

It was necessary for each employer to have all discretionary policies in place and up-to-date in line with recent regulations. This would avoid any potential challenge by the Ombudsman.

In relation to Death Grant payment, scheme members were required to complete an expression of wish form to set out where they should be paid, however in the event of any challenge the decision of who these could be paid to would be that of the Pension Fund Manager with input by legal colleagues and the Executive Director for Finance and Public Protection.

The Chair thanked Tracy Weaver and Omaira Deen for their presentation and invited them to a future meeting of the Board.

At 3.10pm, the representatives of West Yorkshire Pension Fund left the meeting and did not return.

Consideration was then given to a report by Jo Ray (Pension Fund Manager) which gave the Board a quarterly update by West Yorkshire Pension Fund on current administration issues.

The Pension Fund Manager took the Board through the report and highlighted the following areas to note:-

- An 'undecided member' was defined as a member who had left an employer but had not yet decided if they wanted to apply for a refund or to move the pension contributions into a 'deferred state'. Previously, members had three months to make a decision but this had been extended to two years. Where a member did not advise within that period the pension would move into a 'frozen state';
- One employer had left the fund and, as required within the regulations, paid a cessation fee into the fund;
- The Board was advised that of the 16,671 pensioner members issued with Life Certificates, 12 pensions had been suspended due to the non-return of the Life Certificate;
- Since the report was published, it was reported that 61% of Annual Benefit Statements (ABS) had now been produced and printed and the intention was to reach 100% by the end of August 2017;
- The Board was referred to the 2016 LGPS Annual Report which could be found at www.lgpsboard.org under "Scheme Annual Report 2016";
- The Administrator of the pensions dashboard prototype was confirmed as the Association of British Insurers (ABI). Further information on the project, which

included a demonstration of the prototype, could be found at https://pensionsdashboard.project.uk/ ; and

- Following the closure of the year end, members were advised that the shared service pension admin cost per member had been confirmed as £13.62.

Members were invited to as questions, during which the following points were noted:-

- When asked, the Pension Fund Manager confirmed that there were no concerns with the administrator of the fund but that improvements could be made with the employers in the fund, to ensure that the information required was not only received by the relevant deadline but that it was accurate;
- WYPF were responding to tenders for new business, which may give some cause for concern to the Lincolnshire Pension Fund if not properly resourced. WYPF would advise the Pension Fund Manager, through the Collaboration Board, before submitting bids of this type;
- WYPF was undertaking employer audits to improve the data quality held within the administration system and it was acknowledged that Lincolnshire County Council, as the largest employer, still had some way to go to ensuring its data was fully up-to-date. The pensions team was improving its contribution monitoring process to include quality of data, rather than timeliness of data and contributions.

RESOLVED

That the report be noted

5 PENSION FUND UPDATE REPORT

Consideration was given to a report from Jo Ray (Pension Fund Manager) which provided the Board with an update on Pension Fund matters including all current issues.

This type of report was received by the Pensions Committee on a quarterly basis and it was suggested that this format would also be beneficial to the Board in order to keep them up-to-date with the current issues of the Pension Fund.

It was reported that Nick Rouse (Investment Manager) had left the employment of Lincolnshire County Council and that the Pension Fund Manager was also undertaking this role until a replacement was appointed. This had provided an opportunity to rewrite the Job Description to give the role the wider remit of an Accounting, Investment and Governance Manager which would also include overall responsibility for the LGPS Pension Board. This would need to go through the Job Evaluation process before an advert could be placed which would delay the appointment.

As a result of this vacancy, the Board was advised that the Annual Report had not been completed although the annual accounts had now been closed. It was, however, noted that the Annual Report must approved by the Pensions Committee in September and would be presented to the Board at its meeting in October 2017.

As per the Terms of Reference, the Executive Director of Finance and Public Protection had granted the reappointment of Councillor M A Whittington to the Board for a further four years.

In relation to the appointment of the Scheme Member Representative, Mr D Vickers, the Executive Director of Finance and Public Protection had agreed an extension to this appointment with the approval of the Board. This was unanimously agreed by those present.

The Board was asked to note that Councillor E W Strengiel, Chairman of the Pensions Committee, would represent the Committee on the Local Authority Pension Fund Forum (LAPFF). Councillor Strengiel was also a member of the Joint Committee of the Border to Coast Pensions Partnership (BCPP), therefore it was felt this role would provide consistency in the provision of feedback to both the Pensions Committee and LGPS Pension Board.

The highlights of the latest LAPFF engagement report, a copy of which could be found on the website at www.lapfforum.org, were presented to the Board:-

- A response to the Department for Business, Energy & Industrial Strategy's Green paper on Corporate Governance Reform had been submitted by the LAPFF which focused on ensuring that executive pay was properly aligned to long-term performance in addition to giving greater voice to employees and consumers in the boardroom;
- An Executive member of the LAPFF had attended the EasyJet Annual General Meeting and spoke to the Chairman and Senior Independent Director;
- The Forum supported the recommendations of the Financial Stability Board's Taskforce on Climate Disclosure;
- A member of the LAPFF Executive, and Chairman of Rio Tinto, joined other investors in a small coalition which had met with the company since 2013 in its endeavours to improve its response to the anticipated low-carbon transition;
- LAPFF also responded to the government-backed Parker Review on Ethnic Diversity of UK Boards consultation report 'Beyond One by 21'. The response of the Forum set out its position on diversity and recommended that the final report may be strengthened by reiterating the role that investors should play; and
- The Forum met with HSBC to discuss the company's sparse human capital management reporting and financial regulation, including US reports which suggested that financial regulations implemented after the financial crisis were likely to be rolled back.

The Pension Fund Manager continued by referring to the TPR Checklist Dashboard and, in particular, drew the Board's attention to B12 – Knowledge and Understanding. As previously mentioned, all but two of the Board had completed the Pension Regulators Toolkit which was the reason this indicator remained 'amber'. The Board also noted that members of the Pensions Committee were also required to complete this toolkit.

In relation to K7 – Scheme Advisory Board Guidance – the Board confirmed that they preferred a collective approach to Board training assessments rather than individual training plans.

Members were invited to ask questions, during which the following points were noted:-

- Despite the requirement for the Border to Coast Pensions Partnership Ltd to be created and operational by the end of April 2018, it was confirmed that a delayed response from Government meant this would now be June 2018;
- It was explained that West Yorkshire Pension Fund and Manchester were pooling the management of their assets but not pooling their actual assets;
- Should any employer within the Pension Fund continually make late payments, even where maximum penalties had been issued, they would reported to The Pension Regulator; and
- The Board was assured that the recent data breach was due to human error at the outsourced printing company and affected only a small number of Annual Benefit Statements. However, this breach did highlight that there was a need to inform the Pension Fund Manager of any, and all, breaches to enable a decision to be made whether the Information Governance Officers within both LCC and WYPF needed to be aware also.

The Board were encouraged to attend the two-day training session in York on 11th and 12th September 2017 which had been arranged for members of the Pensions Committees and Pension Boards which formed part of the BCPP. Councillor M A Whittington confirmed that he would be attending both days and the Chair advised he had confirmed attendance on day two of the training. As noted within the report, members were asked to contact Jon Haw to ensure a place could be secured.

RESOLVED

1. That the extension of the term of office for the Scheme Member Representative be agreed; and
2. That the report be noted.

6 LINCOLNSHIRE PENSION FUND POLICIES REVIEW

Consideration was given to a report by Jo Ray (Pension Fund Manager) which presented the main policies of the Pension for review by the Board.

In relation to the Governance and Compliance Statement, the Board was particularly asked to note paragraph five of the report which detailed the areas where the Fund was only partially compliant. This included Principle A – Structure; Principle B – Representation; Principle E – Training/Facility Time/Expenses; and Principle H – Scope.

In reviewing the risk register, the Board raised concern about the potential resource risk and the additional pressures on the Pension Fund Manager, given the extraordinary amount of work and responsibility involved following the departure of

the Investment Manager. The Board indicated their full support to the Pension Fund Manager, where required, during the recruitment period.

RESOLVED

That the report be noted.

7 INTERNAL AUDIT OF THE PENSION FUND

The Board gave consideration to a report by Jo Ray (Pension Fund Manager) which presented information on the internal audits undertaken over recent years on the Lincolnshire Pension Fund. The report also provided information on audits of the administration service provided by West Yorkshire Pension Fund (WYPF).

The audit on the transfer of the Pensions Administration service, which was carried out in 2015, gave an "effective" assurance opinion which, by definition, gave the auditors *"a high level of confidence on service delivery arrangements, management of risks and the operation of controls and/or performance"*.

The assurance for the recent key controls audit covering the Pension Fund's investments was also given as "high" which had a similar definition to "effective".

In relation to Pensions Administration, the following areas were covered by the audits:-

- Annual Benefit Statements;
- LGPS contributions;
- Transfers In;
- Review of WYPF accounts;
- Purchase of additional pension; and
- New pensions and lump sums – death benefits.

RESOLVED

That the report be noted.

8 REVIEW AND EVALUATION OF THE PENSION BOARD

The Board gave consideration to a report by Jo Ray (Pension Fund Manager) which provided an opportunity to review and evaluate the work undertaken since its inception in July 2015.

The Chair of the Board advised that he had been keen to include this report on the agenda to gauge the opinion of Board Members about the progress of the Board to-date.

Members indicated that they were content with the work done so far and acknowledged that Boards around the country were run in different ways making it difficult to compare. A suggestion was made to have a regional/national Chairs

meeting but it was explained that the role of Chair was not mandatory and a number of other Boards had taken the decision to have a rotating Chair at each of their meetings which made this type of networking challenging.

Given the change in membership of the Pensions Committee, it was suggested to request an item on a future agenda of that Committee where the Board could present themselves and explain their role. Board Members were encouraged to attend the Pensions Committee when able and it was agreed that the Democratic Services Officer would send future Committee dates to the Board.

RESOLVED

That the report be noted.

9 TRAINING NEEDS

The Pension Fund Manager advised that the Pensions Committee scheduled for Thursday 21st September 2017 also included a training session. An invitation was extended to Board Members who were encouraged to attend and it was agreed that the Democratic Services Officer would send the appointment to Board Members.

The Chair submitted his apologies for this session due to an existing commitment.

RESOLVED

That the Pensions Committee training date be noted.

10 WORK PROGRAMME

Following discussion, the Board requested that the following items be considered at the next meeting, scheduled for Wednesday 18th October 2017:-

- Data Quality of Submissions to the Pensions Administrator - Presentation; and
- Annual Report on Accounts.

It was also requested to invite Mike Norman from KPMG to attend.

RESOLVED

That the items noted above be added to the agenda for the October meeting of the LGPS Pension Board.

The meeting closed at 4.55 pm

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection	
Report to:	**Lincolnshire Pension Board**
Date:	**18 October 2017**
Subject:	**Pension Fund External Audit Completion Report**

Summary:

This report brings the Audit Completion Report to the Board, by the external auditors for the Council, KPMG.

Recommendation(s):

That the Board note the Audit Completion Report.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2017 have been completed and were approved by the Pensions Committee on 21st September. These have now been independently audited by the Council's external auditors, KPMG. In previous years, KPMG have produced a separate ISA 260 report for the Pension Fund. This year, as last year, a joint ISA 260 has been prepared for LCC and the Pension Fund. In order to give reassurance to the Board and Committee about the quality and accuracy of the Pension Fund accounts, officers requested a Completion Report from KPMG, setting out the summary of the status of their audit, and reporting on the ISA260 requirements.

2. KPMG presented the joint ISA260 and Audit Opinions to the Council's Audit Committee on 25th September, and issued an unqualified report on the Pension Fund accounts.

3. Mike Norman, Audit Manager at KPMG, will present the report and audit findings to the Board.

4. The Audit Completion Report is shown as Appendix A. The key points to note from the external auditor are:

Planning:

- Two significant risks were identified for the 2016/17 Pension Fund accounts:
  - Significant changes in the pension liability due to the triennial LGPS valuation; and
  - The continuing weaknesses in the Agresso system controls and financial reporting arrangements.

- In addition, changes to the disclosure requirements under the 2016 CIPFA Code on Local Authority Accounting and the improving performance of the new pensions fund administrator arrangements were identified as areas of audit focus

Financial Statements Audit:

- Their audit of the Pension Fund accounts did not identify any material misstatements. There are no adjusted or unadjusted audit differences that they need to report to the Audit Committee.

- There are no matters directly arising from their audit work on the significant risks that apply to the Pension Fund that they need to report.

- KPMG expect to give an unqualified audit opinion on the Pension Fund accounts by 30 September 2017.

- The draft Pension Fund Annual Report was reviewed and it was confirmed that:
  - It complies with the requirements of the LGPS (Administration) Regulations 2008; and
  - The financial information it contains is not inconsistent with the financial information contained in the audited financial statements.
  - KPMG expect to give an unqualified opinion on the Pension Fund Annual Report at the same time as they give the audit opinion on the Fund accounts.

5. Appendix A of the report identifies the matters that the auditors are required to report under ISA260 in relation to the audit of the Pension Fund accounts. These are summarised in the table below:

ISA260 Requirement	Matters to report
Proposed audit opinion	Anticipate an unqualified opinion
Significant audit risks identified	No specific matters to report
Inherent fraud risk	No specific matters to report
Other areas of audit focus	No specific matters to report
Key judgements and accounting estimates	No specific matters to report – considered to be balanced
Materiality, uncorrected differences and material misstatements	Nothing required to report (materiality £19m, trivial threshold £0.6m)

Accounting practices and financial reporting arrangements	No specific matters to report, considered appropriate
Other matters	No specific matters to report. Good quality working papers, officers helpful and responsive. No recommendations arising
Independence and objectivity	No specific matters to report
Fees	£24,350

6. The Pension Fund Accounts have now been published, and all Fund employers have been notified. In addition, the link was 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 was included in the Autumn newsletter sent to scheme members by WYPF, as the Fund's scheme administrator.

Conclusion

7. The audit of the Pension Fund Accounts for the year ended 31st March 2017 has been completed, and an unqualified audit opinion has been issued by the Council's external auditors KPMG. The Pension Fund Annual Report and Accounts has been published, and a copy has been distributed to interested parties.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund External Audit Progress Report

Background Papers

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

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

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KPMG

External Audit: Completion Report

Lincolnshire Pension Fund

September 2017

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External Audit - Summary September 2017

This document provides the Pensions Committee with a summary of the status of the audit of the Lincolnshire Pension Fund 2016/17 accounts. The report includes the matters we are required to report under ISA260 before giving our audit opinion on the Fund's accounts.

Planning	We presented the draft 2016/17 audit plan for the external audit of Lincolnshire County Council ('the Authority') and the Lincolnshire Pension Fund to the March 2017 Audit Committee (in its role as 'Those charged with governance'). We continued to liaise with management on the significant financial and operational issues at the Council and the Fund. In our audit plan we identified two significant audit risks for the 2016/17 Pension Fund accounts: • Significant changes in the pension liability due to the triennial LGPS valuation; and • The continuing weaknesses in the Agresso system controls and financial reporting arrangements. We identified in our audit plan the additional audit procedures required relating to these risks. We also identified the changes to the disclosure requirements under the 2016 CIPFA Code on Local Authority Accounting and the improving performance of the new pensions fund administrator arrangements as areas of audit focus. We liaised with the pensions team as part of the interim and final accounts visits (carried out in March and July 2017 respectively) and agreed the working papers and other audit evidence required for our audit.
Financial statements Audit	The Authority published its draft financial statements (including the Pension Fund statements) by the 30 June 2017 deadline. Our audit work on the Pension Fund accounts is complete but subject to final review. At this stage: • Our audit of the Pension Fund accounts did not identify any material misstatements. There are no adjusted or unadjusted audit differences that we need to report to the Audit Committee. • There are no matters directly arising from our audit work on the significant risks that apply to the Pension Fund that we need to report. • We expect to give an unqualified audit opinion on the Pension Fund accounts by 30 September 2017. We have reviewed the draft Pension Fund Annual Report to confirm that: • It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and • The financial information it contains is not inconsistent with the financial information contained in the audited financial statements. We expect to give an unqualified opinion on the Pension Fund Annual Report at the same time as we give the audit opinion on the Fund accounts.
Completion	The Authority publishes a single Statement of Accounts, including the accounts of the Authority and the Pension Fund. We anticipate issuing an unqualified audit opinion on the Statement of Accounts following their approval by the Audit Committee at its 25 September 2017 meeting, and the signing of the standard Letter of Management Representations. We expect to issue the audit opinion by 30 September 2017. We have included at Appendix 2 the matters we are required to report under ISA260 in relation to the audit of the Pension Fund's 2016/17 accounts.

