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Lincolnshire COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

25 September 2019

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 3 October 2019** in **Committee Room Three, County Offices, Newland, Lincoln Lincs LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Debbie Barnes OBE
Head of Paid Service

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

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

Co-Opted Members

Mr A N Antcliff, Employee Representative
Steve Larter, Small Scheduled Bodies Representative
Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 3 OCTOBER 2019

11	**Pension Fund External Audit Report** *(To receive a report by Claire Machej (Accounting, Investment and Governance Manager), which summarises the findings from the work undertaken by the Council's External Auditors, Mazars, in giving their opinion on the Pension Fund Accounts and Annual Report)*	99 - 120
12	**Investment Beliefs Report** *(To receive a report by Jo Ray (Head of Pensions), which summarises the work undertaken at the Committee training held on 03 September 2019 to create a set of Investment beliefs and Responsible Investment Beliefs)*	121 - 124
13	**2019 Valuation Update Report** *(To receive a report by Jo Ray (Head of Pensions), which introduces the Fund's Actuary, Hymans Robertson, who will present the draft whole Fund results of the 2019 triennial valuation)*	125 - 126
14	**Draft Funding Strategy Statement** *(To receive a report by Jo Ray (Head of Pensions), which brings the draft Funding Strategy Statement to the Committee for discussion)*	127 - 176

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

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

Contact details set out above.

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

Lincolnshire COUNTY COUNCIL
Working for a better future

PENSIONS COMMITTEE
18 JULY 2019

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

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

Co-Opted Members: Mr A N Antcliff (Employee Representative) and Jeff Summers (District Councils Representative)

Councillors: attended the meeting as observers

Officers in attendance:-

Andrew Crookham (Executive Director Resources), Claire Machej (Accounting, Investment and Governance Manager) and Jo Ray (Head of Pensions)

8 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins and Mr J Grant (Small scheduled bodied representative).

9 DECLARATIONS OF MEMBERS' INTERESTS

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

10 MINUTES OF THE PREVIOUS MEETING HELD ON 13 JUNE 2019

RESOLVED:

That the minutes of the meeting held on 13 June 2019 be approved as a correct record and signed by Chairman.

11 INDEPENDENT ADVISORS REPORT

Consideration was given to a report by the Committee's Independent Advisor, which provided a market commentary on the current state of global investment markets, including an update on the current state of Equity and Bond Markets; Economic Growth and Central Banks and Equity Markets.

Members were advised that the Fund had grown by around £200m since the start of the year and the Pension Fund was in a healthy position.

RESOLVED:

That the report be noted.

12 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

Consideration was given to a report by the Independent Chairman of the LGPS Local Pensions Board, which provided an update on the recent work of the Board and set out the outcomes from the Pensions Board meeting held on the 21 March 2019.

Concerns were raised that there were still some members of the Pensions Committee who had not completed the Pensions Regulator's training toolkit. It was recommended that the committee adopt a requirement that any member joining the Pensions Committee or Board should complete the Pensions Regulators Training Toolkit within six months of taking office.

RESOLVED:

A) That the report be noted;

B) That the recommendation that the committee adopt a requirement that any member joining the Pensions Committee or LGPS Pensions Board complete the Pensions Regulator's training toolkit within six months of taking office be considered as part of the report on the Annual Training Plan and Policy the Training Policy paper later in the agenda.

13 PENSION FUND UPDATE REPORT

Consideration was given to a report by the Head of Pensions, which provided an update on Fund matters over the quarter ending 31 March 2019.

Members were informed that the value of the Fund had increased by 6.9% as of 31 March 2019. Members were referred to Appendix A for a breakdown of the Fund's Distribution.

It was noted that the Fund would make its first investment into the Border to Coast Pensions Partnership in the coming months, into the Global Equity Alpha Fund.

It was expected that the Good Governance Review being undertaken for the Scheme Advisory Board would propose a mandatory minimum level of training and knowledge for the Pensions Committee, similar to that required for Pension Board members.

It was explained that the Actuarial contract expired in December 2019. To reduce any potential impact to the Fund and employers, the Head of Pensions recommended that the committee to approve a ten month extension to the contract to 31 October 2020. This would allow for completion of the 2019 fund valuation and 2019/20 employer accounting reports.

In response to a question, it was clarified that all eight of the Border to Coast sub-funds would transition over to the Global Equity Alpha sub-fund at the same time. A

transitions manager had been appointed to manage this process. A report on the cost of the transition would be brought to the committee in due course.

The Head of Pensions invited Members to provide feedback on any conference or training events that they had recently attended.

The Chairman had attended the PLSA Conference, which had seen an update from the Pensions Regulator and had looked at the good governance review and the effects of an ageing society.

The Chairman had also attended the LAPF Strategic Investment Conference, in which the main theme had been Environmental, Social and Corporate Governance, and had included Asset class updates.

Members were asked to notify the Head of Pensions or the Accounting, Investment and Governance Manager if they wished to attend the Border to Coast conference or any other future training events.

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

- The Head of Pensions agreed to look into whether the two columns in the table at Appendix D for Columbia Threadneedle had been transposed and would inform the committee once this had been investigated.
- It was explained that the transition to the Global Equity Alpha Fund would take a number of days from the initial transition date. Existing managers would be asked to move to a care and maintenance basis a short time in advance of the transition, to ensure that their portfolios were managed effectively ahead of the transition.
- It was confirmed that extending the Actuarial Contract for ten months was the most cost effective way of carrying out the business.

RESOVLED:

1) That the report be noted;

2) That the extension to the contract for Actuarial Services to 31 October 2020 be approved.

14 PENSIONS ADMINISTRATION REPORT

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

Members were informed that as of 17th June 2019, there had been 86.7% of Annual Benefit Statements issues to members, and it was expected that the Fund should meet 100% compliance by the end of August deadline.

The Business Development Manager provided an update on the McCloud Judgement. Members were informed that the government had confirmed that as transitional protection brought in when the schemes moved to a CARE basis was across all public service pension's schemes. Following the judgement on age discrimination, the difference in treatment would need to be remedied across all public sector schemes, and that agreement of any remedy may take a number of months. It was explained that the Government Actuary Department had provided information to Local Authority Pension Funds on the potential impact of this judgement on the liabilities of the scheme.

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

- It was explained that the LGPS transitional protection arrangements were less than some of the other public sector schemes.
- It was clarified that under the care scheme, members' pensions were calculated based on a percentage of what you earn each year.
- The Chairman congratulated the WYPF for winning the Best Administration Awards at the Pensions Age Awards and the European Pensions Awards.

RESOLVED:

That the report be noted.

15 EMPLOYER MONTHLY SUBMISSIONS UPDATE

Consideration was given to a report by the Accounting, Investment and Governance Manager, which provided the committee with up-to-date information on Employer Monthly Submissions Update for the fourth quarter of the financial year 2018/19.

Members were advised that a summary of all late contributions or data submissions since April 2018 had been included within the report. It was explained that there were a number of reasons why employers submitted late contributions or data in the quarter. These included staff changes; the merger of a number of schools into larger academy trusts and the change of payroll providers at a number of employers.

Members were asked to consider whether they wished to take any further action on those employers who had submitted late data or contributions.

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

- It was clarified that there was a dedicated member of staff within the pension's team that was responsible for monitoring contributions.
- WYPF offered guidance and training to employers on submissions, and were always willing to out and discuss contributions with employers.
- Officers felt that educating employers was more beneficial than increasing fines for late submissions.
- It was clarified that there were only a small number of employers that repeatedly paid their contributions late or did not submit the data on time.

- It was explained that officers recommend to all employers that their payroll staff undertake the relevant training to assist with making accurate and timely contributions, but the Fund did not have the authority to set a mandatory requirement for this training.

RESOLVED:

1. That the report be noted;

2. That no further action be taken against employers submitting late data or contributions.

16 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report by the Accounting, Investment and Governance Manager, which provided an update on the Lincolnshire Pension Fund's assets over the period from 1 January 2019 to 31 March 2019.

The committee received an update on the Fund's Funding Level; Performance and Asset Allocation; Hymens Robertson Manager Ratings and an Individual Manager Update.

In response to a question, it was clarified that the report covers short to long term monitoring of managers performance, and that any short term falls in performance needed to be considered alongside the longer term performance of a manager. The committee were reminded that if any concerns arise about a manager between Pension Committee meetings, details would be provided in the monthly letter that was sent to all members of the committee and board.

RESOLVED:

That the report be noted.

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

Consideration was given to a report by the Accounting, Investment and Governance Manager, which outlined the performance of the Fund's property and infrastructure investments for the year ended 31 March 2019.

Members were informed that the Pension Fund's investment in property and infrastructure generated a return of 4.25%, which was behind the benchmark return of 5.31%. It was noted that within this there was a significant variation in performance between different elements of the portfolio.

Members were invited to ask questions, in which the following points were raised:

- It was clarified that the investments in the Innisfree Infrastructure Funds were mainly Private Finance Initiative (PFI) schemes, which were primarily held in the UK (but also had schemes in Canada, Sweden and the Netherlands). They are traditional PFI schemes such as schools, hospitals and infrastructure schemes, such as rail links.
- It was explained that as the Fund were not currently looking to change any of their property or infrastructure holdings, as these assets will be transferring to Border to Coast. It would be too costly to make a change at this point and then have a further transition to Border to Coast in the near future.

RESOLVED:

That the report be noted.

18 LINCOLNSHIRE PENSION FUND RISK REGISTER

Consideration was given to a report by the Head of Pensions, which provided the Pension Fund Risk Register to the committee for annual review.

It was recommended that Risk P1 of the risk register be changed from a status of poor (red risk), to be assessed as fair(blue risk), following the appointment of the new Executive Director – Resources and the completion of a skills gap analysis and agreement of a training programme.

The committee were also referred to Appendix A of the report, which set out the Fund's Draft Risk Policy. Members were invited to consider and approve the Risk Policy.

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

- Officers explained that the McCloud Judgement had been assessed by the actuary who had concluded that it was not a material risk at a fund level. It was therefore not felt necessary to include it on the risk register at this time.
- The Board were in agreement that risk P1 should be amended from poor to fair, now that the Executive Director – Resources had been appointed and a skills gap analysis had been undertaken.

RESOLVED:

1. That the Risk Management Policy be approved;
2. That the Risk Register be approved, subject to the amendment of Risk P1 from a red to a blue risk.

19 INTERNAL AUDIT REPORT

Consideration was given to a report by the Head of Pensions, which presented the latest Internal Audit Report undertaken on the Pension Fund.

Members were informed that the Fund had been given high assurance at its most recent internal audit, and that only one recommendation had been made. This was in relation to training which required the pension team to:

- Monitor and Update the training log on a regular basis;
- Ensure that all members undertake all the training required in the Pension training plan and policy and other training needed following changes to policy or statutory requirements; and
- Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee.

It was noted that the Good Governance Project was likely to put forward a proposal to the Scheme Advisory Board that the training requirement for Pension Committees should be at least equal to that of Pensions Boards.

Members were invited to consider the whether a mandatory minimum level of training should be required for all members of the committee, and if so, agree the timescales in which this should be undertaken.

In response to a question, it was explained that the Fund also had an annual external audit on its' report and accounts.

RESOLVED:

1. That the report be noted;

2. That a mandatory training plan be agreed for all Board and Committee members.

20 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

Consideration was given to a report by the Head of Pensions, which set out the training policy and annual training plan for the Pensions Committee Members for the year to June 2020.

Members were informed that a training policy had been developed to respond to the various requirements made in regulations and guidance to ensure that both committee members and officers are suitably knowledgeable to perform their duties within the Pension Fund.

Members were asked to agree the training topics organised for the training taking place on the 3rd September, and suggest topics for the February training session to add to the plan.

The Accounting, Investment and Governance Manager agreed to re-circulate the invitation to the CIPFA Introduction to the LGPS training in September to Members.

RESOLVED:

1. That the training policy be approved;

2. That the decision on the February training session be deferred until the outcome of Brexit is known;

3. That the annual training plan be approved, subject to amendments to make certain training mandatory.

21 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

Consideration was given to a report by the Accounting, Investment and Governance Manager, which presented the Fund's draft Annual Report and Accounts for the committee's approval.

The Committee was advised that the Audit Committee would receive the External Auditors draft Audit Completion Report for the Lincolnshire Pension Fund on Monday 22 July. Based on the audit work undertaken to date officers had been advised that there was one unadjusted identified mis-statement for 2018/19, which was just above the 'trivial' threshold for reporting to the Audit Committee. The unadjusted mis-statement identified has a net £710k impact on the Investment Asset Balance in the financial statements. The variance is due to timing differences between the valuation reports available to officers when the draft financial statements are prepared and the latest valuation reports available during the audit.

The Committee was assured that the differences, which were attributable to the timing of the availability of information, were not unusual and the difference was not to be amended by Management. Management would review its accounting practice in relation to the valuation approach for private equity, property and infrastructure in 2019/20 to accommodate this type of movement.

The Accounting, Investment and Governance Manager agreed to circulate the glossary of terms included within the report to all members of the committee.

RESOLVED:

That the draft Annual Report and Accounts be approved.

22 2019 VALUATION ASSUMPTIONS

Consideration was given to a report by the Head of Pensions, which detailed the final assumptions that the Fund's Actuary, Hymans Robertson, were proposing to use for the 2019 Triennial Valuation.

Members were advised that the Triennial Valuation process was a statutory requirement to provide a funding level for the Pension Fund and contribution rates for the employers to pay over the following three years.

The committee were asked to approve the proposed valuation assumptions, as set out in the report.

Members were invited to ask questions, in which the following points were raised:

- The Head of Pensions agreed to circulate the presentations from the December committee meeting to all those who were not in attendance.
- It was confirmed that the committee had assets of £2.4billion and the current contributions totalled approximately £100m per annum.
- Discussion was had on how prudent the assumptions should be.
- Members agreed that it would be beneficial to use a future training session to understand the different approaches used to value liabilities ahead of the actuarial services tender in autumn 2020.