ISA260 Requirement	Matters to Report – 2016/17 Pension Fund accounts
Proposed Audit opinion.	We anticipate issuing an unqualified audit opinion on the Pension Fund accounts following approval of the Statement of Accounts by the Audit Committee and the signing of the standard Letter of Management Representations in September 2017.
Significant audit risks identified and work to address the risks.	There are no specific matters directly arising from our audit work on the significant risks that apply to the Pension Fund that we need to report.
Matters relating to the inherent fraud risk of revenue recognition and management override of controls.	There are no specific matters in relation to the Pension Fund audit that we need to report. We rebutted the fraud risk of revenue recognition and there are no matters arising from the procedures carried out in response to the management override risk.
Other areas of audit focus and work carried out.	There are no specific matters in relation to the Pension Fund audit that we need to report.
Key judgements and accounting estimates.	There are no specific matters to report in relation to the Pension Fund audit. We considered the key judgements and estimates to be balanced.
Materiality, uncorrected audit differences and material misstatements.	Our materiality (£19m) and 'trivial' (£0.6m) thresholds are unchanged from those reported in the Audit Plan. There are no audit differences (adjusted or unadjusted) we are required to report in relation to the Pension Fund audit.
Views on accounting practices and financial reporting arrangements.	There are no specific matters to report in relation to the Pension Fund audit that we need to report. We consider the accounting practices to be appropriate.
Other matters: — Significant difficulties encountered during the audit; — Significant matters arising from the audit that were discussed, or subject to correspondence with management — Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and — Matters specifically required by other auditing standards to be communicated to those charged with governance.	There are no specific matters to report in relation to the Pension Fund audit. The audit of the Fund was completed alongside the Authority's audit. The quality of the Fund accounts working papers was good and officers were helpful and responsive during the audit. There are no recommendations arising from our audit which specifically apply to the Fund accounts.
Independence and objectivity	There are no specific matters to report in relation to the Pension Fund audit that we need to report. We have not carried out any non-audit work in the year.
Fees	The scale fee for the audit is £24,350. We will update the Audit Committee if any additional audit fees are required this year.

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Lincolnshire COUNTY COUNCIL
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Regulatory and Other Committee

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection	
Report to:	**Lincolnshire Pension Board**
Date:	**18 October 2017**
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 Board on current administration issues.

Recommendation(s):

That the Board note the report.

Background

1.0 Performance and Benchmarking

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

1.2 The table below shows the performance against key areas of work for the period 1 June 2017 to 31 August 2017.

LPF - KPI's for the Period 1.6.17 to 31.8.17					
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	95	10	94	85	98.95
Age 55 Increase LG	1	20	1	85	100
Article 4 Payment Death LG	52	10	50	85	96.15
Article 4 Payment Own Right LG	24	10	20	85	83.33
Change of Address LG	286	5	270	85	94.41
Change of Bank Details LG	174	5	161	85	92.53
DG Nomination Form Received LG	1072	20	1065	85	99.35
DWP request for Information LG	16	10	16	85	100
Death Grant to Set Up LG	33	5	31	85	93.94
Death In Retirement LG	119	5	102	85	85.71
Death In Service LG	8	5	7	85	87.5
Death on Deferred LG	20	5	16	85	80
Deferred Benefits Into Payment Actual	206	5	169	90	82.04
Deferred Benefits Into Payment Quote	226	35	217	85	96.02
Deferred Benefits Set Up on Leaving	238	20	179	85	75.21
Divorce Quote LG	44	20	43	85	97.73
Divorce Settlement Pension Sharing order Implemented	2	80	2	100	100
General Payroll Changes LG	123	5	123	85	100
Initial Letter Death in Service LG	8	5	8	85	100
Initial letter Death in Retirement LG	119	5	113	85	94.96
Initial letter Death on Deferred LG	20	5	16	85	80
Life Certificate Received LG	326	10	306	85	93.87
Monthly Posting	1201	10	702	95	58.45
NI Modification LG	7	20	7	85	100
Pension Estimate	229	10	205	75	89.52
Refund Payment	95	10	94	95	98.95
Refund Quote	163	35	142	85	87.12
Retirement Actual	156	3	146	90	93.58
Retirement Quote	182	10	169	85	92.86

LPF - KPI's for the Period 1.6.17 to 31.8.17					
Set Up New Spouse Pension LG	54	5	48	85	88.89
Transfer In Actual	18	35	17	85	94.44
Transfer In Quote	26	35	26	85	100
Transfer Out Payment	19	35	17	85	89.47
Transfer Out Quote	122	20	110	85	90.16

Reasons for underperforming KPI's:

Transfer in quote	Delays in receiving appropriate documentation.
Deferred Benefits set up on leaving	Given low priority due to volumes. Members are however, informed in writing that they will receive details of their benefits as soon as possible.
Change to Bank Details	120 cases done outside time limit of 5 days, however they were all actioned before payroll was processed so payments were paid to the correct bank account.
Death on Deferred LG	4 cases outside KPI. 3 belong to one member, this was a complicated case where the member had multiple employments. 1 case was a lost contact case and the beneficiary took time to find.
Initial letter Death on Deferred LG	As above
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc.

2.0 Scheme Information

2.1 Membership numbers as at 18 September 2017 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	24,196	26,177	4,639	19,720	1,961
Councillors	2	39	0	42	-
Totals nos	**24,198**	**26,216**	**4,639**	**19,762**	**1,961**
Change	-685	-594	+1,376	+259	-64

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	388	1612	1603	2103	2497	3302	4245	3891	2888	1394	230	43	24196
Beneficiary Pensioner	88	37	2	1	4	18	38	81	134	228	311	1503	2445
Deferred	2	402	1460	2038	2145	3173	5244	5832	4646	1153	32	7	26134
Deferred Ex Spouse	0	0	0	0	3	1	10	14	10	1	0	0	39
Pensioner	0	0	1	1	6	18	43	113	1114	4391	5067	6502	17256
Pensioner Deferred	0	0	0	0	0	0	1	0	2	1	0	0	4
Pensioner Ex Spouse	0	0	0	0	0	0	0	0	1	10	4	4	19
Preserved Refund	39	160	106	118	159	219	291	308	238	163	113	47	1961
Undecided													4639
Councillors													83
Total													**76,776**

2.3 **Employer Activity**

Academies and Prime Account Schools

Between 1 June 2017 to 31 August 2017 one Academy but no Prime Account Schools became Scheme employers in the Fund.

WYPF are currently working on 3 schools that are in the process of converting to academies or Prime Account Schools.

Town and Parish Councils

Between 1 June 2017 to 31 August 2017 no Town and Parish Council became Scheme employers.

Admission Bodies

Between 1 June 2017 to 31 August 2017 there were no new Admission Bodies in the Fund.

WYPF are currently working on the admissions for 7 Admission Bodies (see table below).

Employers ceasing Participation

Between 1 June 2017 to 31 August 2017 one employer ceased their participation in LPF.

Number of Employers in WYPF

These changes to employers bring the total number of employers in LPF as at 31 May 2017 to 250.

Admission Bodies in progress

EMPLOYER	ISSUE	CURRENT POSITION	ACTION	NEXT ACTION REQUIRED
Future Cleaning Services	Request for admission received.	Need employee data.	Employee data received and application received.	Actuarial assessment completed. Admission agreement issued for signature. Admission still with academy trust. Last chased up 15/9/17.
Outspoken Training	Admission due from 1/9/2017.	Application received.	Data with Hymans.	LCC have draft admission agreement. They are still liaising with Outspoken on this.
Taylor Shaw (Branston Academy)	Request for admission received - covers both West Grantham and Branston Academy.	Need employee data and application form.	Employer confirmed willing to act as interim employer. Update on employee data requested.	Seeking agreement from academy trust to proceed with this.
Compass Group	Request for admission received.	CGS wish to backdate entry. We are asking academies to confirm if they are willing to act as scheme employer for the interim period.	CGS asked to provide agreement of the Academies involved. Nicholas Corney (Compass Group) has forwarded a proposed interim solution.	Seeking agreement from academy trust to proceed with this.

Aspens (Somercotes)	Request for admission for staff transferring from Somercote s Academy.	Assessment requested from Hymans.	Provisional assessment received from Hymans and forwarded to employer.	Admission in place from 1/5/17. Final member data with Hymans to confirm final employer contribution rate.
Aspens (Monks Dyke Tennyson)	Request for admission for staff transferring from Monks Dyke Academy.	Application and member data received.	Provisional assessment requested from Hymans and draft admission agreement requested.	Await admission agreement / assessment.
Caterlink	Request for admission for staff transferring Aspens. A cademy acting as interim employer.	Draft admission agreement requested.	Provisional assessment received from Hymans and forwarded to employer.	Draft admission agreement issued to West Grantham Academies. Cate rlink requested to sign agreement.

3.0 Praise and Complaints

3.1 Over the quarter April to June we received **2** online customer responses.

Over the quarter January to March **71** Lincolnshire member's sample survey letters were sent out and **12** (**16.9%)** returned:

Overall Customer Satisfaction Score;

April to June 2016	July to September 2016	October to December 2016	January to March 2017	April to June 2017
80.71%	79.55%	77.22%	87.07%	78.63%

Appendix 1 shows full responses.

3.2 Employers Survey

WYPF undertake an annual survey amongst the Employers to gauge the level of satisfaction by the service provided by WYPF and also to identify any areas for improvement.

Appendix 2 shows full responses.

4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDRP. The LGPS has a 2-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by a solicitor appointed by Lincolnshire County Council. From 1 February 2017 to 31 May 2017 seven Stage 1 appeals were received and there were a total of two Stage 2 appeals, as detailed below:

1 June 17 to 31 August 17	Number of appeals	Outcomes	Details
STAGE 1	2		
AGAINST EMPLOYER	1	Turned down	Appeal against refusal to release early payment of pension.
AGAINST LPF	1	Turned down	Actual value of benefits paid was less than shown on annual statements - qualifying service incorrectly shown.
STAGE 2	1		
AGAINST EMPLOYER	0		
AGAINST LPF	1	Turned down	Maladministration - was originally offered incorrect values of pension rights. Satisfied that matters had been addressed correctly

4.2 The Pensions Ombudsman can consider appeals and allegations of maladministration, once the two stages of the IDRP have been exhausted. From 1 June 17 to 31 August 17 there was one appeal regarding the refusal to offer transfer out benefits. The Ombudsman was satisfied that WYPF had made every effort to ensure members were aware of requirement to request a transfer out at least 12 months prior to normal retirement date.

5.0 Administration Update

5.1 Scheme Return

Public service schemes have a legal obligation to keep their registrable information up to date, and as part of this must supply the Pensions regulator with certain information via an annual scheme return. WYPF will be completing the return Pensions Regulator Scheme on behalf of LPFA when it is issued in September.

5.2 Annual Benefit Statements

Annual Benefit Statements as at 31 August 2017			
DESCRIPTION	WYPF	LPF	TOTAL
Active at 31/03/2017	89,304	21,196	110,500
In the system (how many)	89,304	21,196	110,500
In the system (percentage)	100	100	100
In the queue	2	0	2
Produced and printed (how many)	88,651	20,789	109,440
Produced and printed (percentage)	99.20	98.00	99.00

6.0 Current Issues

6.1 SABEW consultation on academies objectives

The scheme advisory board for the LGPS in England and Wales (SABEW) commenced a consultation on the development of options for academies. The consultation closes on 29 September 2017.

The proposed draft objectives that the SABEW were seeking views upon are as follows:

- Protect the benefits of scheme members through continued access to the LGPS
- Ring fence local taxpayers and other scheme employers from the liabilities of the academy trust sector
- Improve the efficiency and effectiveness of administrative practices
- Increase the accuracy and reliability of data

However, in achieving the objectives, the SABEW do not believe the changes should:

- Significantly alter cashflow at the fund level
- Significantly alter assets at the pool level

6.2 **SABEW consultation on pooling forum**

The SABEW have also commenced a consultation on the development of a member led national Cross Pool Information Forum (CPF) for the LGPS in England and Wales.

The SABEW propose that the CPF is established to receive, share and disseminate information on the pooling of LGPS assets as well as provide a platform to exchange best practice and items of cross pool interest. However, it should not have decision making powers, nor should its discussions be technical in nature. It is proposed that the CPF would consist of up to three members from each pool, nominated by the member administering authorities of each pool.

Views from LGPS pensions committee chairs are sought on the proposals and the consultation closes on 29 September 2017.

6.3 State Pension Age Review

The Government have published their state pension age (SPA) review as required by the Pensions Act 2014. In the review, the Government confirm they plan to follow the recommendation of the Cridland report that the SPA increase from 67 to 68 be brought forward to take place in stages between 2037 and 2039. Previous Government policy was that the SPA increase to 68 between 2044 and 2046. Once the legislation providing for the change goes through Parliament, the increase will change the state pension age of those born between 6 April 1970 and 5 April 1978, and therefore the LGPS normal pension age of members born between those dates.

6.4 Update on the Pensions Ombudsman Service (TPOS)

Following discussions with Government ministers, it has been agreed that TPOS will at some point in the future take over the informal dispute resolution service currently provided by the Pensions Advisory Service (TPAS).
To assist with their plans for the merger of the formal and informal resolution processes, TPOS have recently commenced a project to look into the services provided by both organisations and are seeking views from pension scheme administrators to feed into this. Specifically, TPOS are asking for views on what works well about both services (in terms of both quality and delivery), what could be improved, and what administrators believe are the risks and opportunities of merging the services.

6.5 Supreme Court case – Walker v Innospec

In July, the Supreme Court handed down a judgment which has potential implications for pension schemes who offer differing survivors' pension benefits depending on whether their relationship with the originating member was a civil partnership, same sex marriage or opposite sex marriage.

The Equality Act 2010 contains an exception which made it legal for pension schemes to discriminate in the survivor benefits it offered, saying that pension schemes did not have to provide civil partners with pension benefits relating to membership accrued prior to the introduction of civil partners in December 2005. The Supreme Court found that this exception was incompatible with EU law.

The case relates to a member (Mr Walker) whose pension scheme, making use of the exception in the Equality Act 2010, would have only provided his civil partner with a survivor's pension based on his membership from 5 December 2005 upon his death. By contrast if Mr Walker had been married

to a woman, a survivor's benefit payable based on his entire membership would have been payable on his death.

Following the judgement, we understand the Government lawyers are considering the possible impacts the ruling will have on the survivor pension rights offered by public service pension schemes.

6.6 Brewster Cases

In the Brewster judgment the Supreme Court found that the requirement of the LGPS in Northern Ireland for members to have completed a nomination form for a cohabiting partner to be entitled to payment of survivor's pension constituted unlawful discrimination and was a breach of the European Convention on Human Rights (ECHR).

The LGPS in England and Wales previously included a similar requirement, meaning that:

- where a member had active membership in the 2008 Scheme,
- that member died on or after 1 April 2008 and prior to 1 April 2014,
- at the time of their death, the member was in a relationship where their partner would have met the definition of a 'nominated cohabiting partner' under regulation 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007), but no nomination had been made, no survivor's pension would have been payable to that partner.

Whilst making clear that it is for LGPS funds in England and Wales to determine their approach in respect of claims arising from the Brewster case, the letter states that it would, in DCLG's view, be 'reasonable' for funds to rely on the judgment as well as section 3 of the Human Rights Act 1998 to not require that a survivor partner must have been nominated to have been eligible for an LGPS survivor's pensions in the circumstances set out above.

Section 3 of the Human Rights Act 1998 states that primary and subordinate legislation must be read and given effect in a way which is compatible with ECHR rights. DCLG's interpretation is that section 3 reasonably gives administering authorities the vires to read the aforementioned regulation 25 of the Benefits Regulations 2007 in a way compatible with ECHR rights and therefore disapply the nomination requirement. This is because the judgment of the Supreme Court earlier this year would appear to mean that the current wording of the Benefit Regulations 2007 is not compatible with ECHR rights.

A draft guidance letter issued to LGPS funds outlines further points that they should consider in dealing with claims arising from the Brewster judgment.

Separately DCLG have confirmed that they have received legal advice that there is no need for them to amend the Benefits Regulations 2007 to reflect the Brewster judgment and they therefore have no plans to do so.

6.7 Update on exit payments

A fresh consultation on draft regulations governing the exit payment cap and exit payment recovery is due to take place in autumn. This would potentially mean an implementation for both reforms in the first half of 2018, subject to sufficient parliamentary time being found.

There is no further update on the third part of the Government's programme of public sector exit payment reforms, further reform, on which a DCLG consultation is still awaited.

6.8 Government publish response to scams consultation

The Government have published their response to the pension scams consultation that took place in late 2016 and early 2017
The response confirms that the Government plan to proceed with all three of the measures they consulted upon to tackle pensions scams and notes that respondents to the consultation were, in the vast majority of cases, also supportive of the proposed measures.
The table below lists each of the measures the Government hope to introduce and how the Government intends to implement these.

Measure	**Implementation**
Introduce a ban on cold calling in relation to pensions – *the Government have confirmed this ban will also now extend to cold calling via electronic communications such as email and text message, as well as traditional cold calling via phone*	The Government intend to work on the final and complex details of the ban on cold calling and then bring forward legislation when Parliamentary time allows.
Limiting the statutory right to transfer so that individuals only have a statutory right to transfer to the following schemes: • To personal pension schemes operated by firms authorised by the FCA • To authorised master trust schemes • Where a genuine employment link to the receiving occupational scheme can be evidenced	The Government intends to work closely with industry, consumer groups and other stakeholders on how best to implement the employment link and add QROPS to the statutory transfer criteria (where this is a legitimate transfer). However, as the authorisation process the Government is introducing for master trusts is not being rolled out until late 2018/ early 2019, any changes to the statutory right to transfer will not come into force until after the authorisation process has been rolled out.

Allowing only active companies to register a pension scheme, except in legitimate circumstances where HMRC will have the discretion to register such schemes. HMRC will also have the power to de-register existing registered pension schemes where the sponsoring employer is a dormant company.	The Government intend to introduce legislation in a Finance Bill later in 2017 to

6.9 TPR publishes information on roles and responsibilities within PSPS's

The Pensions Regulator has published information on the roles and responsibilities of certain people and bodies in respect of the governance and administration of public service pension schemes (PSPS's).

In late August, the LGPC Secretariat met with the Pensions Regulator and received confirmation that they are working to provide additional materials to support public service pension schemes in the coming months, particularly in the fields of breach reporting and record keeping.

The table attached at Appendix 3 provides more details about the role of scheme managers, pension boards and others involved in governing public service schemes. Those involved with local government pension schemes may also have investment responsibilities.

7.0 Finance

7.1 Cost per member

Shared service cost per member 2016/17 £13.85 (£15.05 for 2017/18 initial budget)

The shared service pension admin cost per member of £13.85 has been used to recharge LPF. Our cost target for shared service pension admin is to maintain a cost target of £17. The projected cost for 2017/18 Pension Admin shared services has been estimated at £15.05. Our projected cost per member is therefore below our target cost of £17.

8. News

8.1 Awards

WYPF were winners of the Scheme Governance Award hosted by the LAPF Investment Awards on 19th September at the British Medical Association headquarters in London. We were also shortlisted under the following categories:

LGPS Fund of the Year (over £2.5 billion)
Scheme Administration Award
Collaboration Award

Conclusion

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

Appendices

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

Consultation

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

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

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Customer Survey Results - Lincolnshire Members
(1st April to 30 June 2017)

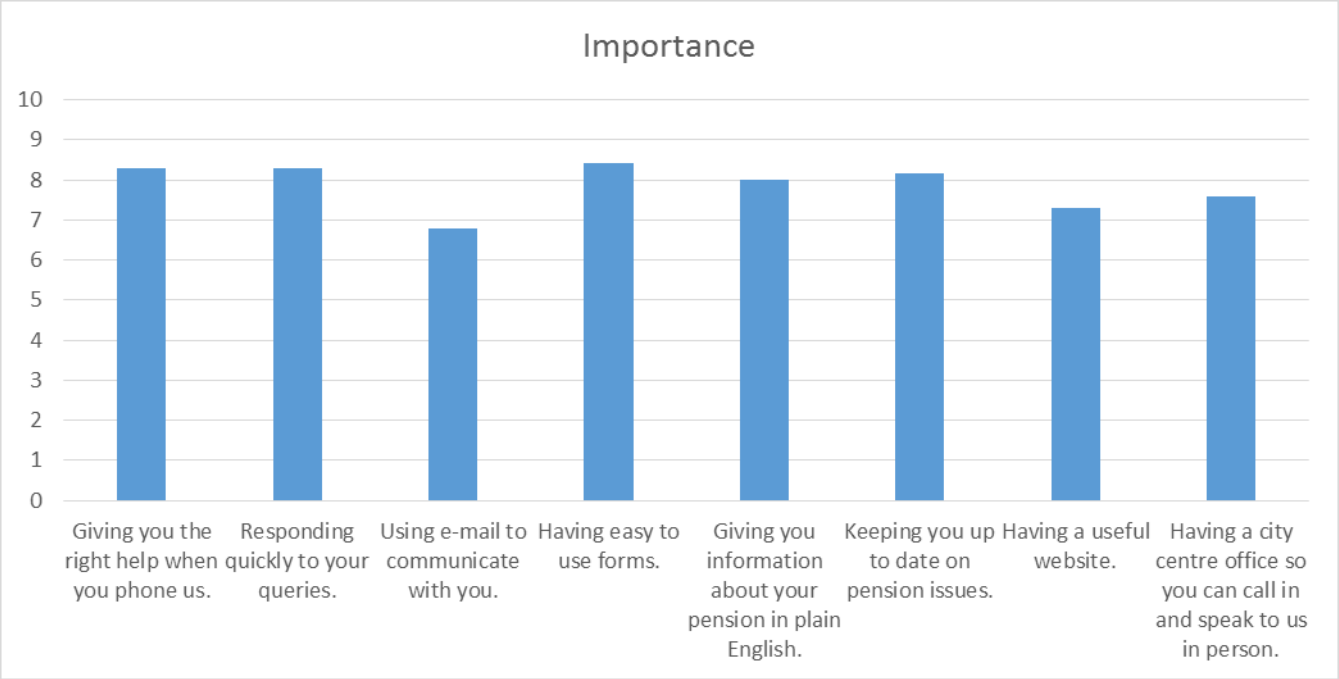
Over the quarter April to June we received **2** online customer responses.

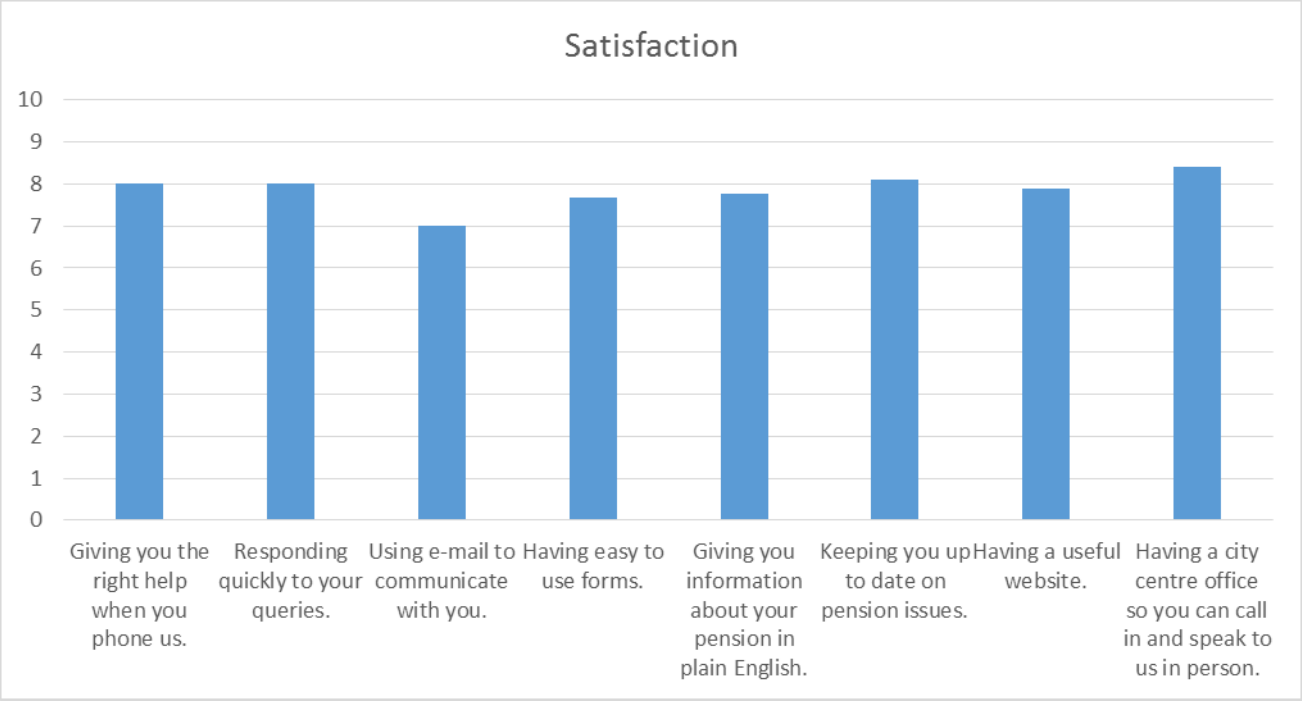
Over the quarter April to June **71** Lincolnshire member's sample survey letters were sent out and **12** (**16.9%)** returned:

Overall Customer Satisfaction Score;

April to June 2016	July to September 2016	October to December 2016	January to March 2017	April to June 2017
80.71%	79.55%	77.22%	87.07%	78.63%

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





Sample of positive comments:

Member Number	Comments
8058983	Service was very efficient & staff were available to answer important queries.
8115359	I used the service for pension advice to take early retirement and was happy with advice.
Online	I have had excellent, efficient service, totally faultless. Thank you

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8115651	Takes such a long time to get information when phoning nearly 7 months to answer 2 simple questions and get someone to return my call.	Response sent by Sandra: Thank you for taking time to complete and return our customer survey. Your comments have been noted and will be reviewed by our senior management team during the next review of customer service.
8115696	I don't know why you sent me this as I don't have a pension with you. Please explain?	Response sent by Sandra: Thank you for taking time to complete and return our customer survey. Your employer told us you have joined the local government pension scheme, if this is no longer the case please ask your employer to update our records.

Employer Feedback (LPF)
Quarter 2 April – June 2017

Ill health (additional session at payroll provider) – 3 May 2017

Feedback score: 95.66 %

Comment	Action taken
I prefer to go through the exercises as a group	Noted.
Easier activities and shorter	Activities to be reviewed by new owner of course.

A summary of the compliments

- The workshop was very helpful.
- The exercises were very helpful to confirm we had understood.
- Very good trainer (KP).

Complete Guide – 14 June 2017

Feedback score: 90.24%

Comment	Action taken
A lot of content to take in	Content being reviewed for September.

A summary of the compliments

- Found the whole workshop very useful. The exercises really help to check your understanding.

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Governing Public Sector Pension Schemes

Name	Role	Who they are in practice	Responsibilities (examples)
Responsible authority	Set scheme policy.	Minister or Secretary of State, Scottish or Welsh Ministers or a government department.	• Determine scheme policy, eg benefit structure. • Set out scheme policy in regulations, including the role of the scheme manager, pension board and scheme advisory board.
Scheme manager	Overall responsibility for the scheme. Scheme managers sometimes delegate specific activities or functions to other parties, such as administrators. However, they remain accountable for complying with the law and the overall management and administration of their scheme.	Local government pension schemes: an administering authority (typically a council) or the Northern Ireland Local Government Officers' Superannuation Committee. Police pension schemes: police pension authorities (usually the Chief Constable / Metropolitan Police Commissioner), the Northern Ireland Policing Board or Scottish Ministers. Firefighters' pension schemes: fire and rescue authorities, the Northern Ireland Fire and Rescue Service Board or Scottish Ministers. Armed forces, civil	• Ensure compliance with scheme regulations and other legislation. • Manage risks and ensure there are adequate internal controls. • Ensure that pension boards members don't have conflicts of interest. • Put in place effective dispute resolution procedures. • Keep records and ensure the quality of member data. • Communicate information to members including benefit statements. • Publish information on pension boards. • Report late payment of contributions. • Meet our reporting requirements, eg completing scheme returns. • Report breaches to us where required.

		service, judicial, health services (NHS) and teachers pension schemes: Minister or Secretary of State, Northern Ireland Department or Scottish Ministers.	
Pension board	Assist the scheme manager.	A collection of suitably knowledgeable people with equal numbers of employer and member representatives. Some have other types of members, such as independent experts or independent chairs or vice-chairs.	• Help the scheme manager to comply with scheme regulations, other legislation and any requirements we have. • Have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law. • Report breaches to us where required. • Responsibilities can vary. Some pension boards have a strong focus on assurance, others advise on member communications and others carry out specific functions on behalf of the scheme manager, eg appointing or managing the scheme administrator.
Scheme advisory board	Advise the responsible authority. In some schemes, advise the scheme manager and pension board.	Often equal numbers of employer and member representatives. Some have other types of members, such as independent experts.	• Advise the responsible authority on the desirability of changes to the scheme, such as adjustments to the scheme if costs breach the employer cost cap. • In some schemes, advise scheme managers and pension boards on governance and administration, eg by providing guidance.

			• Report breaches to us where required.
Administrators	Carry out day-to-day functions of running the scheme for the scheme manager.	May be in-house or third party.	• Keep records. • Collect contributions. • Pay benefits to members. • Report breaches to us where required.
Employers	Employ members of the pension scheme.	Central or local government, armed forces, NHS, police forces and other parts of the public sector. Private sector employers where staff are transferred from the public sector, eg on outsourcing contracts or eligible for access under individual scheme provisions.	• Meet employer duties related to automatic enrolment. • Pay contributions in line with requirements in scheme regulations. • Keep and provide data to scheme manager or administrator. • Report breaches to us where required.
Pension committees or investment committees (only local government pension schemes)	Administer, invest and manage pension funds on behalf of the scheme managers of local government pension schemes.	Generally, councillors with experience or interest in investment.	• Set the investment strategy and publish an investment strategy statement. • Prepare and publish the funding strategy statement. • Appoint investment managers.

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Lincolnshire Pension Board**
Date:	**18 October 2017**
Subject:	**Pensions Administration Data Report**

Summary:

This report introduces a presentation by Yunus Gajra, the Business Development Manager from WYPF, on the data cleansing activity undertaken by them, as the Fund's administrator, and the common data requirements of the Pensions Regulator.

Recommendation(s):

That the Board note the presentation and report.

Background

1. The Pension Regulator's Code of Practice 14 requires public sector schemes to keep records of information relating to member information and transactions, with the legal requirements set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 (‘the Record Keeping Regulations’).

2. Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of the Fund to carry out basic functions. Poor record-keeping can result in failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. It may lead to managing investment risks ineffectively, due to incorrect assessments of liabilities. There is also the potential for the maladministration of members’ contributions and failure to identify any misappropriation of assets.

3. The Fund has a duty to be able to demonstrate to the regulator, where required, that it keeps accurate, up-to-date and enduring records to be able to govern and administer their pension scheme efficiently.

4. TPR published guidance in 2010, recognising the importance of good record keeping, the guidance related to three areas:

- Common data
  This refers to basic member data required to uniquely identify a scheme member and is applicable to all types of pension scheme. Data fields are member name, date of birth, national insurance number, service dates, member status, and address. TPR expects that data should be present in all these fields for records created after June 2010.

- Conditional Data
  Conditional data is dependent on scheme type, structure and design and it is up to the trustees, with assistance from their administrators, to decide which data fields are relevant according to their scheme's needs.

- Numerical Data
  This covers data which supplements basic membership statistics (i.e number of actives, deferreds and pensioners) and may include number of benefit categories, members with AVCs, members with pension sharing orders, members who have had a transfer in and members who have a part time service record.

5. Yunus Gajra, the Business Development Manager from the Fund's administrator, West Yorkshire Pension Fund, will present to the Board how the data held on behalf of the Lincolnshire Fund is managed and what controls are in place to ensure it is accurate and meets the requirements of TPR.

Conclusion

6. The importance of clean data and meeting the requirements of the Pensions Regulator is recognised by the Lincolnshire Pension Fund. Yunus Gajra, the Business Development Manager from the Fund's administrator, West Yorkshire Pension Fund, will present to the Board how the data held on behalf of the Lincolnshire Fund is managed and what controls are in place to ensure it is accurate and meets the requirements of tPR.

Appendices

These are listed below and attached at the back of the report	
N/A	

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Lincolnshire Pension Board**
Date:	**18 October 2017**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Board on Pension Fund matters and any current issues.

Recommendation(s):

That the Board note the report.