RESOLVED:

1. That the report be noted;

2. That the 2019 Valuation Assumptions be approved.

The meeting closed at 12.37 pm

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Independent Advisor's Report**

Summary:

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

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary – October 2019

Global economic recession? The risk is rising

Recent market movements

Markets in the summer months, especially in August, are often thinly traded and prone to significant moves. This year was no exception. Equities fell sharply in early August: by about 5% in the USA and rather more in Europe and elsewhere. They have since traded sideways and now seem to have formed a “base” from which, in September, they could advance. The surprising move, though, was in bond markets. The yield on the 10 Year US Treasury Bond (the largest and most liquid in the world) fell in August from around 2% to 1.5%. This may not sound much but is highly significant to professional investors. The conclusion that some participants are drawing is that they expect an economic recession in the USA, probably in 2020, and almost certainly therefore elsewhere in the world and especially in Europe. The UK gilt market experienced a similar fall in yields.

Economic trends

The volatility in equity markets in August was probably triggered by the continuing trade tensions between the USA and China. The negotiations show little sign of being brought to a mutually acceptable conclusion. The row has already led to a reduction in international trade. The expectation of many economists is that this reduction will lead to a fall in the domestic economic output of both the USA and

China. So far, it seems that USA is still growing at about 2% per annum and China at maybe 5% plus. Historically, these are not stellar rates, but they are respectable. Elsewhere though, there is certainly a negative effect on emerging markets. Parts of Europe are already experiencing recessionary conditions, most notably Germany (heavily reliant on its export of cars and machinery) and in Italy. It is not difficult see the UK falling into recession. The second quarter saw a mild contraction because of de-stocking, following the aborted withdrawal by the UK from the EU at the end of March. Early indications for the third quarter, ending in September, are for a significant fall in output. A figure as high as 2% has been mooted. This would certainly cause anxiety amongst equity investors and support the global bond markets at these low current yields.

Politics

And the summer has been notable for political turmoil almost everywhere around the world. The trade tensions between the USA and China have already been mentioned. The Brexit shenanigans are familiar to every committee member. There is the continuing unrest in Hong Kong and a range of minority governments struggling to impose their will on their legislatures, e.g. UK, Germany and Spain. So politics are hardly supportive of equity markets and raises the attraction of safer bond markets.

Central Banks

Waiting quietly in the wings are the world's central banks. They have, almost without exception, indicated their willingness to ease monetary conditions and to reduce interest rates in an effort to support their respective economies. The economic data have not yet been sufficiently bad to warrant an intervention. Of more importance, however, is whether such moves could be effective in providing economic stimulus. Short term interest rates are so low that many investors and economists have their doubts, which I share. It is inconceivable that the kind of central bank interventions at the time of the global financial crisis some ten years ago could produce such a large stimulating effect.

Prospects

Yields on government bonds are now so low (many are on negative yields, e.g. Germany and Japan) that it is difficult to see a major part of institutional cash flows invested there. The only other markets with deep liquidity are global equities. The jitters by such investors in early August has passed, at least for now. I think equity markets will therefore trade sideways to up. As ever, significant falls will bring in "cheap" buyers. All this is predicated on the belief that central banks will "ride to the rescue" if there is a significant deterioration in the global economy. I am sure they will. The much more important question, in the medium term, is how equity markets react if they see that central bank actions are ineffective in boosting their respective economies. Then, the potential for a sharp fall in equities is quite likely - if not probable. The trigger for that might well be the worsening health of the global clearing banks.

Conclusion
Peter Jones

9 September 2019

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Report by the Independent Chair of the Lincolnshire Local Pension Board**

Summary:

The purpose of this report is:

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

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

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

Recommendation(s):

The Pensions Committee is requested to note the report.

Background

1.0 <u>OUTCOMES FROM PENSION BOARD MEETING ON 18 JULY 2019</u>

1.1 The PB met on the 18 July and its main focus was on the following topics:

A) **Governance** – the PB regard Lincolnshire's compliance with the Pension Regulator's Code of Practice as very important in the overall context of governance of the pension scheme. It is pleasing to report that Lincolnshire was largely compliant in that there were 94 green and I not relevant out of 99 items in the Code. There were still 4 partially compliant – one of which concerns members of both the Pensions Committee and PB in completing the Regulator's training toolkit.

B) **Employer Monthly Submissions and Contribution Monitoring** – the PB considered a further update on the payment of contributions and employer submissions. Generally, the payment of contributions and the Employer Data Submissions on a timely basis are good but there are still a few outliers. For the twelve months ended March 2019, there were 35 cases of

the late payment of contributions and 117 cases of the late submission of the monthly returns. This is both disappointing and unacceptable. The Board acknowledged that it was necessary to work with employers to attempt to resolve issues before taking further action, as it was important to maintain good relationships with them. The PB will continue to monitor the situation.

C) **Data Scores** – the PB considered a further update from WYPF on the data scores for the Lincolnshire Pension Fund as reported to the Pensions Regulator; these were Common 96.01% and Scheme Specific 94.81%. The target is 100%, particularly for Common Data. WYPF are currently working on a data improvement plan, using a tracing company in an attempt to track lost members. The PB will continue to monitor the position because the Pensions Regulator expects an improvement in data quality for all public sector schemes.

D) **Pension Benefits in Suspense** – in an earlier report, I mentioned that when a member reaches pension age and they have not been successfully traced, WYPF had set up a HSBC bank account with sub accounts for each pensioner. This avoids any unauthorised payment tax charges for the members once they are found. The Board requested a detailed report on the amounts currently held in these Sub Accounts and the proposed course of action to find the members. The number of temporary deposit accounts currently held for lost contact pensioners and deferred members was 56, with a total of £93,764 held by HSBC. The number of temporary deposit accounts held for post 2014 preserved refunds was 7, with a small total of almost £150 held by HSBC. The PB was advised that WYPF review annually the bank accounts and carry out traces to locate the rightful owners of the funds held on a temporary basis. The PB requested a further update including timescales as to the length of time each unclaimed benefit has been outstanding.

E) **Other Matters** – the PB also considered the Pension Fund draft Annual Report and Accounts and congratulated the Head of Pensions on an excellent document. The PB also considered and noted the 2019 actuarial valuation assumptions.

Conclusion

<u>ASSURANCES GAINED BY THE BOARD</u>

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

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

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

Roger Buttery
Independent Chairman

September 2019

Consultation

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

No

b) Risks and Impact Analysis

N/A

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters over the quarter ending 30 June 2019 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Risk Register Update
5. Asset Pooling Update
6. Investment Consultant Objectives
7. Conference and Training Attendance

Recommendation(s):

That the Committee note the report and delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

Background

1. Funding Level Update

1.1 The Committee are normally provided with a quarterly update of the funding level. This is based on a roll forward from the latest valuation, currently March 2016. As the new funding level will be reported to the Committee at item 13 on this agenda a roll forward from April 2016 has not been provided this quarter. The new valuation information will be rolled forward quarterly from this meeting to give the Committee an updated position on estimated funding levels.

2. Responsible Investments

Voting

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

Local Authority Pension Fund Forum Membership

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

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

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

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

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

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

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

- During this quarter, LAPFF engaged with 62 companies on issues ranging from human rights and Board composition to climate change reporting and environmental risk.

- LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how companies were approaching this element of the new code, LAPFF undertook a survey of the FTSE companies, with a response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply with the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step.

- In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.

- The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen.

- LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following the proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies to continue to work with California to find solutions to reducing greenhouse gases.

- LAPFF issued voting alerts ahead of the Facebook, Twitter and Alphabet general meetings, recommending that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.

- Other climate-related voting alerts were issued in relation to the BP, Rio Tinto, Andarko, Chevron and ExxonMobil Annual General Meetings.

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

3 TPR Checklist Dashboard

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

3.2 One area has changed since the last quarter's report, at B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14? All members of the Pensions Committee and Board have now completed their TPR Toolkit training, turning this indicator to green.

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

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

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

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

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.
Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend.

4 Risk Register Update

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

4.2 There have been no changes to the risk register since its annual review at the July meeting of this Committee. There is just one risk that remains red, as shown below. This was added in June 2016 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 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		

*As a reminder, L is Likelihood and I is Impact.

5 Asset Pooling Update

Sub Funds

5.1 The Fund will be making its first investment with Border to Coast in the coming months, into the Global Equity Alpha Fund. The next investments are expected to be into the Investment Grade Credit and the Multi Asset Credit funds, where approval was given, subject to appropriate due diligence, at the June Committee meeting.

5.2 The current portfolios managed by Columbia Threadneedle and Schroders will fully transition into the Global Equity Alpha sub-fund. The holdings in the Morgan Stanley Global Brands vehicle will be partially transferred into the Global Equity Alpha sub-fund, to make an overall allocation of approximately 17.5%. The remainder of the Morgan Stanley Global Brands holding will be redeemed to purchase units in the Blackrock short-dated Corporate Bond Fund, ahead of transferring into the Multi Asset Credit sub-fund, which will be available some time in 2020. The Fund and Border to Coast are working very closely with the transitions manager, Blackrock, to ensure an efficient transition from legacy managers to the new managers within the Global Equity sub-fund.

5.3 The development of the Alternatives products have progressed well, with the Private Equity and Infrastructure sleeves open and they have made their first commitments. Work is progressing on the Private Credit sleeve, with commitments expected to be made in the next few months. Discussion is still being had with Funds and advisors on the other alternative

requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.

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

5.5 The Fund's investment consultant, Paul Potter (Hymans Robertson), will update the Committee in December on the transition path for Lincolnshire's assets, and discuss the options for UK equities and the remaining Global equity mandate.

Joint Committee Meetings

5.5 The Joint Committee (JC) last met on 11 September 2019, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:

- Annual elections for the Role of Chairman and Vice Chairman of the Joint Committee and annual nomination for the Border to Coast Board
- Joint Committee Budget
- Annual Performance Overview: UK Equity Fund and Overseas Developed Fund
- Chief Executive Officer (CEO) Report
- Alternative Asset update

5.6 The outcome of the elections for the Chairman and Vice Chairman for the Joint Committee was for Cllr Doug McMurdo (Beds) and Cllr Tim Evans (Surrey) to take a second term each. The nomination for the Partner Fund Director (replacing Cllr John Weighall – North Yorks) to be put forward to the Border to Coast Board was Cllr John Holtby (East Riding). Cllr Sue Ellis (South Yorks) announced she would be standing down in her role as Partner Fund Director, therefore there will be another request for nominations, with votes cast by postal vote, in the coming weeks.

5.7 The next JC meeting is being held on 20 November 2019 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

Shareholder Matters

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

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

5.9 Border to Coast held its AGM on 18th July, and the votes listed below were submitted:

- Adoption of the Report and Accounts (now published);
- Re-appointment of Auditors;
- Approval of the Conflicts of Interest Policy;
- Confirming the process for approving in-year Directors' conflicts of interest;
- Receiving the Register of Directors;
- Approving the extension of Enid Rowland's contract as Non-Executive Director until 31 July 2022; and
- Approving the appointment of a new Non-Executive Director to the Board following due process.

All resolutions were passed.

5.10 Border to Coast is holding its annual conference in Leeds on 10 and 11 October. There will be ten attendees from the Fund, taking all the allocated places.

6 Investment Consultant Objectives

6.1 In December 2018, the Competition and Markets Authority (CMA) published its report following a review of the investment consulting and fiduciary management markets. The CMA has set out their final Order, including a requirement for pension scheme trustees to set objectives for their investment consultants. We are awaiting further details from the Ministry for

Housing, Communities and Local Government (MHCLG) on how the CMA's requirements will be translated into LGPS regulations.

6.2 Whilst we are still unsure of how elements of the CMA requirements will impact LGPS funds, one of their requirements is that trustees should set objectives for their investment consultants prior to appointment, or by 10 December 2019. It is anticipated that this will definitely apply to LGPS Funds.

6.3 Given timescales, the Committee are asked to delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

7 Conference and Training Attendance

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

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

Conclusion

8 The work with Border to Coast continues and the first transition from the Fund's global equity managers to the Global Alpha sub-fund is happening in the coming months. Planning is already underway for the next transitions into Investment Grade Credit and Multi-Asset Credit.

9 Following the CMA order explained in paragraph 6 above, the Committee are asked to delegate authority to the Executive Director of Resources, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree a set of objectives for the Fund's Investment Consultant.