Background

1 Responsible Investment

1.1 To assist the Fund in meeting its requirements as a responsible investor, it participates in the Local Authority Pension Fund Forum (LAPFF) 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.

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

- On executive pay, voting alerts were issued to LAPFF members on binding pay policies at Carillion, Smith & Nephew, GlaxoSmithKline, BP, Shell, Babcock and WPP.

- LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms PPL, Chevron and Exxon Mobil. The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans.

- The Forum announced that it is partnering with the 50/50 Climate Project. The new partnership will enhance the Forum's actions to promote climate competent boards and enhance collective investor action advocating better climate strategies and decision making at board level.

- As part of the ongoing concern that the Financial Reporting Council (FRC) has been setting accounting standards that are not aligned with the law, in particular the requirement to reflect the solvency of a company, LAPFF submitted a response to the consultation on the Green Paper on Corporate Governance. That response makes the recommendation that the problems with the FRC run so deep that the FRC is disbanded and that a proper competent authority is set up to replace it.

- LAPFF executive member, Ian Greenwood met with BT Chairman, Sir Michael Rake, for the second time in a year to discuss a range of issues, including Sir Michael's views on Brexit and the British economy, BT's recent accounting scandal and cybersecurity.

- Ian Greenwood met with the Chairmen of Aberdeen Asset Management, Simon Troughton, and Standard Life, Sir Gerry Grimstone, on the same day to discuss the imminent merger of the two companies. The meetings both focused on the extent to which each company had considered the human capital and cultural integration of the two Scottish firms.

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

1.4 In addition to being members of LAPFF, the Fund votes on all its segregated holdings with external asset managers. A summary of votes cast is provided to the Pensions Committee in each quarterly Fund Update Report.

1.5 The Fund has a published Stewardship Code Statement, which shows how it complies with the Financial Reporting Council's (FRS's) code. It has been classified as a Tier 1 response – in that it meets the requirements of the Code. This was brought to the Board in July as part of the annual policies review paper.

2 TPR Checklist Dashboard

2.1 The Pension Regulator's (TPR's) checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at Appendix A.

2.2 The Areas that are not fully completed and 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 completion certificates have not been received for all members.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?
Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submission will improve data accuracy going forwards, 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.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?
Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?
Grey – provided directly by Prudential, with no Pension Fund involvement.

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 are improving this process.*

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

2.3 The areas changed since the last Pensions Committee meeting are:

H1 – Maintaining Contributions - Has an annual benefit statement been provided to all active members within the required timescales?
From Amber to Green on compliance – 97.9% of Statements as at the deadline of 31st August 2017 were issued. This is considered as meeting the requirements of the Regulator. The remaining 2.1% will be sent out in due course.

H3 - Maintaining Contributions - Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?
From Amber to Green on compliance – 99.96% of deferred benefit statements were produced. When taking into account the actives too, this covers 99% of active and deferred members. This is considered as meeting the requirements of the Regulator.

3 Risk Register Update

3.1 The risk register is a live document and updated as required. Any changes are reported quarterly to the Committee and Board, and the register is taken annually to Committee to be approved.

3.2 Two additional risks have been added over the quarter. Risk 27, concerning the Fund acting as a responsible investor and risk 28, concerning opting up to professional investor status, under the MIFIDII requirements.

Risk 27	Consequences	Controls	Risk Score	
			L	I
Failure to meet requirements as a responsible investor - across all ESG risks	Reputational risk, loss of Fund value	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	1	2

Risk 28	Consequences	Controls	Risk Score	
			L	I
Failure to be opted up to professional investor status following the implementation of MIFIDII	Fire sale of assets, inability to implement investment strategy	Use of LGA/SAB templates and letters, trained Committee, professional officers, use of investment advisors and consultants	2	4

3.3 There are now three red risks. Risk 28 is shown above. Risk 24, which was added in June '16 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate. Risk 22, which has been increased to red from blue, following discussion at the Pension Board meeting in July '17. The deputy post is still vacant, however a recruitment exercise has been undertaken. The outcome of this will be known in early October.

Risk 24	Consequences	Controls	Risk Score	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	4	3

Risk 22	Consequences	Controls	Risk Score	
			L	I
LCC team - workloads and resources - additional work of asset pooling along with team losses, means resources will be very stretched for the coming months	Statutory requirements not met Reputational risk Increase in key man risk	Monthly meetings with County Finance Officer Concerns reported to Pensions Committee and Pension Board Ability to recruit	3	3

3.4 The full risk register is available from officers should any member of the Committee wish to see it.

4 Breaches Reporting

4.1 The Breaches Reporting Policy was brought before this Board at the July meeting, for annual review. The Fund, and those charged with its governance, has a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix B shows those breaches logged since recording began. Since the last Pension Board meeting, two breaches have been logged. These are detailed below:

4.2 **Late payment of contributions** – a summary of all late payers since April has been logged on the report, with an additional analysis included at appendix C, including last financial year's figures for comparison. As can be seen from this analysis, the number of employers with late contributions (or late data returns) average at 16 per month, reflecting 6.7% of the employers. None of these individually have been material and therefore not reported to the Pensions Regulator. Contribution monitoring is managed within the LCC team and each employer is contacted in any instance of late payment, and it is recorded within the monitoring system. Employers can be fined if they are late in any three months out of a rolling six month period, in line with the WYPF charging policy adopted by Lincolnshire Pension Fund. Since April, 17 invoices have been raised to employers. Employers are regularly reminded of the requirement to pay contributions in line with the statutory deadlines.

4.3 **Late receipt of member information** – WYPF have been working closely with Lincolnshire County Council's payroll provider, Serco, regarding their outstanding data submissions, particularly in respect of leavers. In September, the Pension Fund Manager wrote to LCC to ask for an improvement plan and timescales in which to clear the backlog of this information. Should this not be received, or be properly monitored by LCC, consideration will be given to referring them to the Pensions Regulator.

5 Asset Pooling Update

5.1 A detailed update was presented to the Board at the training session on 21st September, and circulated to all Board members, therefore there is no additional update to be provided on progress of BCPP.

5.2 On 22nd August, a letter was sent to all LGPS Pensions Committee and pool Chairmen, signed by Marcus Jones MP, Caroline Nokes MP and the Chief Secretary to the Treasury (Elizabeth Truss). It is attached at Appendix D for your information.

5.3 The theme of the letter was a reminder that all funds must fully participate in a pool, and that pools must have an authorised FCA operator. Where ministers were not satisfied that funds had a clear path and timetable for delivery, DCLG would consult on further action, including using the intervention powers that were included in the 2016 Investment Regulations.

5.4 Ministers have requested that pools complete a progress report as at 30th September (similar to the one provided in April this year) and it must be sent to them in October. The BCPP project team will draft a response, and it will be taken to the Joint Committee meeting on 20th October.

5.5 The Lincolnshire Fund is fully committed to pooling, and is working with BCPP to ensure that it is able to transition its assets at the most appropriate time.

6 **Board Training**

6.1 Three Board members attended all or part of the two day training session that had been organised for the members of Pensions Committee and Pension Boards that are part of the Border to Coast Pensions Partnership. The training covered all major activities involved in running a Pensions Fund, focusing on the responsibilities of those charged with Governance of a Fund. Feedback was very positive, and a similar event is expected to be held annually.

6.2 Three Board members attended the combined Pensions Committee and Board training held on 21st September in County Offices. The training covered an update on Lincolnshire's asset pooling progress and a presentation by the Pensions Regulator.

6.2 The Pension Fund Manager will keep the Board up-to-date with any training opportunities. If any Board members are approached directly with training opportunities, please contact the Pension Fund Manager before accepting them.

Conclusion

7 The Fund Update report will be a quarterly report to the Pension Board, to update the Board on Pension Fund matters and any 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 author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	TPR Checklist Dashboard
Appendix B	Breaches Register
Appendix C	Late Contributions Analysis
Appendix D	Joint Government Letter on Asset Pooling Letter

Background Papers

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

Appendix A

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		
H6		
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 Pension Board Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
31/7/15	Contributions	Late payment by LCC for June contributions, following late payment for April and May.	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Aware of breach, extenuating circumstances, trying to fix issues.	Reported through portal 31/7/15		
31/8/16	ABS's	100% required output of ABS's not met	Late receipt of ABS info to members	Not material and improvement on previous year – first full year of monthly returns	Not reported – total 92.6% of active and deferred produced overall – not material to report		
31/3/17	Contributions (see report)	Late payments over the year	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		
May 2017	Administration	Data security breach – a small number	Potential for individuals data to be seen by	WYPF contacted printing	Not reported to tPR. Small number		

		of ABS's went out unsealed	unauthorised individuals	company for explanation. Breach reported to information security officers at both WYPF and LPF	impacted, human error the cause.		
Sept 17	Contributions	Late payments May to August	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		
Sept 17	Leavers information	Outstanding leavers information not sent to WYPF by LCC	Incorrect ABS's, over statement of liabilities	LCC given opportunity to provide improvement plan and timescales	Not reported, but under review.		

Appendix C

Late contributions – April to August 2017

	Late contributions		Comments
Month	**No.**	**%**	
April	6	2.50%	
May	11	4.58%	
June	30	12.50%	This month included all CIT schools (x7) and most Strictly Education schools (x7) having late data submitted
July	21	8.75%	This month included most Strictly Education schools (x7) having late data submitted
August	26	10.83%	Includes x7 CIT schools and x5 Capita schools
Average	19	7.83%	

Based on roughly 240 employers, the percentage of late employers compared to total number of employers in the fund is shown in column D

Previous period (April 2016 to March 2017) for comparison

	Late contributions	
April	12	5.00%
May	14	5.83%
June	20	8.33%
July	12	5.00%
August	9	3.75%
September	23	9.58%
October	19	7.90%
November	25	10.40%
December	9	3.75%
January	8	3.33%
February	21	8.75%
March	21	8.75%
Average	16	6.7%

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Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

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www.gov.uk/dclg

Chairs of LGPS pension funds
Chairs of LGPS investment pools

2 2 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with

you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY	**MARCUS JONES MP**	**CAROLINE NOKES MP**

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection	
Report to:	**Lincolnshire Pension Board**
Date:	**18 October 2017**
Subject:	**Pension Fund Annual Report and Accounts**

Summary:

This report brings the Annual Report and Accounts for the Pension Fund to the Pension Board for consideration.

Recommendation(s):

That the Board note the Pension Fund Annual Report and Accounts.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31st March 2017 (included as Appendix A) has been completed and has been independently audited by the Council's external auditors, KPMG. 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, and the report was approved at the Pensions Committee on 21st September.

3. External audit have issued their opinion and it is included in the report at page 79. The opinion is shown below:

   In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Lincolnshire Pension Fund for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

4. This was reported to the Council's September Audit Committee, alongside the Council's Statement of Accounts. The final external audit completion report on the Pension Fund accounts, detailing the ISA 260 requirements, was brought to the October Pensions Committee.

5. A copy of the annual report will be put on both the Pension Fund and the County Council websites shortly, 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

6. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31st March 2017. The Council's external auditors, KPMG, have issued their opinion on the accounts, and it is included in the document at appendix A. The Pensions Committee approved the report at their September meeting, and it was taken to the Council's Audit Committee at the end of September. A copy of the Pension Fund Annual Report and Accounts will shortly 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 2017

Background Papers
No background papers for consideration.

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

Lincolnshire
COUNTY COUNCIL
Working for a better future

Lincolnshire Pension Fund Annual Report & Accounts 2017

Lincolnshire Pension Fund

Local Government Pension Scheme

Annual Report for the Year Ended 31st March 2017

Contents

Management Arrangements

Administering Authority	Lincolnshire County Council

Pensions Committee Members as at 31st March 2017

County Councillors

M G Allan (Chairman)
N I Jackson
B W Keimach
C E D Mair
R J Phillips (Vice Chairman)
S Rawlins
A H Turner
P Wood

District Council Representative

Cllr 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
Pension Fund Manager	J Ray
Independent Advisor	P Jones
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

External Investment Managers of Segregated Portfolios

Invesco Asset Management Ltd

Columbia Threadneedle Investments Ltd

Schroder Investment Management Ltd

Auditors	KPMG
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 31st March 2017 are listed on page 1.

All members of the Committee can exercise voting rights.

Corporate Governance and Responsible Investing

The Fund complies with corporate governance best practice by voting its direct shareholdings at all UK, developed Europe, US, Canada and Japan company meetings. To assist the Fund in being a responsible investor, the Fund 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 social, environmental and governance issues. The Fund has produced a Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's website (details below).

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 months to 31st March 2017 produced a strong positive return to the Fund. The twelve month period ended 31st March 2017 saw the value of the Fund increase by £356.4m to £2,115.4m. The Fund saw strong absolute returns from all its managers. The overall investment return of 19.75% was marginally ahead of the Fund's specific benchmark return of 19.34%. Over the last ten

years, the Fund's annualised investment performance of 6.0% is slightly behind the benchmark return of 6.5%.

Detail on the global markets over the year can be found in the Investment Background, on p24.

Manager Arrangements

During the year, two managers were terminated – Neptune Investment Management (global equities manager) and BMO Global Asset Management (absolute return bond manager). The global equity allocation was reinvested with two existing global equity managers, Invesco Asset Management and Morgan Stanley (in their Global Brands Fund). The absolute return bond allocation was invested in a corporate bond fund managed by Blackrock. The internally managed UK equity portfolio was also outsourced to Legal and General 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 two 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.

Local Pension Board

It is now two 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 p16.

Asset Pooling

The requirement to pool the Fund's assets with other LGPS Funds came into statute in November 2016. Lincolnshire has chosen to become part of the Border to Coast Pensions Partnership (BCPP), alongside 11 other partner LGPS funds. Much progress has been made in creating BCPP as the pooling vehicle to implement the investment strategy of the 12 partner funds. The result will be a £43bn+ 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.

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, Pension Fund Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
Tel: 01522 553656 | email: jo.ray@lincolnshire.gov.uk

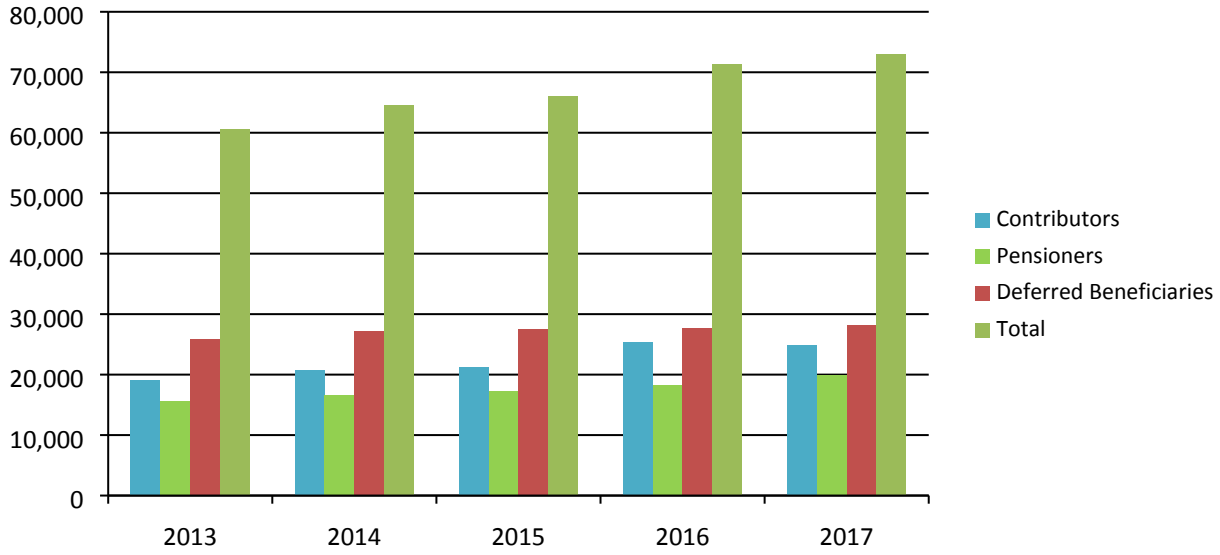
Councillor Mark Allan
Chairman
Pensions Committee

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 over 72,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the membership is still increasing, but the active membership has fallen slightly over the year. The Fund has matured considerably over the last five years, with 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 38.6% of the overall membership.