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	Equity Voting Activity
Appendix B	TPR Checklist Dashboard

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

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Appendix A

Manager Voting – Apr-Jun 2019

Schroders

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Antitakeover Related	Reduce Supermajority Vote Requirement	0	2	2
	Amend Right to Call Special Meeting	0	1	1
Director Related	Elect Director	6	270	276
	Declassify the Board of Directors	0	1	1
	Appoint Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	1	3	4
	Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	0	1	1
Remuneration	Advisory Vote to Ratify Named Executive Officers'Compensation	5	18	23
	Amend Non-Employee Director Restricted Stock Plan	0	1	1
	Amend Omnibus Stock Plan	0	1	1
	Approve Omnibus Stock Plan	1	3	4
	Approve Retirement Bonuses for Directors	0	1	1
	Approve/Amend Executive Incentive Bonus Plan	0	1	1
Routine/Business	Approve Allocation of Income and Dividends	1	1	2
	Approve Auditors and Authorize Board to Fix Their Remuneration Auditors	0	1	1
	Approve Financial Statements, Allocation of Income, and Discharge Directors	0	1	1
	Ratify Auditors	0	23	23
Shareholder resolutions	Amend Articles/Bylaws/Charter - Call Special Meetings	3	1	4
	Amend Proxy Access Right	2	0	2
	Board Diversity	0	1	1
	Community -Environment Impact	1	0	1
	Gender Pay Gap	4	0	4
	Human Rights Risk Assessment	0	1	1
	Link Executive Pay to Social Criteria	1	1	2
	Miscellaneous Proposal -- Environmental & Social	3	1	4
	Political Lobbying Disclosure	2	0	2
	Provide Right to Act by Written Consent	4	0	4
	Proxy Voting Tabulation	0	1	1
	Report on Climate Change	1	0	1
	Report on EEO	1	1	2
	Require Independent Board Chairman	1	5	6
	Restore or Provide for Cumulative Voting	0	1	1

Columbia Threadneedle

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Antitakeover Related	Adjourn Meeting		1	1
	Authorise the company to call EGM with two weeks notice		3	3
Capitalization	Approve Cancellation of Capital Authorization		1	1
	Approve Issuance of Equity or Equity-Linked Securities with or without Preemptive Rights	2	5	7
	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	3	9	12
	Approve Issuance of Shares for a Private Placement	1		1
	Approve Reduction in Share Capital		3	3
	Approve Reduction/Cancellation of Share Premium Account		1	1
	Authorize Board to Increase Capital in the Event of Demand Exceeding Amounts Submitted to Shareholder Vote Above	1		1
	Authorize Board to Set Issue Price for 10 Percent of Issued Capital Pursuant to Issue Authority without Preemptive Rights		1	1
	Authorize Capital Increase for Future Share Exchange Offers	1		1
	Authorize Capital Increase of up to 10 Percent of Issued Capital for Future Acquisitions	1		1
	Authorize Capitalization of Reserves for Bonus Issue or Increase in Par Value		3	3
	Authorize Issuance of Equity or Equity-Linked Securities with Preemptive Rights		2	2
	Authorize Reissuance of Repurchased Shares	1	2	3
	Authorize Share Repurchase Program		8	8
	Set Global Limit for Capital Increase to Result From All Issuance Requests		1	1
Directors Related	Approve Discharge of Management Board		1	1
	Approve Discharge of Supervisory Board		1	1
	Approve Remuneration of Directors and/or Committee Members	1	2	3
	Elect Director	11	232	243
	Elect Supervisory Board Member		7	7
	Provide Proxy Access Right		1	1
	Ratify Changes in the Composition of the Board	1		1
	Advisory Vote to Ratify Named Executive Officers'Compensation	7	23	30
	Amend Non-Employee Director Restricted Stock Plan		1	1
	Amend Omnibus Stock Plan		4	4
	Amend Qualified Employee Stock Purchase Plan		1	1
	Approve Executive Share Option Plan	1		1
	Approve Increase in Aggregate Compensation Ceiling for Directors		1	1
	Approve Non-Qualified Employee Stock Purchase Plan		1	1

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Approve Omnibus Stock Plan		2	2
	Approve or Amend Severance Agreements/Change-in-Control Agreements		2	2
	Approve Qualified Employee Stock Purchase Plan		2	2
	Approve Remuneration Policy	4		4
	Approve Share Plan Grant		1	1
	Approve Stock Option Plan Grants	1		1
	Approve/Amend Bundled Remuneration Plans		1	1
Reorg. and Mergers	Approve Acquisition OR Issue Shares in Connection with Acquisition		1	1
	Approve Formation of Holding Company		1	1
	Approve Scheme of Arrangement		1	1
Routine/Business	Accept Consolidated Financial Statements and Statutory Reports		2	2
	Accept Financial Statements and Statutory Reports		9	9
	Adopt New Articles of Association/Charter		3	3
	Amend Articles/Bylaws/Charter -- Non-Routine		1	1
	Approve Allocation of Income and Dividends		4	4
	Approve Auditors and Authorize Board to Fix Their Remuneration Auditors		3	3
	Approve Delisting of Shares from Stock Exchange		1	1
	Approve Dividends		4	4
	Approve Financial Statements, Allocation of Income, and Discharge Directors		2	2
	Approve Political Donations		3	3
	Approve Special Auditors' Report Regarding Related-Party Transactions	1	1	2
	Approve Special/Interim Dividends		1	1
	Approve Stock Dividend Program		1	1
	Authorize Board to Fix Remuneration of External Auditor(s)		5	5
	Authorize Filing of Required Documents/Other Formalities		1	1
	Change Company Name		1	1
	Ratify Alternate Auditor		2	2
	Ratify Auditors		29	29
SH-Compensation	Clawback of Incentive Payments		1	1
	Link Executive Pay to Social Criteria	2		2
SH-Corp Governance	Approve Recapitalization Plan for all Stock to Have One-vote per Share		2	2
	Reduce Supermajority Vote Requirement		1	1
SH-Dirs' Related	Board Diversity	1		1
	Company-Specific Board-Related	1		1
	Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)		2	2
	Establish Environmental/Social Issue Board Committee	2		2
	Provide Right to Act by Written Consent		1	1

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Require a Majority Vote for the Election of Directors		2	2
SH-Gen Econ Issues	Employ Financial Advisor to Explore Alternatives to Maximize Value	1		1
SH-Other/misc.	Gender Pay Gap	3	1	4
	Political Contributions Disclosure		2	2
	Political Lobbying Disclosure	1	1	2
	Report on EEO	1		1
SH-Routine/Business	Require Independent Board Chairman		4	4
SH-Soc./Human Rights	Human Rights Risk Assessment	1		1
Social Proposal	Miscellaneous Proposal -- Environmental & Social	1	4	5

Invesco

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
Antitakeover Related	Adjourn Meeting	1	1	2
	Adopt, Renew or Amend NOL Rights Plan (NOL Pill)		1	1
	Adopt, Renew or Amend Shareholder Rights Plan (Poison Pill)	1	1	2
	Allow Board to Use All Outstanding Capital Authorizations in the Event of a Public Tender Offer or Share Exchange Offer	5		5
	Amend Right to Call Special Meeting		3	3
	Approve Modification in Share Ownership Disclosure Threshold	1		1
	Approve/Amend Stock Ownership Limitations		1	1
	Provide Right to Act by Written Consent		1	1
	Provide Right to Call Special Meeting		1	1
	Reduce Supermajority Vote Requirement		13	13
	Renew Partial Takeover Provision		1	1
	Require Advance Notice for Shareholder Proposals/Nominations		1	1
Capitalization	Approve Cancellation of Capital Authorization		2	2
	Approve Issuance of Equity or Equity-Linked Securities with or without Preemptive Rights	5	8	13
	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	9	21	30
	Approve Issuance of Shares for a Private Placement	2	7	9
	Approve Reduction in Share Capital		21	21
	Authorize Board to Increase Capital in the Event of Demand Exceeding Amounts Submitted to Shareholder Vote Above	2	5	7
	Authorize Board to Set Issue Price for 10 Percent of Issued Capital Pursuant to Issue Authority without Preemptive Rights	1	2	3
	Authorize Capital Increase for Future Share Exchange Offers	1	5	6

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Authorize Capital Increase of up to 10 Percent of Issued Capital for Future Acquisitions	1	7	8
	Authorize Capitalization of Reserves for Bonus Issue or Increase in Par Value	2	10	12
	Authorize Issuance of Equity or Equity-Linked Securities with Preemptive Rights	1	12	13
	Authorize Issuance of Equity Upon Conversion of a Subsidiary's Equity-Linked Securities		2	2
	Authorize Issuance of Warrants/Bonds with Warrants Attached/Convertible Bonds without Preemptive Rights	1		1
	Authorize New Class of Preferred Stock		1	1
	Authorize Reissuance of Repurchased Shares	2	1	3
	Authorize Repurchase of Debt Instruments and Reissuance of Repurchased Debt Instruments		1	1
	Authorize Share Repurchase Program	5	37	42
	Authorize Share Repurchase Program and Cancellation of Repurchased Shares		1	1
	Authorize Share Repurchase Program and Reissuance of Repurchased Shares	1	6	7
	Authorize Use of Financial Derivatives		1	1
	Company Specific - Equity Related		1	1
	Eliminate Preemptive Rights	1	7	8
	Increase Authorized Common Stock		2	2
	Set Global Limit for Capital Increase to Result From All Issuance Requests		3	3
Directors Related	Adopt Majority Voting for Uncontested Election of Directors		1	1
	Amend Articles Board-Related		7	7
	Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	1	3	4
	Appoint Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	15	44	59
	Approve Decrease in Size of Board		1	1
	Approve Discharge -- Other	1		1
	Approve Discharge of Board and President		13	13
	Approve Discharge of Management and Supervisory Board		1	1
	Approve Discharge of Management Board		17	17
	Approve Discharge of Supervisory Board	1	13	14
	Approve Executive Appointment		3	3
	Approve Remuneration of Directors and/or Committee Members	3	18	21
	Change Range for Size of the Board		1	1
	Company Specific--Board-Related		1	1
	Declassify the Board of Directors		2	2
	Dismiss/Remove Director(s)/Auditor(s) (Contentious)		2	2
	Elect Alternate/Deputy Directors		2	2
	Elect Board Chairman/Vice-Chairman		4	4

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Elect Board of Directors and Auditors (Bundled)		2	2
	Elect Director	112	2539	2651
	Elect Directors (Bundled)		2	2
	Elect Representative of Employee Shareholders to the Board	2	1	3
	Elect Subsidiary Director		22	22
	Elect Supervisory Board Member	2	49	51
	Elect Supervisory Board Members (Bundled)	1		1
	Fix Number of Directors and/or Auditors		9	9
	Indicate Personal Interest in Proposed Agenda Item	1		1
	Provide Proxy Access Right		1	1
Non-Salary Comp.	Advisory Vote on Golden Parachutes	1		1
	Advisory Vote to Ratify Named Executive Officers'Compensation	30	204	234
	Amend Articles/Charter Compensation-Related		2	2
	Amend Non-Employee Director Restricted Stock Plan		1	1
	Amend Non-Qualified Employee Stock Purchase Plan		3	3
	Amend Omnibus Stock Plan	2	19	21
	Amend Qualified Employee Stock Purchase Plan		5	5
	Approve Alternative Equity Plan Financing	1		1
	Approve Annual Bonus Payment for Directors and Statutory Auditors		9	9
	Approve Equity Plan Financing	3		3
	Approve Executive Share Option Plan	2	2	4
	Approve Increase in Aggregate Compensation Ceiling for Directors		4	4
	Approve Increase in Aggregate Compensation Ceiling for Statutory Auditors		4	4
	Approve Non-Qualified Employee Stock Purchase Plan		1	1
	Approve Omnibus Stock Plan	1	17	18
	Approve or Amend Severance Agreements/Change-in-Control Agreements	2	1	3
	Approve Qualified Employee Stock Purchase Plan	1	18	19
	Approve Remuneration of Executive Directors and/or Non-Executive Directors		1	1
	Approve Remuneration Policy	9	29	38
	Approve Restricted Stock Plan	4	20	24
	Approve Share Plan Grant	1	2	3
	Approve Stock/Cash Award to Executive	1		1
	Approve/Amend Bundled Remuneration Plans		4	4
	Approve/Amend Deferred Share Bonus Plan		1	1
	Approve/Amend Executive Incentive Bonus Plan		1	1
Preferred/Bondholder	The Undersigned Hereby Certifies that the Shares Represented by this Proxy are Owned and Controlled by a @ Citizen		2	2
Reorg. and Mergers	Amend Articles to: (Japan)	1	8	9

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Approve Acquisition OR Issue Shares in Connection with Acquisition		1	1
	Approve Formation of Holding Company		1	1
	Approve Merger Agreement		1	1
	Approve Reorganization/Restructuring Plan		1	1
	Approve Transaction with a Related Party		2	2
	Company Specific Organization Related		1	1
Routine/Business	Accept Consolidated Financial Statements and Statutory Reports		21	21
	Accept Financial Statements and Statutory Reports		49	49
	Acknowledge Proper Convening of Meeting		8	8
	Adopt the Jurisdiction of Incorporation as the Exclusive Forum for Certain Disputes		1	1
	Amend Articles/Bylaws/Charter -- Non-Routine		11	11
	Amend Articles/Bylaws/Charter -- Routine		2	2
	Appoint Censor(s)	1		1
	Approve Allocation of Income and Dividends	1	70	71
	Approve Auditors and Authorize Board to Fix Their Remuneration Auditors		21	21
	Approve Charitable Donations		1	1
	Approve Dividends		15	15
	Approve Financial Statements, Allocation of Income, and Discharge Directors		1	1
	Approve Minutes of Previous Meeting		7	7
	Approve Political Donations		1	1
	Approve Remuneration of Directors and Auditors		4	4
	Approve Special Auditors' Report Regarding Related-Party Transactions	3	7	10
	Approve Special/Interim Dividends		1	1
	Approve Standard Accounting Transfers		1	1
	Approve Stock Dividend Program		1	1
	Approve XX XXX, 20XX, as Record Date for Effectiveness of This Meeting's Resolutions		2	2
	Approve/Amend Regulations on General Meetings		1	1
	Authorize Board to Fix Remuneration of External Auditor(s)		4	4
	Authorize Board to Ratify and Execute Approved Resolutions		4	4
	Authorize Filing of Required Documents/Other Formalities		15	15
	Change Company Name		2	2
	Designate Inspector or Shareholder Representative(s) of Minutes of Meeting and/or Vote Tabulation		8	8
	Designate X as Independent Proxy		1	1
	Elect Chairman of Meeting		7	7
	Elect Member(s) of Nominating Committee		4	4
	Elect Member(s) of Remuneration Committee	1	4	5

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Prepare and Approve List of Shareholders		8	8
	Ratify Alternate Auditor		2	2
	Ratify Auditors		224	224
	Receive/Approve Report/Announcement		3	3
SH-Compensation	Adjust Executive Compensation Metrics for Share Buybacks	3		3
	Clawback of Incentive Payments	2	1	3
	Company-Specific--Compensation-Related	2	1	3
	Increase Disclosure of Executive Compensation	1		1
	Limit Executive Compensation	4	1	5
	Limit/Prohibit Accelerated Vesting of Awards	1	1	2
	Link Executive Pay to Social Criteria	4	1	5
	Report on Pay Disparity	1		1
	Stock Retention/Holding Period	1		1
	Use GAAP for Executive Compensation Metrics	1		1
SH-Corp Governance	Approve Recapitalization Plan for all Stock to Have One-vote per Share		3	3
	Company-Specific--Governance-Related	1		1
	Proxy Voting Tabulation	1		1
	Reduce Supermajority Vote Requirement		4	4
	Submit Severance Agreement (Change-in-Control) to Shareholder Vote		1	1
SH-Dirs' Related	Amend Articles Board-Related	1		1
	Amend Articles/Bylaws/Charter - Call Special Meetings	2	5	7
	Amend Proxy Access Right	4	7	11
	Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]		3	3
	Appoint Chairman of Internal Statutory Auditor(s) [and Approve His/Her Remuneration]		1	1
	Board Diversity	2		2
	Company-Specific Board-Related	1	1	2
	Declassify the Board of Directors		2	2
	Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	2	2	4
	Elect Supervisory Board Members (Bundled)		1	1
	Establish Environmental/Social Issue Board Committee	2		2
	Establish Other Governance Board Committee	4		4
	Provide Right to Act by Written Consent	4	13	17
	Removal of Existing Board Directors	2		2
	Require a Majority Vote for the Election of Directors		2	2
	Require Environmental/Social Issue Qualifications for Director Nominees			0
	Restore or Provide for Cumulative Voting	2	1	3
SH-Gen Econ Issues	Employ Financial Advisor to Explore Alternatives to Maximize Value	1		1

	Count of Vote Instruction	Vote Instruction		
Proposal code category	**Proposal Code Description**	**Against**	**For**	**Grand Total**
	Fair Lending		1	1
SH-Health/Environ.	Climate Change Action	1		1
	Community -Environment Impact	1	1	2
	Product Toxicity and Safety	2		2
	Recycling		1	1
	Report on Climate Change	2	1	3
SH-Other/misc.	Animal Welfare	1		1
	Charitable Contributions	1		1
	Company-Specific -- Shareholder Miscellaneous	1		1
	Gender Pay Gap	8	3	11
	Political Contributions Disclosure	4	5	9
	Political Lobbying Disclosure	3	11	14
	Report on EEO	2		2
SH-Routine/Business	Amend Articles/Bylaws/Charter -- Non-Routine	1		1
	Approve Allocation of Income/Distribution Policy	1		1
	Company-Specific -- Miscellaneous	1		1
	Require Independent Board Chairman	12	15	27
SH-Soc./Human Rights	Human Rights Risk Assessment	2		2
	Improve Human Rights Standards or Policies	1		1
Social Proposal	Miscellaneous Proposal -- Environmental & Social	9	1	10

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Appendix B

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	G	G
	Conflicts of Interest	
C1	G	G
C2	G	G
C3	G	G

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

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

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

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Pensions Administration Report**

Summary:

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

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

Recommendation(s):

That the Committee note the report.

Background

1.0 Performance and Benchmarking

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

1.2 The table below shows the performance against key areas of work for the period 1 January 19 to 31 March 19.

KPI's for the period 1.4.19 to 30.6.19						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
AVC In-house (General)	87	10	81	85	93.1	2.66
Age 55 Increase to Pension	2	20	2	85	100	13
Change of Address	320	5	313	85	97.81	0.63

WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
Change of Bank Details	105	5	93	85	88.57	2.29
DWP request for Information	55	10	52	85	94.55	3.98
Death Grant Nomination Form Received	743	20	743	85	100	4.38
Death Grant to Set Up	34	5	31	85	91.18	2.18
Death In Retirement	113	5	110	85	97.35	1.42
Death In Service	5	5	3	85	60	4
Death on Deferred	18	5	16	85	88.89	11.06
Deferred Benefits Into Payment Actual	362	5	347	90	95.86	2.25
Deferred Benefits Into Payment Quote	498	35	490	85	98.39	6.13
Deferred Benefits Set Up on Leaving	836	10	777	85	92.94	7.07
Divorce Quote	56	20	55	85	98.21	2.71
Divorce Settlement Pension Sharing order Implemented	3	80	3	100	100	0
Enquiry	9	5	8	85	88.89	2.11
General Payroll Changes	181	5	174	85	96.13	1.17
Initial Letter Death in Service	5	5	5	85	100	1.4
Initial letter Death in Retirement	113	5	111	85	98.23	3.81
Initial letter Death on Deferred	18	5	17	85	94.44	2.5
Monthly Posting	867	10	799	95	92.16	3.74
NI adjustment to Pension at State Pension Age	4	20	4	85	100	12
Pension Estimate	149	10	86	75	57.72	11.72
Refund Payment	189	10	186	95	98.41	0.9
Refund Quote	287	35	263	85	91.64	10.47
Retirement Actual	137	3	127	90	92.7	1.09
Set Up New Spouse Pension	85	5	78	85	91.76	3.15
Spouse Potential	6	20	5	85	83.33	14
Transfer In Actual	27	35	26	85	96.3	9.37
Transfer In Quote	46	35	45	85	97.83	3.8
Transfer Out Payment	22	35	17	85	77.27	23.73
Transfer Out Quote	118	20	93	85	78.81	19.03

*Reasons for underperforming KPI's:

Death In Service	Delay in information received
Monthly Posting	Files that cannot be validated because of errors, queries, mismatches etc. Average time taken across all employers is less than 10 days. Only one repeat offender (Woodlands Academy).
Pension Estimate	Large volume of work received and staff numbers low due to holidays and other areas of work given priority.
Spouse Potential	One case below KPI
Transfer Out Payment	Large volume of work received, so other areas of work given priority, but payments made within guarantee period so no impact on member.
Transfer Out Quote	Large volume of work received, so other areas of work given priority.

2.0 Scheme Information

2.1 Membership numbers as at June19 were as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	22,706	28,147	1,007	22,506	2,634
Percentage of Membership	29.49	36.55	0.48	29.23	3.4
Change from Last Quarter	-167	-26	-339	+563	-51

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	256	1,460	1,505	1,975	2,501	2,738	3,790	3,700	2,945	1,523	238	75	22,706

2.3 **Employer Activity - During April 19 to June19**

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

WYPF are currently working on 18 organisations becoming employers in LPF

3.0 Member and Employer Contact

3.1 Over the quarter April to June we received **1** online customer response.

Over the quarter April to June **155** Lincolnshire member's sample survey letters were sent out and **34 (22%)** returned:

Overall Customer Satisfaction Score:

April to June 2018	July to September 2018	October to December 2018	January to March 2019	April to June 2019
72.1%	81.6%	81%	81.3%	83.5%

Appendix 1 – Customer survey results.

3.2 Employer Training

Over the quarter April to June three Employer sessions were held in Lincolnshire, Introduction to Pensions, A Complete Guide to Administration and Pensionable Pay.

Customer satisfaction scores were 98.34% 93.97% and 93.42% respectively.

Appendix 2 – Employer feedback summary.

4.0 Internal Disputes Resolution Procedures

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

Stage 1 appeals against the fund

No appeals currently outstanding.

Stage 1 appeals against scheme employers

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

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
13/2/2019	Appeal against being refused an ill health pension.	Referred to GLL as scheme employer. No copy of decision letter received – being chased up.	
28/6/2019	Appeal against being refused an ill health pension.	Referred to LCC as scheme employer. Turned down.	27/8/2019
31/7/2019	Appeal against service details.	Referred to LCC as scheme employer.	

Stage 2 appeals

No appeals currently outstanding.

Ombudsman

4.2 One case outstanding

Date application received	Details of complaint	Current position/outcome	Date complete
29/1/2019	Appeal against decision not to grant discretion to pay unreduced pension benefits.	Turned down. Ombudsman is satisfied that LCC decisions made were in accordance with regulations and discretionary policy.	13/8/2019
5/7/2019	Appeal against service used in pension calculation.	Being dealt with by LCC Legal. Information provided to them.	

5.0 Administration Update

5.1 Annual Benefit Statements

99.6% of ABS's have been issued to members by the statutory deadline of 31 August. The other 0.6% have not received an ABS due to existing processes/activity on their records.

5.2 Deferred Benefit Statements

99.9% of Deferred Benefits Statements have been issued to members by 31 August. As expected. This has resulted in a surge of requests for early payment as members can now have benefits paid from age 55.

5.3 Information Security Management System Certification (ISMS).

WYPF is delighted to announce that we have successfully completed our accreditation audit for ISO27001 Information Security Management System Certification (ISMS).

An ISMS (Information Security Management System) is a systematic approach to managing sensitive company information so that it remains secure. It includes people, processes and IT systems by applying a risk management process.

This accreditation is particularly important to us and highlights our continued commitment to information security and provides assurance to our customers that we have the ability to protect their data and reputation at all times.

6.0 Current Technical Issues

See Appendix 3

7.0 Shared service Budget

7.1 Shared Service spend

Projected spend of £6.61m against budget of £7.71m, underspend of £1.1m. Main change from period 2 to 4 is the completion of departmental support recharges to reflect improved coding structure and separation of support services from frontline operations. There is a contingency provision of £0.87m to fund cost of restructure, due to rebalancing of departmental support charges, therefore underspend in this area has increased to £1.10m.

WYPF PENSION ADMIN	2019/20 Estimate	2019/20 Forecast PD02	2019/20 Forecast PD04	2019/20 Variance (Est vs Frcst)
	£	£	£	£
Expenditure				
Accommodation	227,960	176,100	314,460	-86,500
Computer Costs	548,070	580,000	531,430	16,640
Employee Costs	5,277,900	5,277,900	5,642,060	-364,160
Internal Recharges from Bradford Council	203,150	216,500	241,750	-38,600
Printing and Postage	502,810	510,000	648,700	-145,890
Other Running Costs	82,710	82,710	113,650	-30,940
Departmental Support Costs	0	0	-884,290	884,290
Contingency	865,740	0	0	865,740
	7,708,340	**6,843,210**	**6,607,760**	**1,100,580**
Income				
WYPF	-5,645,810	-4,723,400	-4,444,890	-1,200,920
Shared Service Income	-2,012,530	-2,074,810	-2,002,870	-9,660
Other income	-50,000	-45,000	-160,000	110,000
WYPF PENSION ADMIN	**-7,708,340**	**-6,843,210**	**-6,607,760**	**-1,100,580**

7.2 WYPF departmental support cost

DEPARTMENTAL SUPPORT	% RECHARGE	RELEVANT COST		RECHARGE
Communications	30%	484,700		145,410
Development Strategy	40%	215,490		86,200
WYPF Finance	50%	651,460		325,730
WYPF ICT	50%	534,670	*ONLY STAFF + RUNNING COST*	267,340
Service Quality	10%	123,850		12,390
Contact Centre & DIT	10%	472,240		47,220
TOTAL RECHARGE		**2,482,410**		**884,290**

7.3 Projected cost per member

WYPF COST PER MEMBER	FINAL mbr no 2018/19	FINALTot Cost 2018/19	2018/19 FINAL cst pr mbr	BUDGET 2019/20	2019/20 DRAFT cst pr mbr	2019/20 PD04	2019/20 PD04 CST PR MBR
Admin cost per member	418,143	£6,276,057	£15.01	£6,796,870	£16.25	£6,607,760	£15.80
Investment cost per member	291,514	£4,800,316	£16.47	£6,930,240	£23.77	£5,366,500	£18.41
Oversight & Governance	291,514	£782,269	£2.68	£905,410	£3.11	£1,008,740	£3.46
Total cost per member		**£11,858,642**	**£34.16**	**£14,632,520**	**£43.13**	**£12,983,000**	**£37.67**

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	Employer Feedback summary
Appendix 3	Current Issues

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

Appendix 1

Customer Survey Results - Lincolnshire Members
(1st April to 30th June 2019)

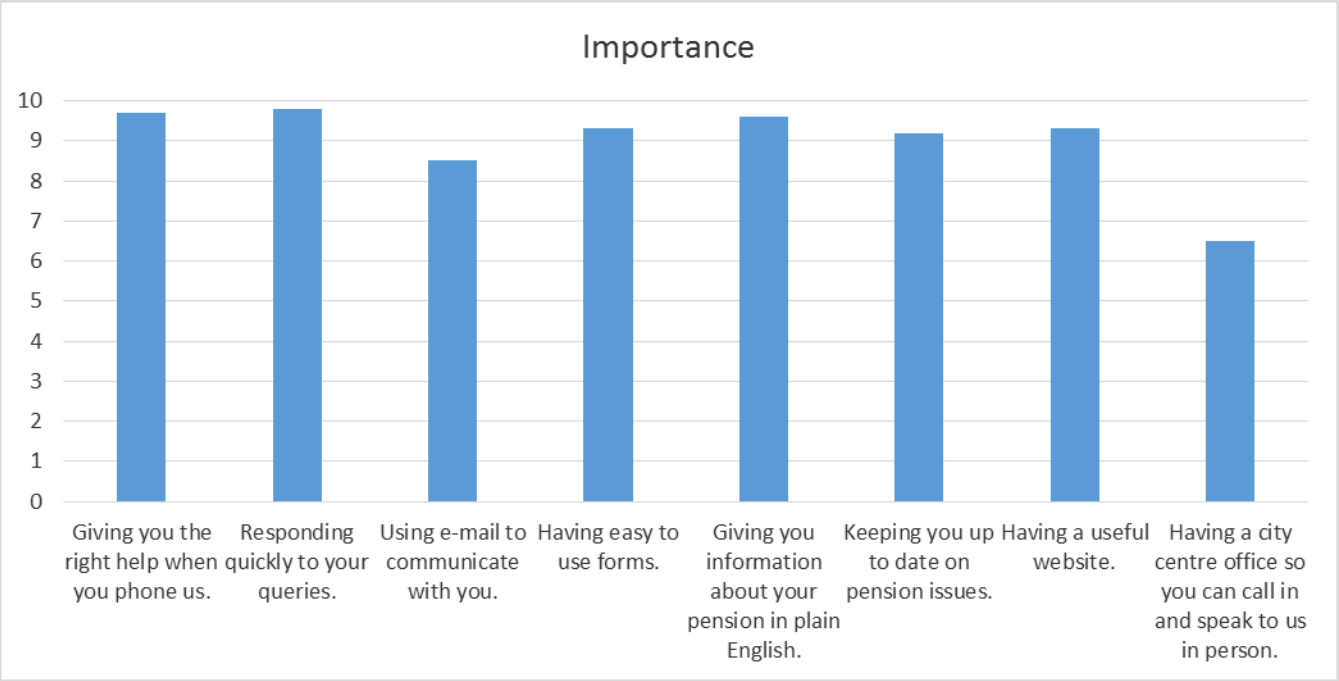
Over the quarter April to June we received **1** online customer response.