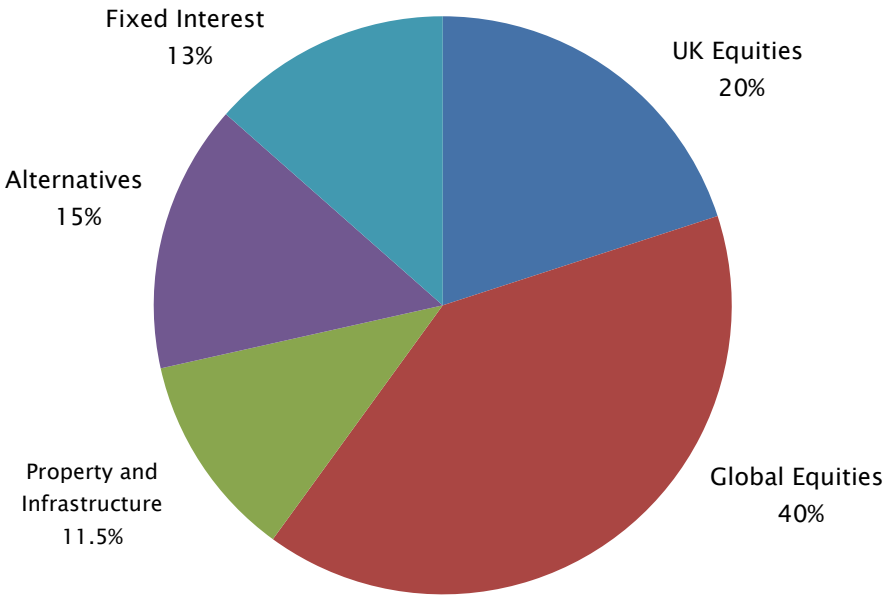
Year ended 31st March	2013	2014	2015	2016	2017
Contributors	19,102	20,697	21,262	25,451	24,893
Pensioners	15,702	16,577	17,264	18,281	19,916
Deferred Beneficiaries	25,799	27,246	27,577	27,618	28,182
Total	60,603	64,520	66,103	71,350	72,991

(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 every three years, following 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 31st March 2017 %	Actual Asset Allocation 31st March 2017 %
UK Equities	20.0	19.0
Global Equities	40.0	43.3
Total Equities	60.0	62.4
Property and Infrastructure	11.5	10.8
Alternative (incl. Private Equity)	15.0	13.9
Fixed Interest	13.5	12.5
Cash (incl. current assets)	0.0	0.5
Total	100.0	100.0

*Actual asset allocation excludes non-investment net current assets

Investment Performance

The twelve month period ended 31st March 2017 saw the value of the Fund increase by £356.4m to £2,115.4m. The Fund saw strong absolute returns from all its managers. The overall investment return of 19.8% was ahead the Fund's specific benchmark return of 19.3%. Over the last ten years, the Fund's annualised investment performance of 6.0% is slightly behind the benchmark return of 6.5%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 19.8% compares to a rise in retail prices of 3.1% and an increase in public sector earnings of 1.3%.

Investment Performance of the Fund 1st April 2006 to 31st March 2017

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2007/08	(4.4)	(3.3)	3.8	3.7
2008/09	(18.6)	(20.0)	(0.4)	3.4
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
10 years annualised	6.0	6.5	2.8	2.0

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2017, are set out below. Portfolio values include cash at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
Global Equities – (Ex UK)	Invesco	495.7	23.4
Global Equities	Schroders	117.6	5.6
Global Equities	Columbia Threadneedle	121.9	5.8
	Total Segregated Equities	735.2	34.8

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Pooled Funds

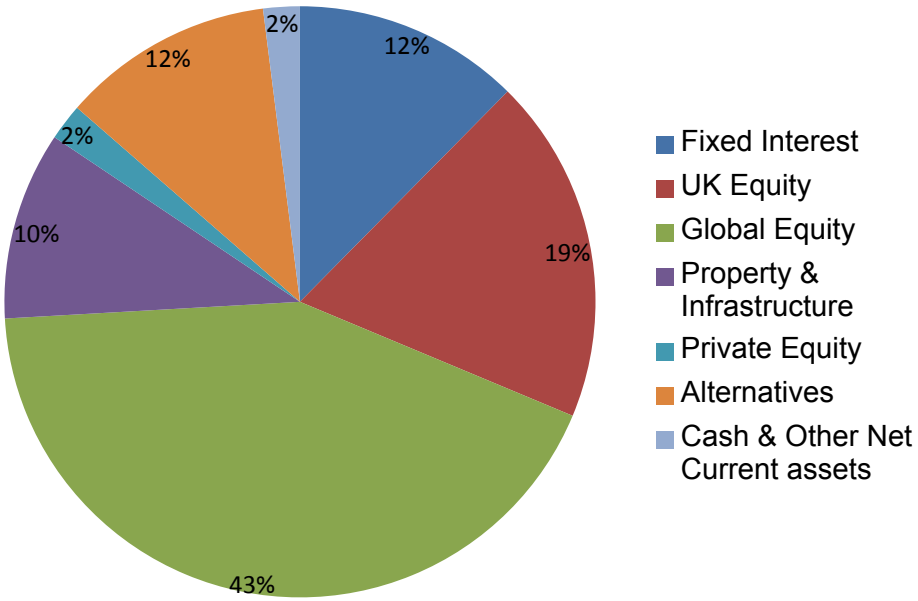
Asset Class	Manager	Market value £m's	% of the Fund
Property and Infrastructure	Franklin Templeton	8.1	0.4
	Igloo	4.0	0.2
	Innisfree	31.4	1.5
	Aviva	41.7	2.0
	Royal London	22.0	1.0
	Rreef	2.4	0.1
	Blackrock	39.0	1.8
	Standard Life	69.9	3.3
	Total UK Property	218.5	10.3
Private Equity	Capital Dynamics	9.4	0.4
	Pantheon	22.8	1.1
	Standard Life	10.7	0.5
	EIG	0.4	0.0
	Total Private Equity	43.3	2.0

Alternatives	Morgan Stanley	245.4	11.6
UK Equities	Legal and General	398.3	18.9
Global Equities	Morgan Stanley	179.0	8.5
Fixed Interest	Blackrock	262.2	12.4
	Total Pooled Vehicles	577.3	63.7

Total Asset Distribution

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

Asset Class	Market Value £'000	31/3/17 %	31/3/16 %
Fixed Interest	262,168	12.4	13.0
UK Equity	398,290	18.9	18.5
Global Equity	905,463	42.8	41.3
Property & Infrastructure	218,419	10.3	11.3
Private Equity	43,334	2.0	3.2
Alternatives	245,375	11.6	10.4
Cash & Other Net Current Assets	42,373	2.0	2.3
	2,115,422	100.0	100.0



Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including pooled investments, as at 31st March 2017. These account for £1,447.0m and make up 68.4% of the Fund's investments.

	Market Value £m's	Proportion of Fund %
Legal & General UK Equity Index Fund	398.3	18.8
Morgan Stanley Alternatives	245.4	11.6
Morgan Stanley Global Brands Fund	179.0	8.5
Blackrock Aquila Life <5 year Corporate Bonds Fund	125.9	6.0
Blackrock Aquila Life Corporate Bond Fund	67.6	3.2
Standard Life Property Fund	58.8	2.8
Blackrock Aquila Life Over 5 Year Index Linked Gilt Fund	41.9	2.0
Aviva Property Fund	41.7	2.0
Blackrock Property Fund	39.0	1.8
Royal Dutch Shell	31.0	1.5
Unilever	27.7	1.3
British American Tobacco	27.1	1.3
Blackrock Aquila Gilts Fund	26.8	1.3
Reckitt Benckiser Group	25.4	1.2
HSBC Holdings	22.4	1.1
Royal London Asset Management Property Fund	22.0	1.0
Microsoft	19.2	0.9
Apple	16.8	0.8
Innisfree Secondary Fund	16.3	0.8
BP	15.0	0.7
Total	1,447.0	68.4

Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Tier 1 Stewardship Code statement, in compliance with the Financial Reporting Council's Stewardship Code, and 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 votes on all direct company holdings in the UK, developed Europe, US, Canada and Japan. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast 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. Over the year, the Fund voted at 874 company meetings, and cast votes in respect of 12,381 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of over 70 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 on their website 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.
Lack of resource as a result of increased workloads	Monthly meetings with County Finance Officer, regular updates to Committee and Pension Board to highlight issues.

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

Funding Position and Contribution Rates

The employers' contribution rates (including deficit cash amounts where applicable) applying in the year ended 31st March 2017, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2016/17

Employer	Rate as a % of pay	Deficit cash payment £'000
Lincolnshire County Council	19.7	1,161
Priory Federation of Academies	18.2	7
City of Lincoln Council	16.9	1,136
South Kesteven District Council	17.0	703
Lincolnshire Police	19.9	634
North Kesteven District Council	16.4	509
East Lindsey District Council	16.0	605
Boston College	20.1	51
Boston Borough Council	16.9	374
South Holland District Council	17.5	416
West Lindsey District Council	17.1	595
Lincoln College	21.1	583
Grantham College	19.4	128
Bishop Grosseteste University	18.0	157
G4S	19.9	
Boston Witham Federation	20.9	
Compass Point Business Services	18.8	80
Serco	20.9	
Abbey Academies Trust	20.3	7
Welton William Farr CE School (Academy)	22.7	
Sleaford St Georges Academy	22.5	
Stamford College	20.7	25
Branston Community Academy	20.9	
Lincoln Christ Hospital Academy	20.9	
Phoenix Family of Schools	20.9	
GLL	20.9	

University Academy Holbeach	21.0	60
West Grantham Academy	21.6	
Deepings School (Academy)	20.9	
Gainsborough Parish Church Academy	20.9	
St Bernards School (Academy)	20.9	
Magna Vitae Trust	16.0	161
North Kesteven School (Academy)	20.9	
Giles Academy	20.9	

The Lincolnshire Pension Fund's latest triennial valuation was as at 31st 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.

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

Annual Report of the LGPS Local Pension Board 2016/2017

Introduction

I am pleased to present the report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2016/2017.

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.
- 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 - 22 July, 23 September, 15 December, 2016 and 15 March 2017.

Board Members have also attended several training sessions - Investment Training in October 2016, the Actuarial Valuation and draft results in November 2016 as well as several presentations on LGPS asset pooling. In addition, all members of the Board attended the Pension Boards Seminar organised by the Pension and Lifetime Savings Association (PLSA). A couple of Board members have also completed the Pension Regulator's Public Service toolkit. The other members have partly completed the seven modules. All the Board members completed the Trustee Knowledge (Competence) Self-Assessment Matrix which is vital for assessing the overall knowledge and understanding of the Scheme Rules and Governance; and drives the future training requirements.

The Work Programme

At the meeting in July, the Board considered in some depth the Pension Fund's Draft Annual Report & Accounts for 2015/2016. The Board made various comments and asked a number of questions and received satisfactory responses. The Board concluded that the draft Annual Reports & Accounts was an excellent document. The Board also received a presentation on LGPS Asset Pooling.

At the September meeting, the Board considered a report which demonstrated Lincolnshire's compliance to the Code of Practice produced by tPR.

The Board considered the eleven elements in detail, namely:

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

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 with 89 green. There were 7 partially compliant and 3 not yet relevant. At the meeting in March 2017, the Board received a further report and the position was the same with 89 green and 3 not relevant. There were still 7 partly compliant although some progress has been made in converting them to green. The Board considered that the compliance to the tPR's Code was very good.

Also at its September meeting, the Board received a presentation from a representative of the West Yorkshire Pension Fund (WYPF) on the pensions administration service. There was a wide-ranging debate on the achievements against the performance targets all of which were set at 85%. Concern was expressed that performance on a number of targets was not being achieved. It was reassuring that performance on some of the critical targets including retirements and death grants was better than the target. The Board questioned whether it was the intention to retain the overall performance measurement target of 85% particularly as some administrators aimed for 95% for some work types. In fairness to the WYPF, the service had experienced a number of issues which had affected the performance measures including the problems with the County Council's provider of support services, the transfer of data and delays by the Government Actuary's Department. The Board also questioned the use of life certificates rather than tracing firms. It was agreed that the performance targets should be taken to the Collaboration Board.

Considering the obstacles and problems faced by WYPF when they were appointed as pension administrators from April 2015, the Board concluded that the administration was sound and more importantly would continue to improve.

The Board also noted that the partnership between LCC and WYPF was developing well.

The Board also received a report on the Pension Fund Risk Register at its September meeting and a further update on Asset Pooling.

At the December meeting, the Board received a presentation from KPMG, the Council's Auditor. There were no issues identified and the Auditor issued an unqualified opinion on the Report & Accounts for 2015/2016. It transpired that KPMG had decided to undertake a joint audit report for both the Council and the Pension Fund. The Board felt there should be a separate report for the Fund. KPMG agreed to consider two separate audit reports for the current year.

The Board received a further update on the pensions administration service from WYPF. It was reported that a review is being undertaken of all performance targets and timescales. There was further discussion on Life Certificates and WYPF vigorously defended sending out life certificates every seven years to all 18,000 members because of the additional information the procedure delivered. The Board also received an update on the triennial valuation process and results. There was also a further update on Asset Pooling.

At its final meeting of the year, the Board considered a number of issues including employer engagement which was considered to be comprehensive and very good. The Board also received a further update on asset pooling. In addition, the Board reviewed both the Valuation Update and Funding Strategy Statement and the Lincolnshire Pension Fund Investment strategy Statement.

The Board also considered its work programme for the 2017/2018 year – specific areas agreed so far are an administration update including performance against targets, complaints, a further update on pooling, reports from internal audit, a review of existing policies, the Annual Report & Accounts and further training requirements.

Conclusion

This is the second report of the Board. I consider the governance and administration of the Scheme to be sound. I am particularly impressed with Lincolnshire's compliance to the vast majority of tPR's Code of Practice. The triennial actuarial valuation results were produced relatively smoothly although members of both the Pension Committee and Pension Board challenged some of the assumptions. The Report & Accounts for 2015/2016 is an excellent

document and there was an unqualified audit report. There is scope for enhancing the performance targets for the administration service and this is under consideration by WYPF. The Board is keeping a close watch on the LGPS pooling arrangements as the proposals unfold.

I would like to express my thanks to Jo Ray, Pension Fund Manager, 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 2017

Any questions regarding the Pensions Board or its work can be addressed through the Pension Fund Manager.

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

Lincolnshire County Council Pension Fund Actuarial Statement for 2016/17

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). 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 below the theoretical

rate required 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 a better than 70% 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 April 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017. The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers FFA
For and on behalf of Hymans Robertson LLP
12 May 2017

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

Investment Background

Returns for Major Markets

The twelve months to 31st March 2017 produced positive returns across all asset classes, with equity markets performing the best with returns ranging from 22.0% in the UK to 35.6% in the Emerging Markets.

There was a greater divergence across bond assets, with UK Index Linked Gilts returning 19.9% and UK Gilts returning 6.6%.

Property, after cash, was the worst performing asset class, returning 3.8% for investors.

Investment Returns to sterling based investors 1st April 2016 to 31st March 2017

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	22.0
Global Equities	FTSE World	33.1
United States	S&P 500	34.7
Europe ex UK	FTSE Developed Europe	28.3
Japan	TOPIX	32.9
Emerging Markets	FTSE Emerging	35.6
Fixed Interest		
UK Gilts	FTSE UK Gilts	6.6
UK Index Linked Gilts	FTSE Index-Linked	19.9
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	10.7
Property	IPD Index	3.8
Cash	LIBID Seven Day Rate (compounded)	0.2

World Equity Markets

Global equity markets reported strong gains over the reporting period (12 months until March 2017 in GBP terms), with US equities outperforming their European counterparts. From a factor perspective, Momentum worked well in the first half of 2016 while higher risk factors such as Value were rewarded toward year's end. A brief summary of the highlights of each quarter of the financial year is shown below:

Quarter 2 2016

Markets had a good start into the second quarter, driven by a better-than-expected corporate earnings season, some positive data coming out of China and higher commodity prices. The European equity markets also benefitted from positive company news, as well as the release of information about the European Central Bank's (ECB) corporate bond purchase programme. Nevertheless, markets around the globe remained volatile during the quarter, given the uncertainties about the upcoming Brexit referendum. With markets completely wrong-footed by the decision of UK voters to leave the European Union in the end of June, the immediate market reaction was extreme and led to a sharp sell-off particularly in developed markets, while Asia (ex-Japan) and emerging markets were less impacted. European equity markets recovered somewhat in the final week of June and in the US, signs that the US Federal Reserve (Fed) might hold off on further tightening monetary conditions in 2016 helped stock markets to bounce back.