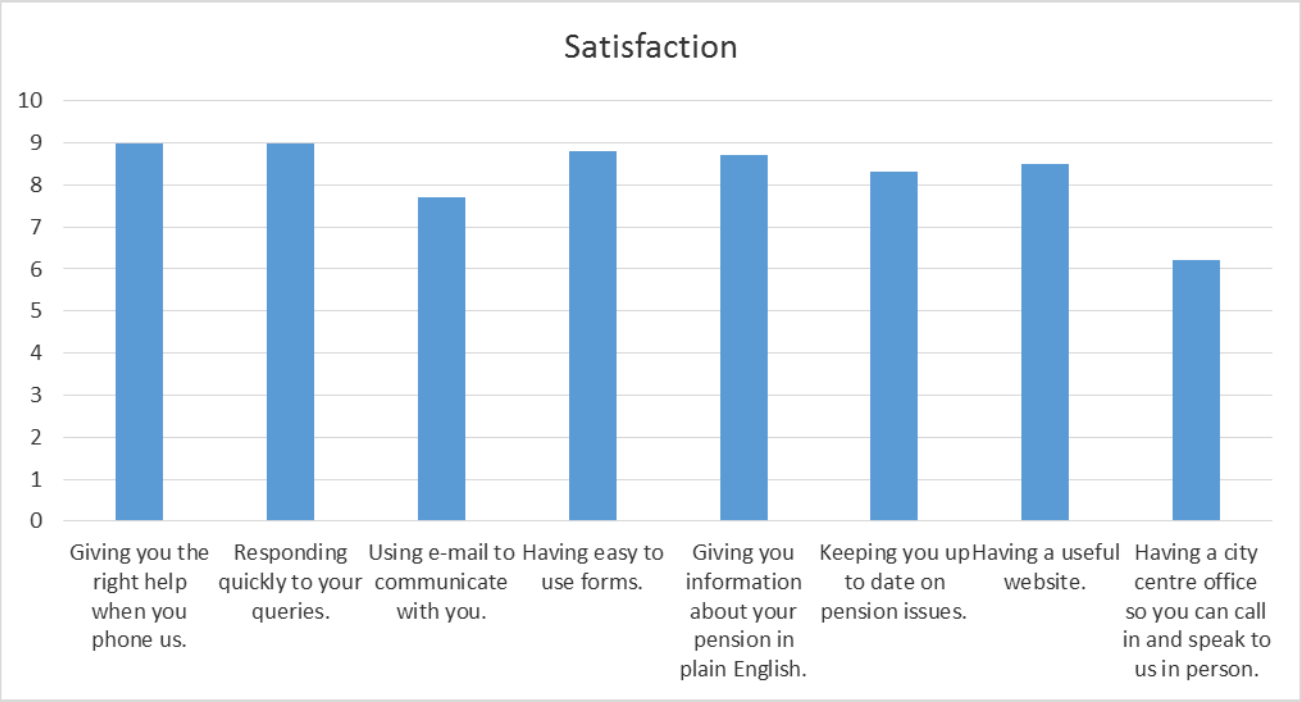
Over the quarter April to June **155** Lincolnshire member's sample survey letters were sent out and **34 (22%)** returned:

Overall Customer Satisfaction Score;

April to June 2018	July to September 2018	October to December 2018	January to March 2019	April to June 2019
72.1%	81.6%	81%	81.3%	83.5%

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





Sample of positive comments:

Member Number	Comments
8051630 Email	Good morning My colleague received a compliment over the telephone last week for a ___ who was very helpful. I'm unable to find a staff member by that, I wonder if you can shed any light at all as we were hoping to get this over to his manager. Many thanks
8025867 Email	Hi ____, Just had a phone call from _____. He wanted to speak to you direct, but you had left for the day. Anyhow, he asked if I would pass on a message of thanks for the assistance you gave him when he rang on May 23rd. He is extremely grateful for your help, says he has received your letter and the list of payments which you enclosed, and he is very confident the information will help him resolve his tax problems. I promised I would pass on his comments. Cheers!
8069587	Excellent efficient speedy service in receiving my pension. I found the pension forecasts received very detailed and informative. Replies to my emails were also very clear and informative. I found the whole process of receiving my pension from WYPF very efficient and stress free.
8124042	Excellent. The staff were very helpful and friendly. I felt at ease asking questions to understand the process. They explained things very clearly and gave good support.
Online	Perfect. God bless you all. You're doing a brilliant job.

Complaints/Suggestions:

Member Number	Comments	Corrective/ Preventive Actions
8115095	I was not really happy with the communication, I requested a transfer to another pension, have not been informed if this has happened.	Response sent: Thank you for returning your customer survey form. I note that we received the paperwork on 19/1/19 showing that you wanted to transfer your benefits to Royal London however at that point you had rejoined the pension scheme. The rules of the pension scheme do not permit you to transfer out whilst an active member of this scheme. Your preserved refund post has now been linked to your active post. Please let me know whether you would like me to send you hypothetical transfer details from your new post member number 8126562. Please accept my apologies for not writing to you sooner about this.
8126129	Poor, it is important you respond to inquiries but in my case it has not happened. I would like to know my pension worth as I will be going through a divorce and I have asked for this but have had no reply. Hopefully someone will reply now!	Response sent: Thank you for taking time to complete and return our customer survey. I note that you are waiting for a divorce quote on record 8126129. Unfortunately, I have looked through all your records and could find no request for a transfer quote for divorce purposes. Please complete the details below and return this letter in the pre-paid envelope attached and I will arrange to send details of your CETV as a matter of urgency.

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Appendix 2

Employer Feedback
Quarter 2 April – June 2019

Introduction to pensions – 23 April 2019 (LPF)

Feedback score: 98.34%

Comment	Action taken
No comments	

A summary of the compliments

- This was a very useful course/session for someone new to pensions. Possibly, it would be worth extending to include some practical cases.
- Very informative and useful

Complete Guide – 13 May 2019

Feedback score: 93.97%

Comment	Action taken
None made	

A summary of the compliments

- Very informative
- Very informative course. Kaele and Stuart were able to answer any questions that were asked.

Introduction to pensions – 27 June 2019 (LPF)

Feedback score: 93.42%

Comment	Action taken
No comments	

A summary of the compliments

- None provided

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Appendix 3

Current Issues

1 SAB publishes Good Governance Report

SAB published the Good Governance Report on 31 July 2019. The project team are working on a detailed plan to implement the report's recommendations which will be presented to the SAB when they meet in November 2019.

2. TPR Scheme Return – Conditional data

On 4 July 2019 Bob Holloway, secretary of the SAB, emailed pension managers and software suppliers with a draft conditional data report to be scored in the Pension Regulator's (tPR) annual scheme return. This was prepared in agreement with representatives from tPR, SAB, software suppliers, fund actuaries and pension practitioners. The group will continue to work on developing the table, adding guidance notes for administering authorities and software suppliers.

The SAB will provide an update when they have more information from tPR about when the scheme return will be issued.

3. National LGPS Technical Group recommendations to the SAB

As reported previously, the National LGPS Technical Group made recommendations to the SAB to:

- amend the forfeiture rules to include convictions which relate to an employment, and the conviction takes place after leaving that employment
- remove the requirement to pay a refund of contributions within five years and
- align the rules covering concurrent membership.

The SAB have agreed to proceed with these changes and are in the process of making recommendations to MHCLG.

4. New Minister for Local Government appointed

On 31 July 2019 it was announced that Luke Hall MP has been appointed Parliamentary Under Secretary of State, Minister for Local Government and Homelessness.

5. McCloud judgment – leave to appeal denied

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant case.

The case concerns the transitional protections provided to older members of the judges and fire-fighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

The Supreme Court ruling of 27 June 2019 means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision.

5. Pensions dashboards

The DWP consultation closed on 28 January 2019. The government published its response to the consultation on 4 April 2019.

Key details of the government's plans on the introduction of pension dashboards include:

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

The Money and Pensions Advice Service (MAPS) will lead the delivery of the initial phase of the pensions dashboards and will bring together a delivery group made up of stakeholders from across the industry, consumer groups, regulators and government. The delivery group will be accountable to the MAPS board, and MAPS are in turn accountable to the Department for Work and Pensions (DWP). 8

On 3 June 2019, the Pensions Policy Institute (PPI) announced that its Director, Chris Curry, is to take on the role as Principal of the pensions dashboard industry delivery group with MAPS, starting on 8 July 20

6. Fair Deal consultation

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

7 Consultation on restricting exit payments

The consultation on restricting exit payments in the public sector closed on 3 July 2019.

LGA's response to the consultation considers the draft regulations, guidance and Directions in two sections:

Section 1: looks at concerns about the implementation of the policy including potential legal issues, excessive bureaucracy, increased costs, the range of individuals who may be affected by the cap and the possible frustration of effective negotiations related to workforce reform and other sensitive exits.

Section 2: considers the technical issues that need to be addressed before the policy could be implemented, with a particular focus on the LGPS.

Introducing a cap on exit payments will have significant implications for employers as well as for administering authorities.

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

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

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

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

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

9. Scheme Advisory Board (SAB) 2018 annual report

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

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

Key highlights:

- The total membership of the LGPS grew by 197,000 (3.4%) to 5.8m members in 2018 from 5.6m in 2017.

- The total assets of the LGPS increased to £275bn (a change of 5%). These assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), as well as other asset classes (7%)

- The local authority return on investment over 2017/2018 was 4.4%. This was reflective of the market conditions during the year and set against the UK Return of 0.2%

- The Scheme maintained a positive cash-flow position overall. Scheme income was higher than total scheme outgoings by £500m; this is including investment income

- Over 1.7m pensioners were paid over the year.

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

Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up to date information on Employer Monthly Submissions for the first quarter of the financial year 2019/20 (March to June).

Recommendation(s):

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

Background

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

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

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

4 A summary of all late contributions or data submissions since April 2019 is set out in table one below.

Table One: Late contributions and data submissions to June 2019

Month	Payment of Contributions		Submission of Data	
April	6	2.3%	14	5.3%
May	3	1.1%	10	3.8%
June	3	1.1%	22	8.3%
Total for 2019/20	**12**		**46**	

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

- Change of payroll providers at a number of employers; and
- Changes in staffing at two of the larger payroll providers. This lead to a number of payrolls being submitted late or incorrectly in June. These payroll providers have been visited by a Pension Fund Representative from West Yorkshire Pension Fund to provide training and support to complete the monthly data return. Quarter two should show improvements from these employers.

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

7 If any employer makes contribution payments or submits data late in three out of six months on a rolling basis, they will receive a fine, unless they are able to offer extenuating circumstances. Fines are currently set at a minimum of £136. Table two below sets out the number of fines issued since April 2019. Details of the individual employers fined in quarter one can be found at **Appendix A**.

Table Two: Late contributions fines April to June 2019

April	May	June
2	2	5

Conclusion

8 This report provides quarterly monitoring information on the timeliness and accuracy of employer submissions to help the Pensions Committee understand if there are any issues arising from late payments or data and any

further actions which are required to address employers not meeting their statutory responsibilities.

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

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Late Contribution Fines April to June 2019

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

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Appendix A

Late contributions fines April to June 2019

April 2019

Employer	Late Submissions
Apsens	Late Payment: November 2018 and April 2019 Late Data and Payment: December 2018
The Thomas Cowley High School	Late Data: November 2018 and December 2018 Late Payment: April 2019

May 2019

Employer	Late Submissions
Apsens	Late Payment: November 2018, April 2019 and May 2019 Late Data and Payment: December 2018
Lincolnshire Housing Partnership	Late Data: November 2018 and December 2018 Late Payment: March 2019 and May 2019

June 2019

Employer	Late Submissions
Apsens	Late Payment: November 2018, April 2019, May 2019 and June 2019 Late Data and Payment: December 2018
Crowland Parish Council	Late Data: June 2019 Late Data and Payment: March 2019 and April 2019
Lincolnshire Housing Partnership	Late Data: November 2018 and December 2018 Late Payment: March 2019, May 2019 and June 2019
Gosberton House Academy	Late Data: December 2018, May 2019 and June 2019
Stamford St Augustine's Catholic Voluntary Academy	Late Data: January 2019, February 2019 and June 2019

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 April 2019 to 30 June 2019.

The report covers:

1. Fund Summary – Asset Allocation and Performance
2. Hymans Robertson Manager Ratings
3. Individual Manager Updates

Recommendation(s):

That the Committee note this report.

Background

1. Fund Summary – Asset Allocation and Performance

1.1 Over the period covered by this report, the value of the Fund increased in value by £105.5m (4.5%) to £2,457.2m on 30 June 2019.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 June. Across the asset classes, Fixed Income is below its lower tolerance level. At manager level, Columbia Threadneedle and Morgan Stanley Global Brands are above their higher tolerance levels, however as these mandates will be transitioning to Border to Coast in the near future, so no rebalancing has been undertaken.

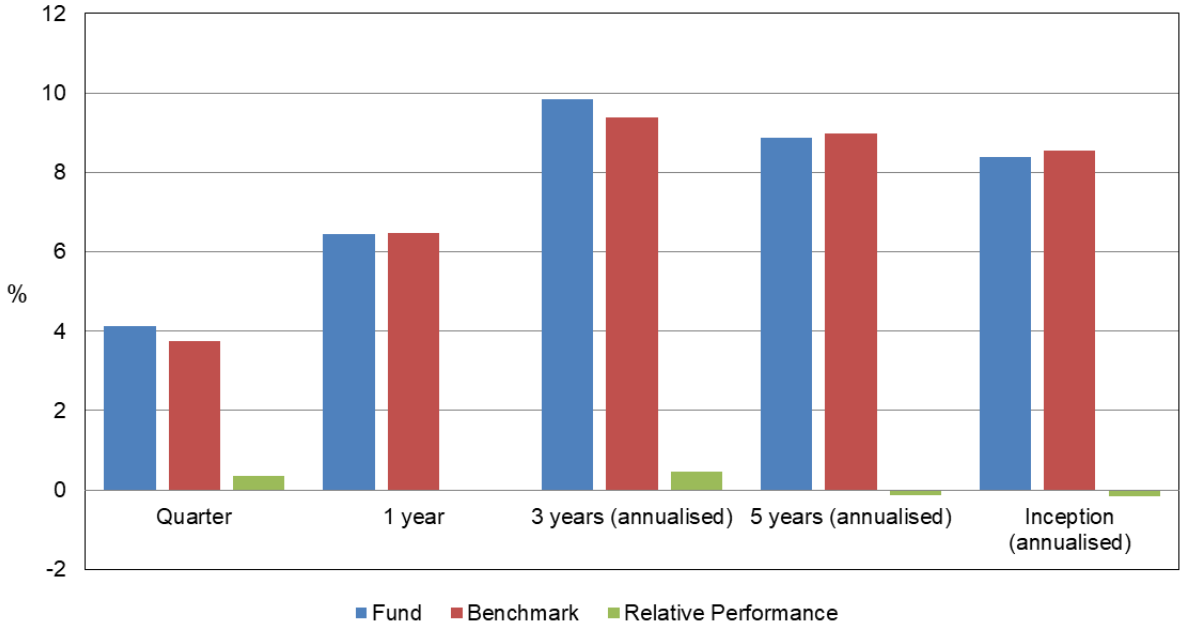
1.3 The Fund's overall position relative to its benchmark is set out in the table over the page. The most significant movements in the quarter were seen on global equities (+7.0% or £73.7m) and Infrastructure (+7.2% or £3.2m). The fund's cash holdings also increased by £2.2m (+20.8%).

Asset Class	Q2 2019 £m	Q1 2019 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	443.7	429.9	18.1	20.0	(1.9)
Global Equities	1,125.7	1,052.0	45.8	40.0	5.8
Alternatives	338.0	328.6	13.8	15.0	(1.2)
Property	202.2	203.0	8.2	9.0	(0.8)
Infrastructure	47.6	44.4	1.9	2.5	(0.6)
Fixed Interest	287.1	283.2	11.7	13.5	(1.8)
Cash	12.8	10.6	0.5	0.0	0.5
Total	**2,457.2**	**2,351.7**		**100.0**	

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

Fund Performance

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



	Fund %	Benchmark %	Relative Performance %
Quarter	4.12	3.76	0.36
1 year	6.44	6.47	(0.03)
3 years*	9.84	9.37	0.47
5 years*	8.86	8.99	(0.13)
Inception**	8.38	8.55	(0.17)

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

1.7 Over the quarter, the Fund produced a positive return of 4.12% (as measured by Northern Trust), outperforming the benchmark by 0.36%. The Fund was also ahead of the benchmark over the three year period, but very slightly behind the benchmark over the one and five year periods and since inception.

1.8 Appendix B shows the market returns over the three and twelve months to 30 June 2019.

2. Hymans Robertson Manager Ratings

2.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meets managers to discuss current issues, management changes and performance. Each manager is then allocated one of four ratings between negative and preferred. The table below shows Hymans Robertson's rating for managers appointed by the Lincolnshire Pension Fund.

2.2 The Fund has nineteen managers. During the quarter there has been one change to manager ratings. Invesco Global Equities have been downgraded from 'Positive' to 'Suitable'.

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

Manager	Rating				
	No Rating	Negative	Suitable	Positive	Preferred
Invesco Global Equities (Ex-UK)			X		
Columbia Threadneedle Global Equity				X	
Schroders Global Equity				X	
Morgan Stanley Global Brands			X		
Morgan Stanley Alternative Investments			X		
Blackrock Fixed Interest				X	
Standard Life European Property	X				
Innisfree Continuation Fund 2	X				
Innisfree Secondary Fund	X				
Innisfree Secondary Fund 2	X				
Franklin Templeton European Real Estate	X				
Franklin Templeton Asian Real Estate	X				
Igloo Regeneration Partnership	X				
Aviva Pooled Property Fund			X		
Royal London PAIF	X				
Standard Life Pooled Property Fund			X		
Blackrock Property			X		
Infracapital Greenfield Partners I				X	
Pantheon Global Infrastructure					X

2.4 Hymans Robertson has provided the following commentary on the downgrading of Invesco Global Equities from 'positive' to 'suitable'.

This is a quantitative global equity strategy run from Invesco's Quantitative Strategies (IQS) division, by a team based in the Frankfurt office. This is an actively managed multi-factor equity strategy, which sits alongside a range of other quant and factor strategies that are managed by the 60-strong team. IQS uses a proprietary risk model as the foundation for their factor strategies. IQS targets three main factors; quality; value; and momentum (which is split into price and earnings momentum). The process does not explicitly target size, but the portfolio typically has a small size factor tilt, reflected through the marginally lower average market cap of its portfolio relative to benchmark.

Whilst Hymans consider the Invesco IQS approach to be sound, they do not believe managers can consistently time factor exposures and Hymans preference for multifactor providers is a passive, rules-based implementation, that is not subject to active management, as is the case here. Furthermore, these alternative options typically deliver a broader multifactor exposure, with less constraints than for this enhanced index approach. Whilst the strategy looks to actively tilt exposures to the various factors, it is managed under relatively constrained 'enhanced indexation' parameters, compared to a less constrained multifactor approach. It is the tight controls over tracking error that preclude low volatility to be included as a factor, which as seen in 2018, can lower the strategy's resilience during difficult equity market conditions. These tightly managed risk parameters also mean the small cap factor exposure is also relatively low. Hymans prefer multifactor approaches that offer as broad a factor exposure as possible (and the same for geographic exposure).

Hymans do not think anything is broken with the IQS process and apart from over the last year, the strategy has, since inception, consistently delivered on its enhanced index mandate and met its risk and performance objectives. However, the difficult backdrop of 2018 has shown the narrower range of factor exposures than other multifactor approaches can make it more vulnerable than others during difficult market backdrops. Furthermore, the approach Hymans are developing in multi-factor equities favours passive, rules-based strategies, not ones such as this that seek to time factor exposures.

3. Individual Manager Update

3.1 The manager index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales can be found after the table at 3.2.

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

	3 months ended 30 June 2019			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %*	Manager Return %	Index Return %	Relative Variance %*	Target p.a. %
Legal & General (UK Equities)	3.3	3.3	0.0	0.7	0.7	0.0	Match Index
Invesco (Global Equities (ex UK))	5.9	6.7	(0.7)	7.2	10.9	(3.4)	+1.0
Columbia Threadneedle (Global Equities)	9.6	6.3	3.2	14.8	10.3	4.1	+2.0
Schroders (Global Equities)	6.9	6.1	0.8	10.4	9.7	0.7	+3.0
Morgan Stanley Global Brands	8.6	6.5	2.0	18.8	10.3	7.7	n/a
Blackrock (Fixed Interest)	1.9	1.9	0.0	6.8	6.7	0.0	Match Index
Blackrock Interim (Fixed Interest)	0.9	0.9	0.0	2.7	2.7	0.0	Match Index
Morgan Stanley (Alternative Investments)	2.7	1.2	1.4	5.4	5.0	0.4	3M LIBOR + 4%

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

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

Investment Process

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

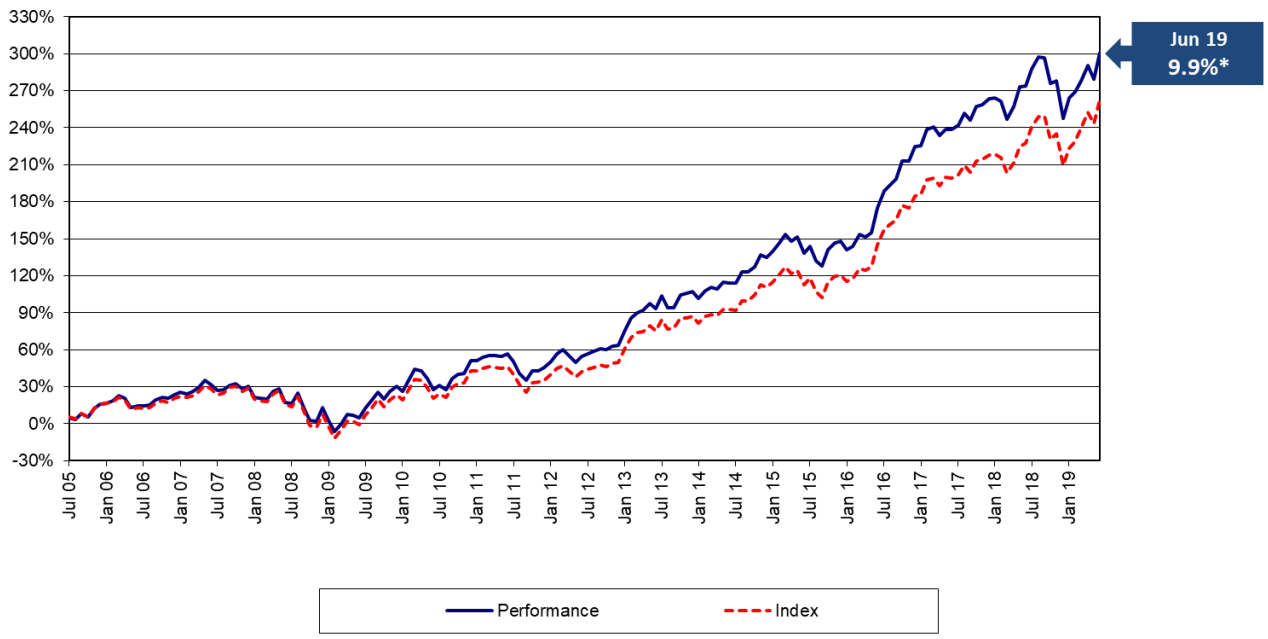
Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£546,783,306	£578,157,999

Performance

In this quarter the strategy underperformed its benchmark. Multi-factor stock selection had a negative impact on relative performance driven by two effects: first, exposure to value factors detracted from return as investors favoured unattractively valued stocks over its cheaper counterparts. Second, stock-specific effects had a negative impact on return. Both the Momentum and Quality Factors added to performance but were unable to compensate for the negative impact described before. Implied active sector exposures further weighed on relative return with underweights in the health care and materials sector detracting the most. Contributions from countries and currencies, which are a residual of stock selection, were flat. Impact from other factors was negative in the quarter, which was mainly driven by exposure to smaller capitalised stocks.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	5.9	7.2	13.4	13.3	9.9
MSCI World ex UK	6.7	10.9	13.9	13.5	9.2
Relative Performance	(0.7)	(3.4)	(0.5)	(0.2)	0.7

* annualised, inception date 01/07/2005

Turnover

Holdings at 31.03.19	Holdings at 30.06.19	Turnover in Qtr %	Turnover in Previous Qtr %
408	417	11.4%	9.1

Purchases and Sales

During the last quarter, a number of stock adjustments were made to the portfolio* as a result of the stock selection process. CyberArk Software was added, with a trade weight of 0.25%. Furthermore, positions were increased in Popular, Ford Motor, Cummins and NTT DoCoMo with trade weights of 0.35%, 0.33%, 0.31% and 0.25%, respectively. On the other side, of Citrix Systems with a trade weight of 0.35% was sold. Furthermore, positions were decreased in Walt Disney, Boeing, Novartis and Toyota Motor with trade weights of 0.46%, 0.44%, 0.44% and 0.44%, respectively.

Largest Overweights

Roche	1.00%
L'Oreal	0.82%
Starbucks	0.80%
Citigroup	0.77%
Popular	0.74%

Largest Underweights

Alphabet	(0.56%)
Home Depot	(0.45%)
Netflix	(0.41%)
Novartis	(0.38%)
Wells Fargo	(0.35%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Microsoft	£17,361,225
2	Apple	£14,068,073
3	Amazon	£11,452,243
4	Roche	£8,599,282
5	Citigroup	£6,780,645
6	Procter & Gamble	£6,075,952
7	Alphabet	£5,797,519
8	Bank of America	£5,486,282
9	L'Oreal	£5,277,117
10	Citigroup	£5,189,942

Hymans Robertson View

Invesco Global Equities has been downgraded by Hymans Robertson from 'Positive' to 'Suitable'. Further comments on the strategy are set out in paragraph 2.4 earlier in this report.

Risk Control

The ex-ante tracking error of the fund slightly increased to 1.08% (ex post target 1%). With 96%, the major part of Invesco's active risk was associated with stock selection factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report June 2019

Investment Process

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

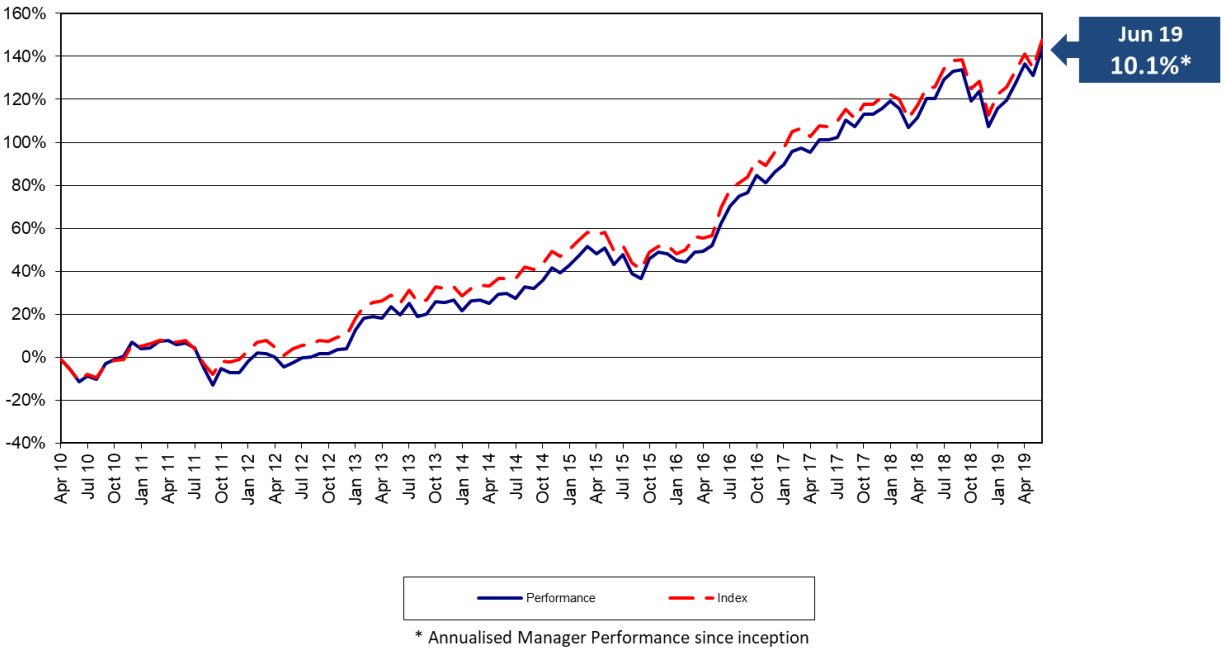
Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£136,206,686	£145,304,605

Performance

The portfolio delivered a positive return and outperformed the benchmark in this quarter. Positions in consumer discretionary and healthcare names added value, whilst industrials, energy and materials were the primary detractors. By region, performance of North American names lagged the most, while European holdings and Emerging Markets were stronger.