Quarter 3 2016

Into the third quarter markets participated in the post-EU Referendum equity rally. Investor's sentiment moderated in August with global equity markets ending the month flat. European equity markets ended up in positive territory as macro data remained resilient, with no signs of the slow recovery being derailed by "Brexit" uncertainty. In the US, heightened uncertainty about the direction of the Fed's monetary policy caused the S&P 500 index to stay mostly flat for August and September, despite climbing US consumer confidence and strong US labour market data. While major developed market central banks were reluctant to raise interest rates in September, the prospect of continued monetary easing, improving commodity prices and encouraging economic news out of China lifted market sentiment towards the end of the quarter.

Quarter 4 2016

Global equity markets continued to rise in Q4, ending an initially volatile year on a strongly positive note. In particular, US stocks have rallied significantly following Trump's unexpected election success and continued their positive trend that had started after the election and further benefitted from a number of encouraging economic data prints in December. Trump's pro-growth, deregulatory and reflationary policy stance renewed investors' risk-on sentiment and fuelled the rotation into more cyclical areas of the market. The US Fed's growing confidence in its outlook for the US economy and inflation backed its decision to finally raise interest rates by 0.25%. In Europe, markets surged in the aftermath of the Italian referendum. In economic news, the ECB decided to extend its quantitative easing programme to the end of 2017.

Quarter 1 2017

After a strong start in 2017, global stocks climbed to record peaks amid optimism in the first quarter that the US administration is likely to boost corporate profitability, despite its protectionist rhetoric. However, investors turned more cautious as the quarter drew to a close. This was in part due to President Donald Trump's healthcare policy setbacks in March, which raised concerns about his ability to successfully push through his tax reform, deregulation and infrastructure spending policies. At the sector level, the rotation into more economically sensitive sectors has paused since February. On the macroeconomic front, encouraging growth from across the US, Europe and Asia, improving employment data and strengthening manufacturing conditions globally supported equity markets. In March, the UK Prime Minister Theresa May triggered Article 50, which began the nation's formal exit from the EU. Unlike the massive sector rotation seen in markets post-Brexit, the initiation of the nation's formal exit from the EU was met with a muted response.

Fixed Interest

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

Q2 2016

Markets made a confident start to Q2, with much of the momentum from March's recovery carrying into April and May. Positive economic data releases in developed markets combined with ongoing policy support from most global

central banks to form an upbeat start to the quarter. However, the UK's EU referendum in late June ultimately overshadowed other market drivers by the end of Q2. The "Leave" vote from the UK took many investors by surprise; the number of positions built in anticipation of a "Remain" vote exacerbating market volatility in the days immediately after the result. Sterling fell by over 11% on 24 June, while government bond yields were sharply lower.

Q3 2016

Bond markets were strikingly calm in Q3, particularly when compared to the tumultuous final week of June. An initially negative market reaction to the surprise Brexit vote passed quickly and in July markets returned to the more familiar ground of assessing policy moves from the world's major central banks. The Chicago Board Options Exchange SPX Volatility Index (the VIX) – as a broad measure of market stability – reached lows in the quarter seen only a handful of times in the past 25 years. In the US, economic momentum continued to track broadly in the right direction and by September the Federal Open Market Committee was split on whether to raise rates. The extension of policy accommodation by the Bank of England (BoE) in August pressed gilt yields lower, while the ECB's decision to leave its current range of support measures unaltered meant that German Bund yields barely moved.

Q4 2016

In the final quarter of 2016, global bond market movements were overwhelmingly driven by political factors. At the forefront of the political dynamics stood the victory of Donald Trump in the US presidential election, but upcoming elections in Europe also rose in prominence as potentially destabilising influences. The uncertainty surrounding the UK's negotiations to withdraw from the European Union also impacted bond portfolios significantly. Despite the volatility, expectations for global economic growth tentatively grew more optimistic. Overall, government bond yields moved higher and yield curves steepened.

Q1 2017

Optimism over the strengthening global economy and potential pro-growth effects from President Trump's fiscal stimulus plans continued to drive markets in Q1. Data showed real economic activity continuing to pick up with yet further evidence of synchronised global reflation underway. The shift toward monetary

policy normalisation also continued. The Fed raised rates and the ECB signalled it sees less need for accommodative policy going forward. Detail over Trump's fiscal plans remained generally thin, but significant doubts about his ability to implement reform were planted in March after a failure to pass healthcare legislation. Politics in Europe remained a worry for markets as nationalist politicians continued to command support, although concerns receded somewhat towards the end of the period. Against the backdrop of strengthening growth, rising inflation and marginally more hawkish central banks, global credit, particularly high yield, outperformed government bonds.

UK Commercial Property

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

Q2 2016

The result of the referendum on EU membership on June 24th created considerable uncertainty, particularly in relation to the role of London once it is outside of the EU. In the UK, Sterling fell sharply in value and sovereign bond yields fell as markets expect weaker economic growth both in the UK and across Europe. A key driver of lower economic growth for the future is expected to be a reduction in business investment as companies hold off making large investment decisions until the impact of Brexit becomes clear. The impact of this uncertainty fell disproportionately on banks and listed real estate companies that had a large proportion of their assets in London.

Q3 2016

The third quarter of 2016 was a turbulent one for UK real estate after the surprise referendum result. Sharp falls in listed real estate company prices were followed by the suspension of redemptions from a number of daily priced open ended property funds. However, over the course of the quarter the impact on the listed market moderated and many of the funds which had suspended opened once again trading normally. Overall values were down by 4.0% over the third quarter, however the impact was not uniform. City of London offices were hit hardest, with values down by 7.4%. The strongest performing sectors were industrial properties and alternatives (a mix of various property types including student accommodation, healthcare, leisure, hotels and residential). Transaction activity weakened further in the third quarter despite a spike in activity from open ended funds generating liquidity to pay redemptions.

Q4 2016

The UK property market proved to be far more resilient than many commentators expected in the fourth quarter of 2016. This was partly the result of the economy performing better than expected, but also continued strong investor demand for real estate assets, driven by the relatively attractive yield offered and the decline in Sterling attracting international capital. Across the market as a whole values rose by just over 1%, in large part due to the health of the industrial investment and occupational market where values rose by just under 4%. In Central London, where many expected the impact of the vote to leave the EU would be greatest, resurgent overseas investor demand underpinned the value of prime office and retail assets. However, outside of prime assets, there were signs that the performance of Central London properties were beginning to falter; retail occupiers in particular are having to absorb the impact of significant rises in business rates. Since the vote to leave the EU, industrial and alternative real estate investments (such as student accommodation, healthcare and hotels) continued to prove to be more robust than those in the retail and office sectors.

Q1 2017

The UK commercial property market remained resilient in the first quarter of 2017. In the Central London office market, weak occupier demand was offset by strong demand from overseas investors, particularly Chinese buyers seeking to get Yuan denominated capital invested in a perceived safe haven, where the decline in Sterling offers an upfront effective c.15% discount, in Sterling depreciation alone. These buyers dominated investment activity in the first quarter with a small number of large deals. Outside of these large prime transactions to overseas investors, activity in the Central London office market remained relatively muted and the pricing of these smaller generally older and shorter leased buildings less certain. Domestic institutional investors were also returning to the market, although their activity focused with industrial/logistics properties and alternatives particularly in demand. The retail sector, as a whole, continued to face significant headwinds as higher import costs, rising wages and local taxes together with the continued growth of internet sales impact on profitability. Alternative investments continued to see strong investor appetite especially those with long leases and fixed or inflation linked rents reviews.

Administration of Benefits

Lincolnshire County Council has a shared service arrangement with West Yorkshire Pension Fund (WYPF) to administer LGPS benefits and other services. 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 regular meetings are held between LCC and WYPF to understand and manage any performance issues.

Event	No. Cases	Target Days to Complete	No. Cases Target Met	Minimum Target %	Target Met %
AVC in-house	301	10	283	85	94.0
Beneficiary to update	217	5	212	85	97.7
Change of address	3,018	5	2,954	85	97.9
Change of bank details	309	5	274	85	88.67
Death grant nomination received	8,350	20	6,084	65	72.9
DWP request for information	25	10	24	85	96
Death grant single payment	144	5	144	90	100
Death grant set up and pay	106	5	83	85	78.3
Death in retirement	477	5	438	85	91.8
Death in deferment	20	5	19	85	95
Death in service	19	5	16	85	84.2
Death notification	605	5	605	90	100
Deferred benefits into payment - actual	667	5	611	90	91.6
Deferred benefits into payment - quote	694	35	680	85	97.9
Deferred benefits set up on leaving	1,004	10	504	85	50.2
Divorce quote	181	20	162	85	89.5

Divorce settlement – pension sharing order implemented	7	80	7	100	100
Life certificate received	16,176	20	15,951	85	98.6
Monthly posting	2,522	10	1,971	95	78.2
Payroll changes	344	5	336	90	97.7
Pension estimate	1,128	10	926	75	82.1
Refund payment	315	10	310	95	98.4
Refund quote	444	35	405	85	91.2
Retirement actual	561	3	520	90	92.7
Retirement quote	624	10	571	85	91.5
Spouse – set up new pension	217	5	199	85	91.7
Spouse potential	28	10	26	85	92.9
Transfer in payment received	58	35	55	85	94.8
Transfer in quote	107	35	100	85	94.5
Transfer out payment	31	35	27	85	87.1
Transfer out quote	126	20	106	85	84.1

As can be seen from the table above, one area is highlighted in red:

- Deferred benefits set up on leaving – this is a low priority area, and leavers are notified that they will receive information on their deferred benefits in due course. It also includes a backlog from one employer in sending leavers forms in, which is being addressed.

Two areas are highlighted in amber:

- Death grant set up and pay – this is at 78.3% compared to a target of 85%. The process is being reviewed to ensure that the number of cases where the target is met is improved.
- Monthly posting – all employers are required to submit their data on a monthly basis, however over the year this was at 78.2% against a target of

95%. Work continues with the employers and their payroll providers to improve this, particularly with the increasing numbers of academies.

The shared service arrangement with West Yorkshire Pension Fund (WYPF) to provide Pensions Administration services for the Lincolnshire Pension Fund is now two years old. This arrangement was made to improve efficiency and reduce costs in the provision of the Pensions Administration service, and this is now being seen.

A satellite office for WYPF 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 main change for employers was the move from an annual data return to a monthly process. This is now bedded in and 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 Pension Board take a keen interest in the administration of the Fund, and receive regular presentations (see their annual report on p16) on all aspects of the administration service.

The Pension Fund Manager 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 Pension Fund Manager 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.

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.

From 1st 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 1st 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 Department for Communities and Local Government. The bands, as they stood at 31st March 2017, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £13,600	5.5%
More than £13,600 and up to £21,200	5.8%
More than £21,200 and up to £34,400	6.5%
More than £34,400 and up to £43,500	6.8%
More than £43,500 and up to £60,700	8.5%

More than £60,700 and up to £86,000	9.9%
More than £86,000 and up to £101,200	10.5%
More than £101,200 and up to £151,800	11.4%
Over £151,800	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 1/49th 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.

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 5th 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 1st 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 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may 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 may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

From 1st April 2008 to 31st 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 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 under this tranche are outlined below:

Contributions

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

Benefits

The retirement age for scheme members is 65. However, employees may 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, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/60th (1/80th for service accrued prior to 1 April 2008) 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) are increased each April in line with inflation.

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 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.

Death-benefits

Death in service attracts a tax free lump sum of three time's 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 'nominated' dependent partners pensions are based on post 5th 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 1st 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 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may 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 may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

Up to 31st 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 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 of this tranche are outlined below:

Contributions

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

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years' service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/80th 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 are linked to the movement in inflation.

Lump Sum Payments

A member receives 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 can be taken as tax free cash.

Ill Health Retirement

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

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single 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 of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may 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 is 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, Pension Fund Manager 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 April, 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 receive a one-to-one training session with the Pension Fund Manager.

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

Activity in 2016/17

A full training plan was taken to Pensions Committee in April 2016 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	Topic	KSF area(s)
26th May 2016		
Committee topics	External Manager Presentations	1,4,5
14th July 2016		
Committee topics	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	Internal Manager Presentation	4
	Annual Property Report	4,5
	Draft Fund Report and Accounts	2
	Policies Review Report	1,4
	Risk Register Annual Review	1,4
6th October 2016		
Committee topics	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	External Manager Presentation	4
	Audit Governance Report	2
	Annual Fund Performance Report	4
	Stewardship Code Statement	1,4
8th December 2016		
Committee topics	External Manager Presentations	4,5

5th January 2017		
Committee topics	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	2016 Valuation Update Report	6
	LGPS Asset Pooling Update	1
8th March 2017		
Committee topics	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	Funding Strategy Statement	1,4,6
	Investment Strategy Statement	1,4
	LGPS Asset Pooling Update	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.

Lincolnshire Pension Fund

Pension Fund Account - Year Ended 31 March 2017

	See note	2015/16 £000	2016/17 £000
Contributions and Benefits			
Contributions Receivable	6	(85,292)	(90,083)
Transfers In	7	(7,077)	(5,170)
		(92,369)	**(95,253)**
Benefits Payable	8	80,745	80,219
Leavers	9	2,649	3,209
		83,394	**83,428**
Net additions from dealings with Fund members		**(8,975)**	**(11,825)**
Management Expenses	10	11,035	11,841
Net additions including management expenses		**2,060**	**16**
Returns on Investments			
Investment Income	11	(27,895)	(29,264)
Profit/Loss on Forward Foreign Exchange	14	18,004	37,156
Change in Market Value of Investments	13A	5,058	(364,274)
Net Returns on Investments		**(4,833)**	**(356,382)**
Net Increase in the Fund During the Year		(2,773)	(356,366)
Opening Net Assets of the Fund		(1,756,283)	(1,759,056)
Closing Net Assets of the Fund		**(1,759,056)**	**(2,115,422)**

Net Asset Statement as at 31 March 2017

	See note	2015/16 £000	2016/17 £000
Investments			
Investment Assets	13	1,747,802	2,104,148
Investment Liabilities	13	(3,661)	(4,383)
Total Net Investments		**1,744,141**	**2,099,765**
Current Assets	20	18,450	19,188
Current Liabilities	21	(3,536)	(3,531)
Net Assets of the Fund available to fund benefits at the end of the reporting period		**1,759,056**	**2,115,422**

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 19.

Notes to the Pension Fund Account

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
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 225 contributing employer organisations in the Fund including the County Council (a list of employers is shown in Note 29) and over 70,000 members, as detailed below:

	31 March 2016	31 March 2017
Number of Employers with Active Members	**197**	****225**
Number of Employees in the Scheme		
Lincolnshire County Council	12,868	11,457
Other Employers	12,583	13,436
Total	**25,451**	**24,893**
Number of Pensioners in the Scheme		
Lincolnshire County Council	12,232	13,913
Other Employers	6,049	6,003
Total	**18,281**	**19,916**
Deferred Pensioners		
Lincolnshire County Council	20,752	21,206
Other Employers	6,866	6,976
Total	**27,618**	**28,182**

**Number of employers will differ from those listed in note 24 due to academies within MAT's and prime account schools

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 contribution rates were set ranging from 15.9% to 29.1% of pensionable pay. In addition, the majority of employers are paying 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 uprated 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, disability pensions and death benefits. For more details, please refer to our shared pensions website at www.wypf.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at year end as at 31 March 2017.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, 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. 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 accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll 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.

Employer augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. 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 during the financial year and are calculated in accordance with the relevant regulations. 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. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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 Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Administrative expenses

All administrative expenses are accounted for on an accruals basis. 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.

Oversight and Governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with the governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment expenses

All investment management expenses are accounted for on an accruals basis.

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.

The costs of the Council's in-house fund management team are charged to the Fund.

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

Financial 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 15). 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 2017 are shown in Note 30.

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 (see note 15).

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

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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 19).

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 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.

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.

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 18.

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.

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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	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 £303m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £35m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £262m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £131m.
Private Equity	Private Equity investments are valued at fair value in	The total private equity investments in the Fund are £43.3m. There is a risk that

	accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	these may be over or understated in the accounts.

6 Contributions Receivable

Contributions receivable are analysed below:

	2015-16 £000	2016-17 £000
Employers		
Normal	57,734	60,252
Deficit Funding	7,793	9,401
Additional – Augmentation	1,119	1,198
Members		
Normal	18,551	19,001
Additional Years	95	231
	85,292	**90,083**

These contributions are analysed by type of Member Body as follows:

	2015-16 £000	2016-17 £000
Lincolnshire County Council	36,864	36,193
Scheduled Bodies	42,713	47,975
Admission Bodies	5,715	5,915
	85,292	**90,083**

7 Transfers In From Other Pension Funds

	2015-16 £000	2016-17 £000
Individual Transfers from Other Schemes	7,077	5,170
Group Transfers from Other Schemes	0	0
	7,077	**5,170**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2017.