Schroders Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	6.9	10.4	14.5	13.4	10.1
MSCI ACWI (Net)	6.1	9.7	13.5	12.6	10.3
Relative Performance	0.8	0.7	0.9	0.7	(0.2)

*annualised, Inception date April 2010

Turnover

Holdings at 31.03.19	Holdings at 30.06.19	Turnover in Qtr %	Turnover in Previous Qtr %
60	59	8.4	11.6

Purchases and Sales

Amongst a number of trades enacted over the quarter, Eli Lily was sold following strong performance over prior quarters. The proceeds were rotated into pharmaceutical company Merck, which offers greater potential for earnings. The US drug maker reported a strong start to 2019, with robust sales growth in China. The company has narrowed and raised its full-year revenue target, and also has a broad and underappreciated pipeline of new drugs and which is expected to deliver strong revenue growth over the next five years.

French food producer Danone was also purchased after the company reported a solid start to the year and confirmed its full-year guidance, with revenue growth set to accelerate in 2019. The company is investing in the growing segment of plant-based, probiotics and low-sugar yogurts, positioning the company to benefit from the growing global trend for vegan food.

Top 5 Contributions to Return

Schneider Electric	0.3%
Adidas	0.3%
Visa	0.2%
Nestle	0.2%
Louis Vuitton	0.2%

Bottom 5 Contributions to Return

Philip Morris	(0.3%)
Bunzl	(0.2%)
Alphabet	(0.2%)
Occidental Petroleum	(0.2%)
Rockwell Automation	(0.2%)

Top 10 Holdings

1	Visa	£4,876,500
2	Nestle	£4,340,128
3	Amazon	£4,285,106
4	Comcast	£4,145,181
5	Alphabet	£4,137,390

6	AIA Group	£3,789,271
7	JPMorgan	£3,724,705
8	Roche Holdings	£3,703,367
9	Union Pacific	£3,562,378
10	Bank of America	£3,556,493

Hymans Robertson View

Hymans Robertson rate Schroders Global Alpha at 'Positive'.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Columbia Threadneedle
Quarterly Report June 2019

Investment Process

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

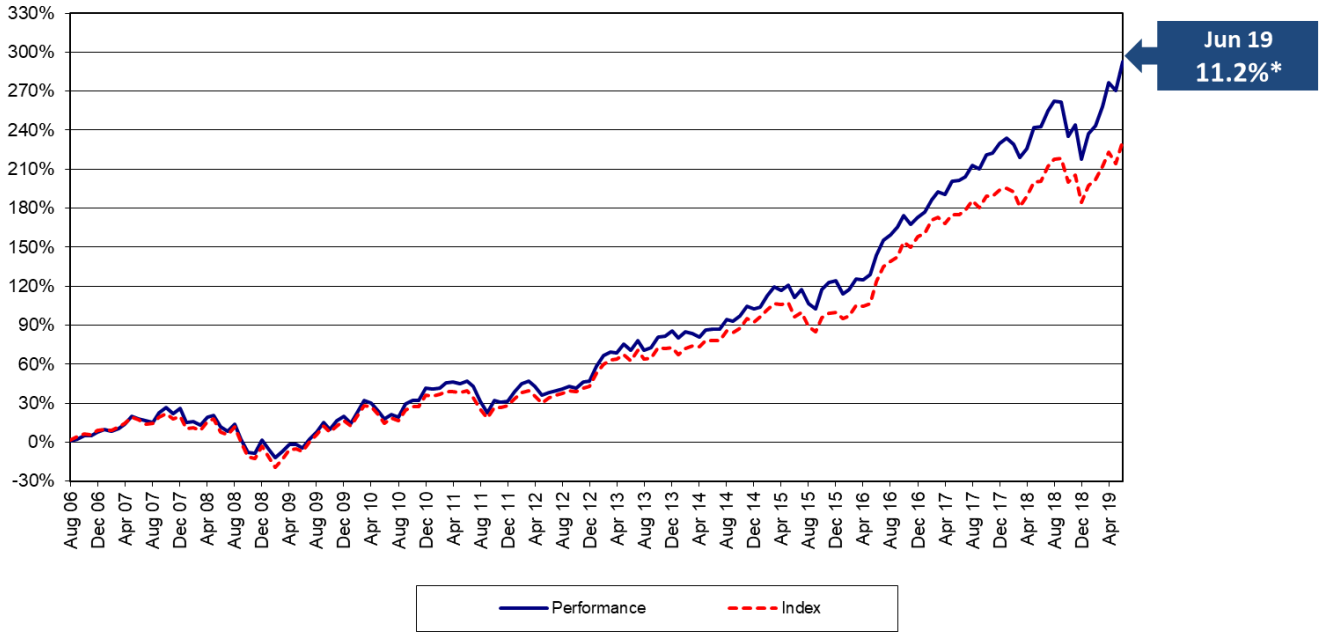
Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£149,282,166	£163,679,286

Performance

Gross of fees, the fund outperformed its benchmark in this quarter. Strong stock selection drove the outperformance, with picks in healthcare, consumer discretionary, financial and industrial sectors providing particularly helpful. Sector allocation also added value owing to utilities zero weight and underweight real estate.

Columbia Threadneedle Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	9.6	14.8	17.3	16.0	11.2
MSCI ACWI	6.3	10.3	14.1	13.2	9.7
Relative Performance	3.2	4.1	2.8	2.5	1.3

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.19	Holdings at 30.06.19	Turnover in Qtr %	Turnover in Previous Qtr %
63	66	7.6	6.8

Purchases and Sales

Positions were initiated in funeral-services provider Service Corporation, which has invested in technology to generate automated contracts and paperwork; electronic equipment manufacturer Samsung Electronics; US equipment rental company United Rentals and composite decking manufacturer Trex. Holdings in the creative software leader Adobe were also topped up.

To fund these purchases digital payments firm PagSeguro was sold, due to competitive concerns, and profits were taken from Ping An Insurance and professional services firm Aon.

Top 5 Contributions to Return

Adidas	0.57%
Microsoft	0.55%
Nintendo	0.45%
Facebook	0.43%
RELX	0.43%

Bottom 5 Contributions to Return

Halliburton Company	(0.24%)
Alphabet Class A	(0.22%)
Alibaba	(0.16%)
PagSeguro Digital	(0.08%)
Alphabet Class C	(0.05%)

Top 10 Holdings

1	Microsoft	£5,689,537
2	Alphabet	£5,387,200
3	Mastercard	£4,808,805
4	Amazon	£4,677,907
5	Visa	£4,400,045

6	RELX	£4,289,875
7	ADR	£4,122,514
8	JPMorgan	£3,876,588
9	Facebook	£3,652,245
10	Unilever	£3,615,078

Hymans Robertson View

Hymans Robertson rate Columbia Threadneedle at 'positive'. The company announced that Nick Ring will join the firm in September to become its Chief Executive Officer for EMEA. Ring replaces Michelle Scrimgeour who has joined Legal and General Investment Management.

Risk Control

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

Lincolnshire Pension Fund
Global Equities – Morgan Stanley Global Brands
Quarterly Report June 2019

Investment Process

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

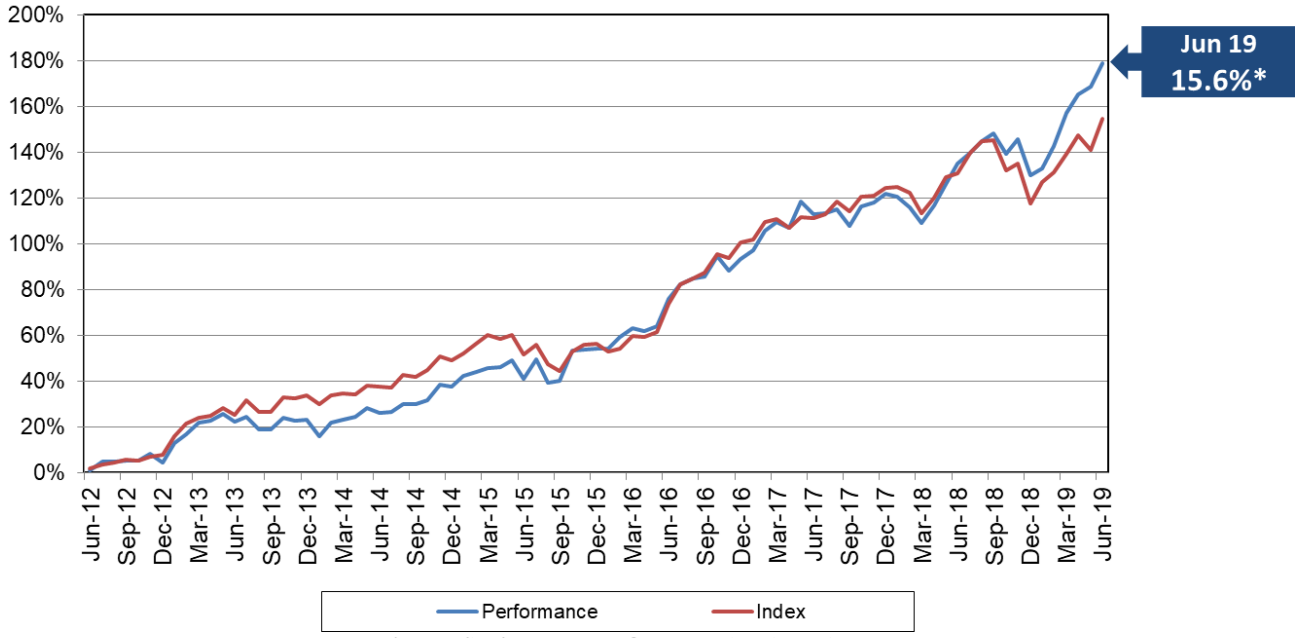
Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£219,728,687	£238,555,342

Performance

For this quarter of 2019, the portfolio outperformed its benchmark, returning 8.6% verses 6.5% for the MSCI World Index. Outperformance was driven entirely by stock selection, while sector allocation detracted. Good choices in information technology, health care and industrials contributed to outperformance in an overall strong quarter.

Morgan Stanley Global Brands Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	8.6	18.8	16.6	17.2	15.6
MSCI World Index	6.5	10.3	13.6	13.1	14.1
Relative Performance	2.0	7.7	2.6	3.7	1.3

*annualised, inception date 18/06/2012

Purchases and Sales

Portfolio activity was subdued in the quarter. The small amount of trading was focused on shifting holdings from strong performing and relatively fully valued stocks, such as Zoetis and L'Oréal, to those which had lagged, PMI and Becton Dickinson. This continues the pattern of valuation driven activity over the last 18 months where there has been a shift out of information technology into health care and consumer staples. Mergers and acquisitions have driven a reduction in communications.