8 Benefits Payable

	2015-16 £000	2016-17 £000
Pensions	64,624	66,666
Commutations and Lump Sum Retirement Benefits	14,405	11,920
Lump Sum Death Benefits	1,716	1,633
	80,745	**80,219**

These benefits are analysed by type of Member Body as follows:

	2015-16 £000	2016-17 £000
Lincolnshire County Council	43,281	43,169
Scheduled Bodies	34,512	33,758
Admission Bodies	2,952	3,292
	80,745	**80,219**

9 Payments To and On Account of Leavers

	2015-16 £000	2016-17 £000
Individual Transfers to Other Schemes	2,574	2,988
Group Transfers from Other Schemes	0	0
Refunds to Members Leaving Service	75	221
	2,649	**3,209**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2017.

10 Management Expenses

This analysis of the costs of managing the Lincolnshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The external Audit fee for the year was £0.024m (£0.028m in 2015/16):

	2015-16 £000	2016-17 £000
Administrative Costs	1,654	1,130
Investment Management Expenses	9,030	10,038
Oversight and Governance Costs	351	673
Total Management Expenses	**11,035**	**11,841**

A further breakdown of the investment management expenses is shown below.

	2015-16 £000	2016-17 £000
Transaction Costs	664	837
Management Fees	7,397	6,883
Performance Related Fees	531	1,499
Custody Fees	438	819
Total Investment Management Expenses	**9,030**	**10,038**

11 Investment Income

	2015-16 £000	2016-17 £000
Equities	26,458	27,954
Pooled Investments		
Property	899	912
Alternatives	0	(2)
Cash Deposits	55	78
Stock Lending	483	322
	27,895	**29,264**

12 Taxes on Income

	2015-16 £000	2016-17 £000
Withholding Tax - Equities	1,057	1,283
	1,057	**1,283**

13 Investments

	2015-16 £000	2016-17 £000
Investment Assets		
Equities	951,839	726,451
Pooled Investments		
Property	199,306	218,419
Private Equity	56,338	43,334
Bonds	227,600	262,168
Equities	99,033	577,302
Alternatives	183,434	245,375
Cash Deposits	24,570	26,609
Investment Income Due	5,183	4,189
Amounts Receivable from Sales	499	301
Total Investment Assets	**1,747,802**	**2,104,148**
Investment Liabilities		
Open Forward Foreign Exchange (FX)	(2,354)	(3,668)
Investment Income payable	0	(1)
Amounts Payable for Purchases	(1,307)	(714)
Total Investment Liabilities	**(3,661)**	**(4,383)**
Net Investment Assets	**1,744,141**	**2,099,765**

13A Reconciliation of Movements in Investments

Period 2016/17	Market Value 31 March 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2017 £000
Equities	951,839	321,843	(789,482)	242,251	726,451
Pooled Investments					
Property	199,306	16,223	(8,072)	10,962	218,419
Private Equity	56,338	774	(19,838)	6,060	43,334
Bonds	227,600	159,941	(142,904)	17,531	262,168
Equities	99,033	436,053	(2,654)	44,870	577,302
Alternatives	183,434	88,467	(69,126)	42,600	245,375
	1,717,550	**1,023,301**	**(1,032,076)**	**364,274**	**2,073,049**
Cash deposits	24,570				26,609
Other Investment balances:					
Open Forward FX	(2,354)				(3,668)
Amounts receivable for sales	499				301
Investment income due	5,183				4,188
Amounts payable for purchases	(1,307)				(714)
Net investment assets	**1,744,141**				**2,099,765**

Period 2015/16	Market Value 31 March 2015 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2016 £000
Equities	972,857	302,531	(280,881)	(42,668)	951,839
Pooled Investments					
Property	189,640	2,766	(8,972)	15,872	199,306
Private Equity	73,692	3,450	(32,271)	11,467	56,338
Bonds	228,549	1,926	(2,986)	111	227,600
Equities	88,445		(906)	11,494	99,033
Alternatives	164,801	81,006	(61,039)	(1,334)	183,434
	1,717,984	**391,679**	**(387,055)**	**(5,058)**	**1,717,550**
Cash deposits	25,695				24,570
Other Investment balances:					
Open Forward FX	(4,825)				(2,354)
Amount receivable for sales	2,134				499
Investment income due	4,960				5,183
Amounts payable for purchases	(1,796)				(1,307)
Net investment assets	**1,744,152**				**1,744,141**

13B Analysis of Investments

Geographical Analysis of Fund Assets as at 31 March 2017:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	398,290	489,866	415,597	1,303,753
Bonds	262,168			262,168
Alternatives incl. PE & Property	199,260	40,769	267,099	507,128
Cash and Equivalents	26,609			26,609
Total	**886,327**	**530,635**	**682,696**	**2,099,658**

Geographical Analysis of Fund Assets as at 31 March 2016:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	325,544	364,828	360,500	1,050,872
Bonds	35,858	23,774	167,967	227,599
Alternatives incl. PE & Property	181,013	71,757	186,309	439,079
Cash and Equivalents	24,570			24,570
Total	**566,985**	**460,359**	**714,776**	**1,742,120**

An analysis of the type of pooled investment vehicles is given below:

	2015-16 £000	2016-17 £000
Property		
Unit Trusts	145,608	161,526
Other Managed Funds (LLP's)	56,698	56,893
Private Equity		
Other Managed Funds (LLP's)	56,338	43,334
Bonds		
Other Managed Funds	227,600	262,168
Equities		
Other Managed Funds	99,033	577,302
Alternatives		
Other Managed Funds	183,434	245,375
Total Pooled Vehicles	**768,711**	**1,346,598**

13C Investments Analysed by Fund Manager

Fund Manager	31 March 2016 £m	31 March 2016 %	31 March 2017 £m	31 March 2017 %
Externally Managed				
Invesco	367	21	496	24
Neptune	82	5	0	0
Schroders	88	5	118	6
Columbia Threadneedle	95	5	122	6
Morgan Stanley (Global Brands)	99	6	179	8
Morgan Stanley (Alternatives)	187	10	246	12
Morgan Stanley (Private Equity)	61	4	45	2
Blackrock	120	7	262	12
Legal & General	0	0	398	19
BMO	108	6	0	0
Internally Managed				
Property	202	12	226	11
UK Equity	333	19	0	0
Total	**1,742**	**100**	**2,092**	**100**

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 as follows:

Investment	31 March 2016 £000	31 March 2016 %	31 March 2017 £000	31 March 2017 %
BMO Absolute Return Bond Fund	108,036	6.2	0	0
Legal & General UK Equity Fund	0	0	398,286	18.8
Blackrock 1-5yr Corporate Bond Fund	0	0	125,928	6.0
Morgan Stanley Alternative Investments	183,434	10.7	245,375	11.6
Morgan Stanley Global Brands	99,033	5.7	179,016	8.5

13D 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 £20.761m (£38.866m at 31 March 2016) and this value is included in the net assets statement to reflect the Funds 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 £22.876m (£42.486m at 31 March 2016), which represented 110.2% 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 £0.362m for the year ending 31 March 2017 (£0.477m at 31 March 2016) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

14 Analysis of Derivatives

Objectives and policies for holding 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. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

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						
	GBP	16	AUD	25	0	
	USD	505	GBP	405		(1)
Over one month						
	CHF	19,400	GBP	15,676		(90)
	EUR	96,500	GBP	82,972		(189)
	GBP	1,171	CAD	1,947	3	
	GBP	17,557	CHF	21,800	36	
	GBP	101,684	EUR	118,581		(34)
	GBP	106,069	JPY	14,968,000		(1,534)
	GBP	763,567	USD	965,881		(6,466)
	JPY	13,909,000	GBP	98,438	1,536	
	USD	679,800	GBP	538,425	3,071	
Total					**4,646**	**(8,314)**
Net Forward Currency Contracts at 31 March 2017						**(3,668)**
Prior Year Comparative						
					19,276	(21,630)
Net Forward Currency Contracts at 31 March 2016						**(2,354)**

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. The total of £37,156m also includes the unrealised loss of £4.1m (unrealised loss of £3.8m in 2015/16) from the Fund's two currency overlay managers.

15 Fair Value – Basis of Valuation

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 which represent the highest and best price available at the reporting date.

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
Private Equity	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 material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and 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 2017.

	Assessed valuation range (+/-)	Value at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Private Equity	21%	43,334	52,434	34,234

15A 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.

Values at 31 March 2017	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Non-tiered £000	Total £000
Financial Assets					
Fair value through profit and loss	1,570,410	218,419	288,709		2,077,538
Loans and receivables				45,797	45,797
Total	**1,570,410**	**218,419**	**288,709**	**45,797**	**2,123,335**
Financial Liabilities					
Fair value through profit and loss				(4,382)	(4,382)
Measured at amortised cost				(3,531)	(3,531)
Total				**(7,913)**	**(7,913)**
Net Investment Assets	**1,570,410**	**218,419**	**288,709**	**37,885**	**2,115,422**

Values at 31 March 2016	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Non-tiered £000	Total £000
Financial Assets					
Fair value through profit and loss	1,303,429	199,306	293,773		1,742,508
Loans and receivables				43,021	43,021
Total	**1,303,429**	**199,306**	**293,773**	**336,794**	**1,785,529**
Financial Liabilities					
Fair value through profit and loss				(22,937)	(22,937)
Measured at amortised cost				(3,536)	(3,536)
Total				**(26,473)**	**(26,473)**
Net Investment Assets	**1,303,429**	**199,306**	**239,773**	**310,321**	**1,759,056**

15B Reconciliation of Fair Value Measurements within Level 3

Period 2016/17	Market value at 31 March 2016 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value at 31 March 2017 £000
Private Equity	56,338	0	0	774	(19,838)	(10,486)	16,546	43,334
Alternatives	183,434	0	0	88,467	(69,126)	18,230	24,370	245,375
Total	**239,772**	**0**	**0**	**89,241**	**(88,964)**	**7,744**	**40,916**	**288,709**

Period 2015/16	Market value at 31 March 2015 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value at 31 March 2016 £000
Private Equity	73,692	0	0	3,450	(32,271)	11,328	139	56,338
Alternatives	164,801	0	0	81,006	(61,039)	(13,557)	12,223	183,434
Total	**238,493**	**0**	**0**	**84,456**	**(93,310)**	**(2,229)**	**12,362**	**239,772**

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.

16 Financial Instruments

16A 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 2016			31 March 2017		
	Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Equities	951,839			726,451		
Pooled investments						
Property	199,306			218,419		
Private Equity	56,338			43,334		
Bonds	227,600			262,168		
Equities	99,033			577,302		
Alternatives	183,434			245,375		
Cash		33,898			37,490	
Other investment balances	24,958			4,489		
Debtors		9,123			8,307	
	1,742,508	**43,021**		**2,077,538**	**45,797**	
Financial Liabilities						
Other Investment Balances	(22,937)			(4,382)		
Creditors			(3,536)			(3,531)
	(22,937)		**(3,536)**	**(4,382)**		**(3,531)**
Grand Total	**1,719,571**	**43,021**	**(3,536)**	**2,073,156**	**45,797**	**(3,531)**

16B Net Gains and Losses on Financial Instruments

	2015/16 £000	2016/17 £000
Financial Assets		
Designated at fair value through profit and loss	(5,058)	364,274
Loans and receivables		
Financial Liabilities		
Fair value through profit and loss	(2,354)	(3,668)
Financial liabilities at amortised cost		
Total	**(7,412)**	**360,606**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17 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 the 2016-17 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the

investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movements (+/-)
UK Bonds	8%
UK Equities	13%
Overseas Equities	12%
Property	13%
Private Equity	21%
Alternatives	8%

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 2017 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	262,168	8%	283,141	241,195
UK Equities	398,290	13%	450,068	346,512
Overseas Equities	905,463	12%	1,014,119	796,807
Property	218,419	13%	246,813	190,025
Private Equity	43,334	21%	52,434	34,234
Alternatives	245,375	8%	265,005	225,745
Total	**2,073,049**		**2,311,580**	**1,834,518**

Asset Type	Value at 31 March 2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	119,564	8%	129,129	109,999
Overseas Bonds	108,036	4%	112,357	103,715
UK Equities	347,676	13%	392,874	302,478
Overseas Equities	703,195	12%	787,578	618,812
Property	199,306	13%	225,516	173,396
Private Equity	56,339	21%	68,170	44,508
Alternatives	183,434	8%	198,109	168,759
Total	**1,717,550**		**1,913,433**	**1,521,667**

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 risks, 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 2017 and 31 March 2016 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 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 2017 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	26,609	0	26,609	26,609
Cash balances	10,881	0	10,881	10,881
Bonds	262,168	2,622	264,790	259,546
Total	**299,658**	**2,622**	**302,280**	**297,036**

Assets Exposed to Interest Rate Risk	Value at 31 March 2016 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	24,570	0	24,570	24,570
Cash balances	9,328	0	9,328	9,328
Bonds	227,599	2,276	229,875	225,323
Total	**261,497**	**2,276**	**264,773**	**260,162**

Income Exposed to Interest Rate Risk	Value at 31 March 2017 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	76	8	84	68
Total	**76**	**8**	**84**	**68**

Income Exposed to Interest Rate Risk	Value at 31 March 2016 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	55	6	61	49
Total	**55**	**6**	**61**	**49**

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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

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.

To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13%, as measured by one standard deviation (10% in 2015-16).

A 13% fluctuation in the currency is considered reasonable based on an analysis of historical movements in volatility of exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets Exposed to Currency Risk	Value at 31 March 2017	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	726,447	94,438	820,885	632,009
Pooled Investments:				
Overseas/Global Equity	179,016	23,272	202,288	155,744
Overseas/Global Property	19,159	2,491	21,650	16,668
Overseas/Global Private Equity	43,335	5,634	48,969	37,701
Total	**967,957**	**125,835**	**1,093,792**	**842,122**

Assets Exposed to Currency Risk	Value at 31 March 2016	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	604,163	78,541	682,704	525,622
Pooled Investments:				
Overseas/Global Equity	88,445	11,498	99,943	76,947
Overseas/Global Property	18,747	2,437	21,184	16,310
Overseas/Global Private Equity	55,886	7,265	63,151	48,621
Overseas Bonds	108,036	14,045	122,081	93,991
Total	**875,277**	**113,786**	**989,063**	**761,491**

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, forward currency contracts 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.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated.

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 31st March 2017, these assets totalled £1,566m, with a further £37m held in cash. 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 performed 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 Pension Fund Manager 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 $22 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 2009. 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.

18 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) 1 April 2017-31 March 2020	Secondary Rate (£000) 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.

19 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 2017 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 2016/17 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 un

#ider 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 2017	31 March 2016
Active members (£m)	1,347	1,373
Deferred members (£m)	755	491
Pensioners (£m)	1,174	900
Total	**3,276**	**2,764**

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). 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 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £507m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £52m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	3.7%
Discount Rate	2.6%	3.5%

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 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 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	262
0.5% p.a. increase in the Salary Increase Rate	2%	70
0.5% p.a. decrease in the Real Discount Rate	10%	338

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 2017 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 by:-

Anne Cranston AFA
12 May 2017
For and on behalf of Hymans Robertson LLP

20 Current Assets

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension Fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Debtors includes £4.701m relating to contributions due from employers (£4.018m in 2015/16) and £1.411m for contributions due from employees (£1.306m in 2015/16).

Current Assets	31 March 2016 £000	31 March 17 £000
Debtors	7,417	7,028
Long term debtors	1,705	1,279
Cash balances	9,328	10,881
Total	**18,450**	**19,188**

Analysis of Debtors

	31 March 2016 £000	31 March 17 £000
Debtors		
Central Government Bodies	1,512	345
Other Local Authorities	5,079	6,007
NHS Bodies	0	0
Public Corporations and Trading Funds	133	0
Other Entities and Individuals	693	676
Total	**7,417**	**7,028**
Long Term Debtors		
Central Government Bodies	1,705	1,279
Other Local Authorities	0	
NHS Bodies	0	
Public Corporations and Trading Funds	0	
Other Entities and Individuals	0	
Total	**1,705**	**1,279**

21 Current Liabilities

Creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year.

Current Liabilities	31 March 2016 £000	31 March 17 £000
Creditors	(3,536)	(3,531)

Analysis of Liabilities

	31 March 2016 £000	31 March 17 £000
Creditors		
Central Government Bodies	(560)	9
Other Local Authorities	(1,291)	(4)
NHS Bodies	0	0
Public Corporations and Trading Funds	(1,664)	0
Other Entities and Individuals	(21)	(3,536)
Total	**(3,536)**	**(3,531)**

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 £8.902m (£9.095m in 2015-16). Member contributions of £1.020m (£0.993m in 2015/16) were received by the Prudential in the year to 31st March and £1,954m (£1.513m in 2015/16) 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.

23 Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the council incurred costs of £226,278 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 £25.6m to the Fund in 2016/17. 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 £10.4m and interest of £61k was earned over the year.

Governance

Under legislation introduced in 2003-04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of their current term as Councillor. Committee members M Allan, R Phillips, P Wood and A Antcliff are contributing members of the Pension Fund as at 31st March 2017. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

24 Key Management Personnel

Paragraph 3.9.4.2 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 Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) 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 disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at Note 34. This can be found on the Council's website at www.lincolnshire.gov.uk.

25 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 19 investment vehicles amounted to £20.9m.

26 Contingent Assets

Five 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.

27 Impairment Losses

The Fund has no recognised impairment losses.

28 Dividend Tax Claims

The County Council has lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. Claims relate to Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

The table below summarise the position of the claims as at 31st March 2017. It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

Territory	Claim Period	Amount (local currency)	Submitted	Status
Fokus Bank Claims				
Netherlands	2004-2006	€130,076	Jan 2010	Claims repaid in Jan 2010
Germany	2007-2010	€191,946	Dec 2011	Awaiting response from German tax authorities
Spain	Q4 2007-Q4 2009	€85,072	Jan 2012	Claim repaid except for Q4 2007 (claim amount €10,545) awaiting decision from Spanish tax authorities
Total		**€407,094**		
FID- Mannimen claims	1994-1998	£793,497	Aug 2006	The test case is being progressed by Pinsent Masons. Following the Court of Appeal's decision in June 2015, the case was referred to the CJEU on the substantive issue. The CJEU hearing took place on 9 November 2016 and the Advocate General (a legal expert of the CJEU) issued a positive Opinion in respect to the FID claim, however, we await the final CJEU decision. The negative decision issued by the Court of Appeal on the time limit issue was appealed to the Supreme Court however this has been rejected. The next step is to appeal to the High Court however it is proposed to wait until the substantive issue has been resolved.
Stock lending claims	2004-2014	£1,422,421	Feb 2010,Feb 2011, Jul 2012 and Aug 2016	The test case is being progressed by Pinsent Masons. The test case was heard at the First Tier Tribunal in November 2015. The Tribunal rejected the claim to recover withholding tax on MODs. The Tribunal compared the receipt of a manufactured dividend to a foreign dividend, whereas we believe it should have been compared to a UK manufactured dividend. Permission to appeal to the Upper Tribunal was granted. The test claimant also submitted a request to refer the case to the CJEU however this request has been denied.
Total		**£2,215,918**		

29 Scheduled & Admitted Bodies

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	186	17	203
Admitted Body	17	12	29
Total	**203**	**29**	**232**

Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2017:

County and District Councils	Pinchbeck PC	**Academies**
Lincolnshire County Council	Skegness TC	Aegir Community Academy
(incl. LCC Schools)	Skellingthorpe PC	Alford Queen Elizabeth
Boston Borough Council	Sleaford TC	Barnes Wallis Academy
East Lindsey District Council	Stamford TC	Beacon Primary
City of Lincoln Council	Sutton Bridge PC	Boston Grammar
North Kesteven District Council	Sudbrooke PC	Boston High School
South Kesteven District Council	Washingborough PC	Boston John Fielding
South Holland District Council	Woodhall Spa PC	Boston West Academy
West Lindsey District Council		Boston Witham Federation
	FE Establishments	Bourne Abbey Academies Trust
Internal Drainage Boards	Bishop Grosseteste University	Bourne Academy
Black Sluice	Boston College	Bourne Grammar
Lindsey Marsh	Grantham College	Bourne Westfield Primary
North East Lindsey	Lincoln College	Bracebridge Infant and Nursery
South Holland	Stamford College	Branston Community Academy
Upper Witham		Branston Junior Academy
Welland and Deeping	**Other Scheduled Bodies**	Browns CofE Academy
Witham First	Acorn Free School	Caistor Grammar Academy
Witham Fourth	BG Lincoln	Caistor Yarborough
Witham Third	Compass Point	Carlton Academy
	Lincs Police Chief Constable	Castle Wood Academy
Parish and Town Councils	Police & Crime Commissioner	Charles Read Academy
Billinghay PC		Cordeaux Academy
Bourne TC	**Admitted Bodies**	Edenham CofE Academy
Bracebridge Heath PC	Acis Group	Ellison Boulters Academy
Cherry Willingham PC	Active Lincolnshire	Ermine Primary
Crowland PC	Active Nation	Fosse Way Academy
Deeping St James PC	Adults Supporting Adults	Gainsborough Benjamin Adlard
Gainsborough TC	Boston Mayflower	Gainsborough Parish Church
Gedney PC	Edwards & Blake	Giles Academy
Greetwell PC	G4S	Gipsey Bridge Academy
Heighington PC	GLL	Gosberton House Academy
Horncastle TC	Lincoln Arts Trust	Grantham Ambergate
Ingoldmells PC	Lincoln BIG	Grantham Isaac Newton Primary
Langworth PC	Lincs HIA	Grantham Kings School
Louth TC	Kier Group	Grantham Sandon
Mablethorpe & Sutton TC	Making Space	Grantham Walton Girls
Market Deeping TC	Magna Vitae	Harrowby CofE Infants
Metheringham PC	New Linx Housing	Hartsholme Academy
Nettleham PC	Serco	Heighington Millfield Academy
North Hykeham TC	Vinci	Hillcrest EY Academy

Academies (cont)	Market Rasen De Aston	Stamford Malcolm Sargent
Holbeach Primary	Mercer's Wood Academy	Stamford St Augustines
Hogsthorpe Primary Academy	Morton CofE Academy	Stamford St Gilberts
Horncastle Banovallum	Mount Street Academy	Stamford Welland Academy
Horncastle QE Grammar	National CofE Junior	St Bernards Academy Louth
Huntingtower Community Primary	Nettleham Infants Academy	St Lawrence Academy Horncastle
Huttoft Primary Academy	North Kesteven School	The Deepings Academy
Ingoldsby Primary Academy	North Thoresby Primary	The Gainsborough Academy
Ingoldmells Academy	Phoenix Family Academy	The Garth School
John Spendluffe Tech College	Priory Federation of Academies	The Priory School
Keelby Primary Academy	Rauceby CofE	The Phoenix School
Kesteven & Sleaford High	Ruskington Chestnut Street	Theddlethorpe Primary Academy
Kesteven & Grantham Academy	Sir Robert Pattinson Academy	Thomas Cowley Academy
Kidgate Primary Academy	Sir William Robertson	Thomas Middlecott Academy
Kirkby La Thorpe	Skegness Academy	Tower Road Academy
Lincolns Anglican Academies	Skegness Grammar	University Academy Holbeach
Lincoln Castle Academy	Skegness Infant Academy	Utterby Primary Academy
Lincoln Christs Hospital School	Skegness Junior Academy	Wainfleet Magdalene Primary
Lincoln Our Lady of Lincoln	Sleaford Carres Grammar	Warren Wood Specialist Academy
Lincoln St Hugh's Catholic	Sleaford Our Lady of Good Counsel	Washingborough Acadedmy
Lincoln St Peter & St Paul's	Sleaford St Georges	Welton St Mary's CofE
Lincoln UTC	Sleaford William Alvey	Welton William Farr CE
Lincoln Westgate Primary	Somercotes Academy	West Grantham Federation
Ling Moor Academy	South Witham Community	Weston St Mary
Little Gonerby CofE	Spalding Academy	White's Wood Academy
Long Bennington CofE	Spalding Grammar	William Lovell Academy
Louth King Edward VI Grammar	Spilsby Eresby	Witham St Hughs Academy
Mablethorpe Academy	Spilsby King Edward Academy	Woodhall Spa St Andrews
Manor Farm Academy	Spilsby Primary Academy	Woodlands Academy Spilsby
Manor Leas Infant Academy	St Giles Academy	
Manor Leas Junior Academy	St John's Primary Academy	

30 Exchange Rates Applied

The exchange rates used at 31 March 2017 per £1 sterling were:

Australian Dollar	1.63915	Mexican Peso	23.55115
Brazilian Real	3.9701	Norwegian Krone	10.73995
Canadian Dollar	1.66765	New Zealand Dollar	1.7888
Swiss Franc	1.2516	Polish Zloty	4.95425
Danish Krone	8.69405	Swedish Krona	11.1644
Euro	1.1691	Singapore Dollar	1.74725
Hong Kong Dollar	9.7179	Thai Baht	42.9686
Indonesian Rupiah	16,662.87	Turkish Lira	4.5537
Israeli Shekel	4.53975	Taiwan Dollar	37.9418
Japanese Yen	139.3377	US Dollar	1.25045
Korean Won	1,398.378	South African Rand	16.76695

Audit Opinion

Independent auditor's report to the members of Lincolnshire County Council on the pension fund financial statements published with the Lincolnshire Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 43 to 78.

Respective responsibilities of the Executive Director of Finance and Public Protection and the auditor

As explained more fully in the Statement of the Executive Director of Finance and Public Protection Responsibilities, the Executive Director of Finance and Public Protection is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Lincolnshire Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Lincolnshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in the Lincolnshire Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Lincolnshire Pension Fund for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Lincolnshire Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

John Cornett

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

September 2017

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 Department for Communities and Local Government.

Lincolnshire Pension Fund

Funding Strategy Statement

March 2017

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Funding Strategy Statement

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Appendices

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, Pension Fund Manager 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 DCLG 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 DCLG 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
    - Phoenix Family of Schools
    - Priory Federation of Academies
    - Tall Oaks Academy Trust
    - 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 Department of Communities & Local Government (DCLG) 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 DCLG 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, DCLG 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.

DCLG 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 Department for Communities and Local Government (DCLG) 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 Department for 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 DCLG 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 DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG 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

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 Pension Fund Manager.

The ISS, which was approved by the Committee on 8th March 2017, 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 for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2017. The FSS, which was approved by the Pensions Committee on 8th March 2017, 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 and Cash	
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
Cash	LIBID 7 Day
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, JPMorgan, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

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	Demographic assumptions are

	longevity or ill-health retirement, will increase the value of the Fund's liabilities.	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 unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors 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 (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

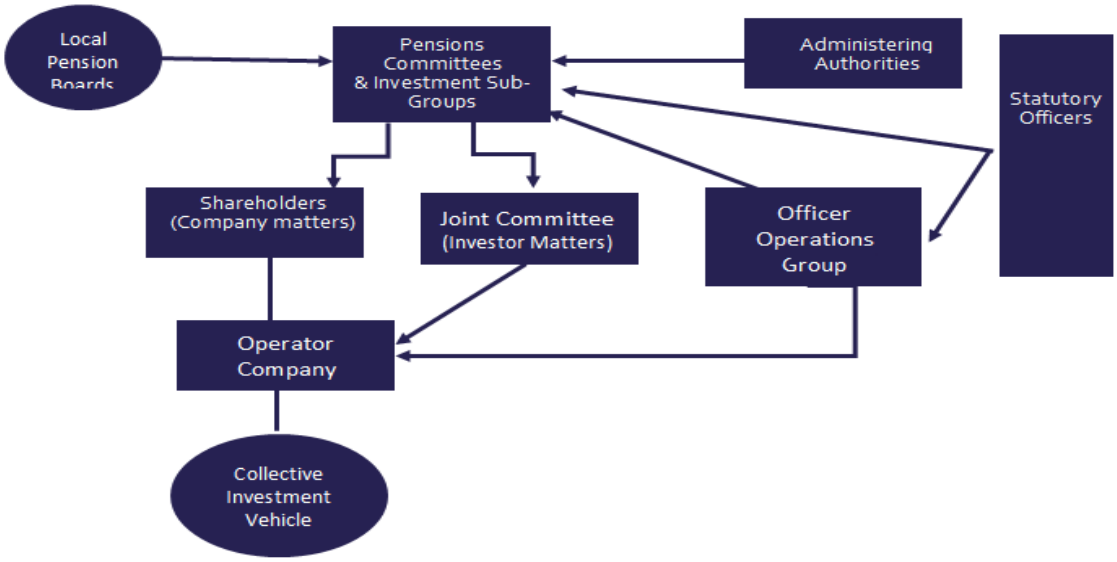
BCPP is a partnership of the administering authorities of the following LGPS Funds:

- 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
- South Yorkshire Passenger Transport 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 proposed governance structure of BCPP is as follows:



The Fund will hold BCPP 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 BCPP Limited.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- 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 BCPP Limited.

It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. 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 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 BCPP. At the current time it is estimated that c. 66% of the Fund's assets will be invested in BCPP 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.

It is considered that the Pensions Committee represents the views of the Fund membership and that 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 believe 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.

Whilst the Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, it does not have a specific policy on Stewardship, other than that stated in the Statement of Investment Principles. 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 a member of the Pensions Committee 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 Fund level, rather than by appointed managers, using a third party voting agency, Manifest. A general global voting template is agreed by the Pensions Committee using the best practice principles advised by Manifest. Voting decisions for non-standard items are made on a case-by-case basis using the analysis produced by Manifest and take into account any voting alerts provided by LAPFF, or where needed, additional information is requested from managers. The Fund reports quarterly to the Pensions Committee 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 our voting policies and 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.

In addition, the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies, and is used when making voting decisions.

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 SRKW. 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 Committee member Cllr Eddie Strengiel is the named representative responsible for attending these meetings and actively participates in any discussions and setting of the work programme. He raises any concerns that the Fund may have and feeds back to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Manager, 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 maintained at Fund level, and not delegated to the Fund's appointed asset managers. The Fund exercises all votes for its UK, developed Europe, US, Canada and Japanese equity holdings. Votes are cast in accordance with a template that represents best practice corporate governance standards, that is agreed by the Pensions Committee. Advice on best practice is supplied by the

voting agency Manifest. This includes consideration of company explanations of compliance with the Corporate Governance Code. Reports are presented to the Pensions Committee on a quarterly basis on how votes have been cast, and controversial issues are often discussed at committee meetings.

The Fund will only support the Board when the recommendations meet the best practice requirements in the guidance supplied by the Fund's voting advisor, Manifest. All votes cast by the Fund are logged in Manifest's on-line system, which also identifies where the Fund has voted against the Board and reasons why. The Fund always responds to requests from companies to explain voting outcomes, and will, wherever possible, explain in advance of the actual vote being cast.

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, JPMorgan. 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 Councils voting service provider's online system, which records all votes undertaken, and from reports produced by LAPFF.

Although voting is not delegated to managers, they are required to share their engagement activity with the Fund on a regular basis.

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.

Approved by Lincolnshire Pension Committee 8th March 2017

COMMUNICATION POLICY STATEMENT
LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME

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 200 employers and over 70,000 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 Department of 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
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact centre	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	2 per year	Mail
	Annual benefit statement	1 per year	Mail
	Pre-retirement course	Monthly	Face to face
LGPS deferred members (including representatives of deferred members)	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact Centre	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
	Annual meeting	1 per year	Meeting
LGPS pensioner members (including representatives of retired members)	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Pension advice slips	As and when net	Mail

		pension varies by 25p or more	
	P60	1 per year	Mail
	Social media	Constant	Web
	Newsletter	1 per year	Mail
	Annual meeting	1 per year	Meeting

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
	Pension Matters and Xtra	12 per year and as and when required	E-mail
	Social media	Constant	Web
	Ad hoc meetings	As and when required	Face to face
	Workshops	10 per year	Face to face
	Introduction to Pensions	Bi-monthly	Face to face
	Online training video	Constant	Web

Reviewed 13th July 2017 by the Pensions Committee

GOVERNANCE POLICY AND COMPLIANCE STATEMENT
LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME

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;

- set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice,
- appoint and review the performance of all Fund Managers and associated professional service providers,

- approve the Annual Report and Statement of Accounts of the Fund,
- consider any other matters relevant to the operation and management of the fund, and
- respond to any relevant consultation impacting upon the Local Government Pension Scheme.

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, Pension Fund Manager (email: jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Reviewed 13th July 2017 by the Pensions Committee

Lincolnshire Pension Fund

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**	Yes	**Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of**

	secondary committee.		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	Yes	All members are treated equally in every respect.

	secondary forum.		
	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**	Yes	**All members are treated equally in every respect.**

	of main and secondary committees or panels have equal access to 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.**

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