Top Contributors to Return

SAP	1.26%
Microsoft	1.24%
Visa	0.71%

Bottom Contributors to Return

Philip Morris	(0.54%)
British American Tobacco	(0.42%)
Reckitt Benckiser	(0.08%)

Top Ten Holdings

Company	Industry	% Weighting
Microsoft	Software	7.75
Reckitt Benckiser	Household Products	7.69
Philip Morris	Tobacco	6.81
SAP	Software	6.07
Visa	IT Services	5.28
Unilever	Personal Products	5.18
Accenture	IT Services	4.74
Baxter International	Health Care Equipment & Supplies	4.13
Danaher Corp	Health Care Equipment & Supplies	3.74
Heineken Holdings	Beverages	3.71

Hymans Robertson View

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

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

Investment Process

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

Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£429,761,712	£443,711,925

Performance

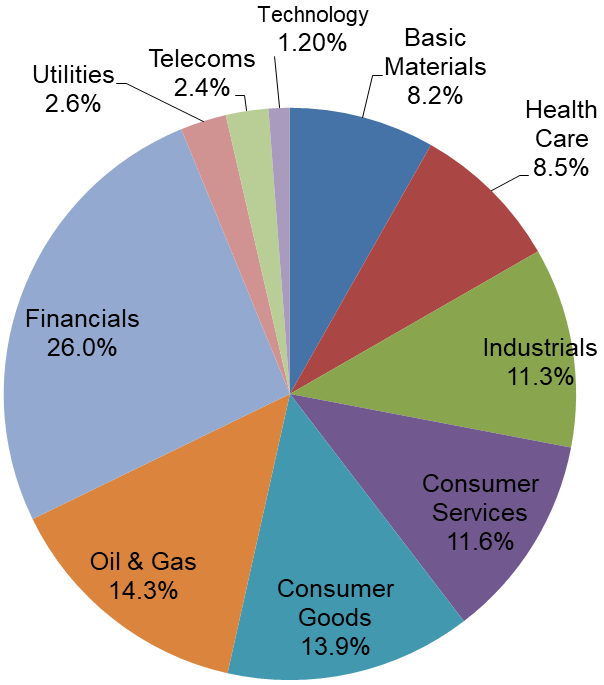
Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	3.3	0.7	N/A	N/A	5.5
Benchmark	3.3	0.7	N/A	N/A	5.3
Relative Performance	0.0	0.0	N/A	N/A	0.1

*annualised, inception date February 2017

Top Ten Holdings	
Company	**% Weighting**
Royal Dutch Shell	9.1
HSBC Holdings	5.8
BP	4.7
AstraZeneca	3.6
Diageo	3.4
Glaxosmithkline	3.4
British American Tobacco	2.7
Rio Tinto	2.3
Unilever	2.3
Prudential	1.9
Total	**39.2**

Whole Fund Sector Breakdown



Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 2019

Investment Process

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

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

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

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

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

Portfolio Valuation

Portfolio	**31.03.19 £**	**30.06.19 £**
Corporate Bond All Stocks Index Fund	72,881,347	74,361,065
Over 5 Years UK Index-Linked Gilt Index Fund	42,337,249	43,134,061
All Stocks UK Gilts*	28,685,461	29,071,502
Cash (residual)	1	1
Total	**143,904,473**	**146,566,629**

*Switched from Overseas Bond Index Fund in February 17

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Blackrock	1.9	6.8	4.3	7.3	6.9
Composite Benchmark	1.9	6.7	4.3	7.2	6.8
Relative Performance	0.0	0.0	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

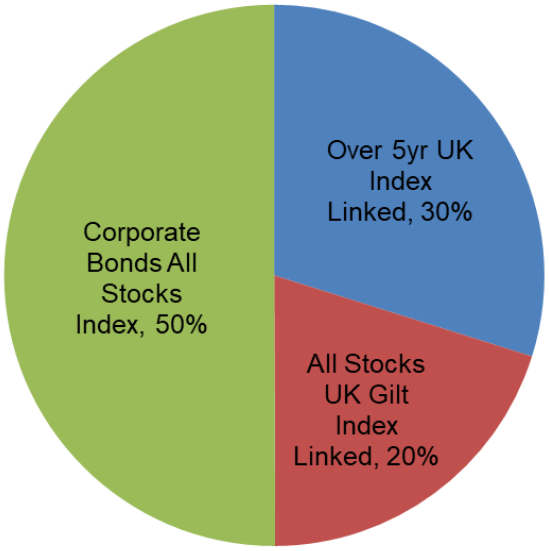
Hymans Robertson rate Blackrock fixed interest at 'positive'.

Allocation

The target allocation between the three funds is:

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

The pie chart below shows the allocation as at 30 June 2019.



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

Investment Process

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

Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£139,253,249	£140,528,868

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

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	0.9	2.7	n/a	n/a	1.6
Benchmark	0.9	2.7	n/a	n/a	1.6
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

Hymans Robertson rate Blackrock fixed interest at 'positive'.

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

Investment Process

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

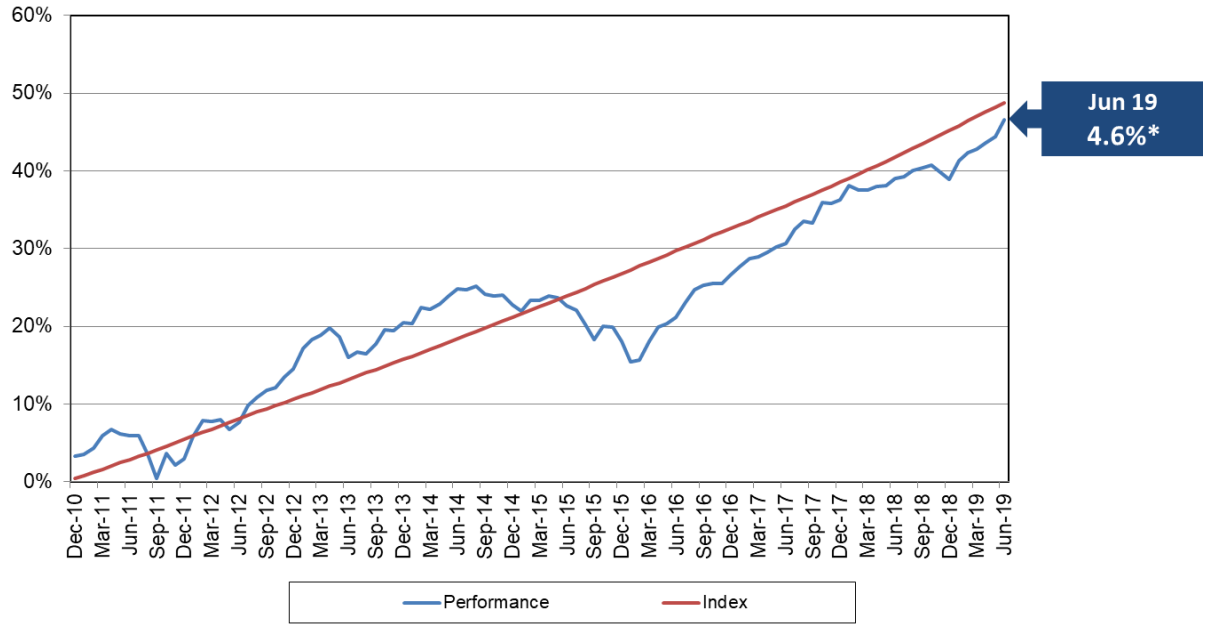
Portfolio Valuation

Value at 31.03.19	Value at 30.06.19
£303,945,932	£314,418,318

Performance

The total alternatives portfolio (excluding legacy private equity holdings) returned 2.7% during the quarter. All asset classes contributed positively with absolute returns driven by private markets and hedge fund allocations. Both manager selection and tactical decisions benefitted returns. Outperformance in private debt, commodities and hedge funds was particularly additive, as was the increase in the frontier equity allocation.

Morgan Stanley AIP Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	2.7	5.4	6.6	3.3	4.6
3 Month LIBOR + 4%	1.2	5.0	4.7	4.7	4.7
Relative Performance	1.4	0.4	1.8	(1.3)	(0.2)

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

Allocation

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

- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

- **Credit** These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.

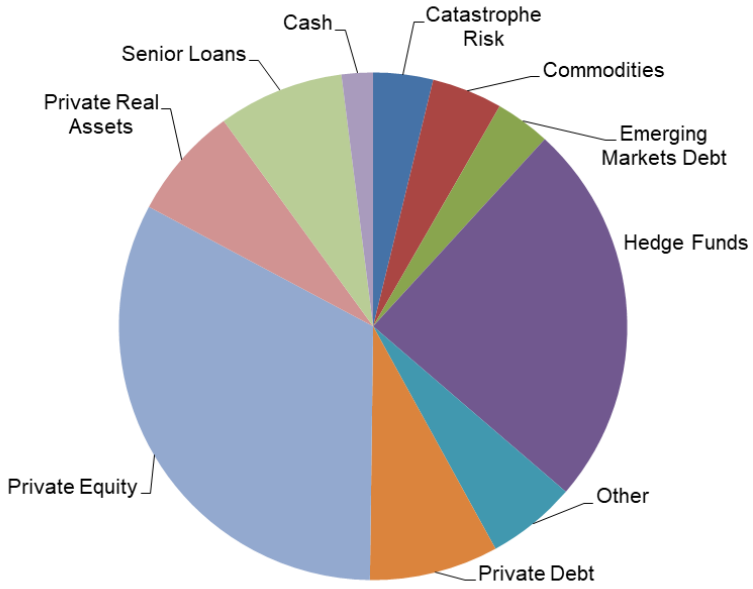
- **Discovery** These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

The table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 30 June 2019.

Strategy

Alpha	28.32%
Credit	12.20%
Real Asset	53.86%
Discovery	3.92%
Cash	1.70%

Asset Class



Hymans Robertson View

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

Risk Control

Portfolio volatility since inception is 3.46%, within the guidelines specified by the mandate.

Conclusion

This reporting period saw the value of the Fund increase by £105.5m to £2,457.2m. At the end of the period the asset allocation, compared to the strategic allocation, was:

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

Over the quarter, the Fund produced a positive return of 4.12%, outperforming the benchmark which returned 0.36%.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Changes in Market Indices

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

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DISTRIBUTION OF INVESTMENTS

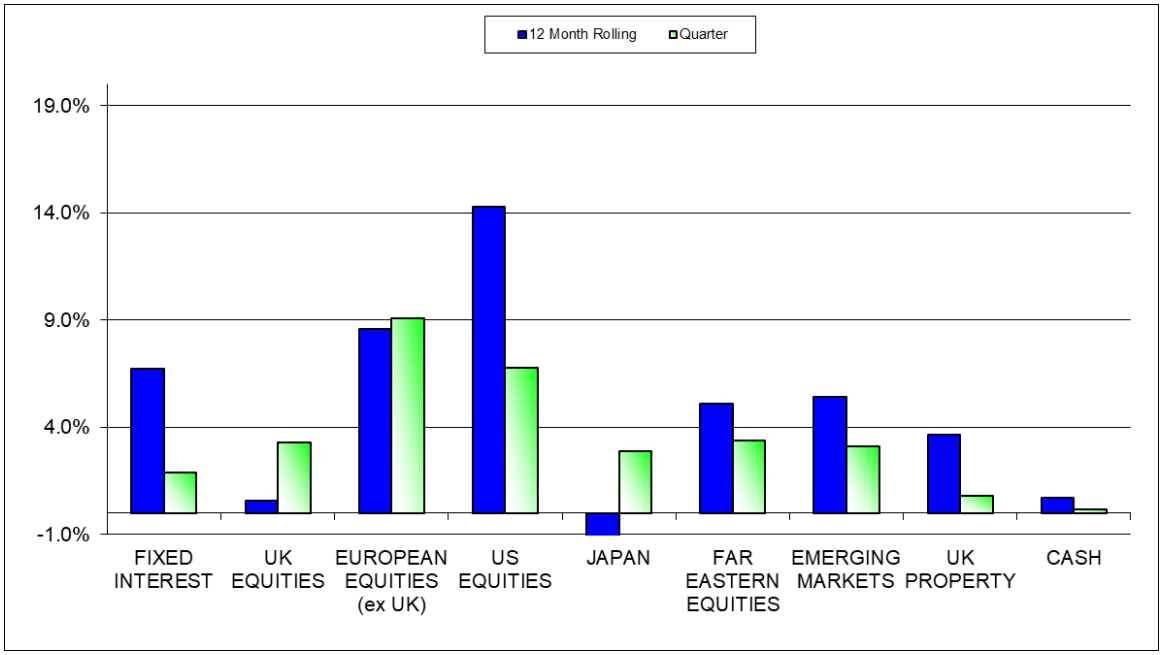
INVESTMENT	30 June 2019			31 March 2019			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
UK Index Tracker	33,771	0.0%	0.0%	179,499	0.0%	0.0%		
Legal & General	443,711,925	28.3%	18.1%	429,761,712	29.0%	18.3%	20.0%	+/- 2%
TOTAL UK EQUITIES	**443,745,696**		**18.1%**	**429,941,211**		**18.3%**	**20.0%**	
GLOBAL EQUITIES								
Invesco	578,157,999	36.8%	23.5%	546,783,306	36.9%	23.3%	22.5%	+/- 2.5%
Threadneedle	163,679,286	10.4%	6.7%	149,282,166	10.1%	6.3%	5.0%	+/- 1%
Schroder	145,304,605	9.3%	5.9%	136,206,686	9.2%	5.8%	5.0%	+/- 1%
Morgan Stanley	238,555,342	15.2%	9.7%	219,728,687	14.8%	9.3%	7.5%	+/- 1%
TOTAL GLOBAL EQUITIES	**1,125,697,232**		**45.8%**	**1,052,000,846**		**44.7%**	**40.0%**	
TOTAL EQUITIES	**1,569,442,928**	**100.0%**	**63.9%**	**1,481,942,057**	**100.0%**	**63.0%**	**60.0%**	**+/- 6%**
ALTERNATIVES	**337,964,693**		**13.8%**	**328,625,441**		**14.0%**	**15.0%**	**+/- 1.5%**
PROPERTY	**202,221,298**		**8.2%**	**202,956,466**		**8.6%**	**9.0%**	**+/- 1.5%**
INFRASTUCTURE	**47,603,560**		**1.9%**	**44,437,467**		**1.9%**	**2.5%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock Interim	146,566,628	51.1%	6.0%	143,904,374	50.8%	6.1%	6.75%	+/- 1%
Blackrock	140,528,868	48.9%	5.7%	139,253,249	49.2%	5.9%	6.75%	+/- 1%
TOTAL FIXED INTEREST	**287,095,495**	**100.0%**	**11.7%**	**283,157,624**	**100.0%**	**12.0%**	**13.5%**	**+/- 1.5%**
TOTAL UNALLOCATED CASH	**12,845,922**		**0.5%**	**10,583,721**		**0.5%**	**0.0%**	**+ 0.5%**
TOTAL FUND	**2,457,173,895**		**100.0%**	**2,351,702,775**		**100.0%**	**100.0%**	

APPENDIX A

APPENDIX B

CHANGES IN MARKET INDICES

MARKET RETURNS TO 30 JUNE 2019



INDEX RETURNS	12 Months to Jun 19 %	Apr-Jun 19 %
FIXED INTEREST	6.7%	1.9%
UK EQUITIES	0.6%	3.3%
EUROPEAN EQUITIES	8.6%	9.1%
US EQUITIES	14.3%	6.8%
JAPANESE EQUITIES	-1.2%	2.9%
FAR EASTERN EQUITIES	5.1%	3.4%
EMERGING MARKETS	5.4%	3.1%
UK PROPERTY	3.7%	0.8%
CASH	0.7%	0.2%

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Performance Measurement Annual Report**

Summary:

This report sets out the Pension Fund's longer term investment performance for the period ending 31st March 2019.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

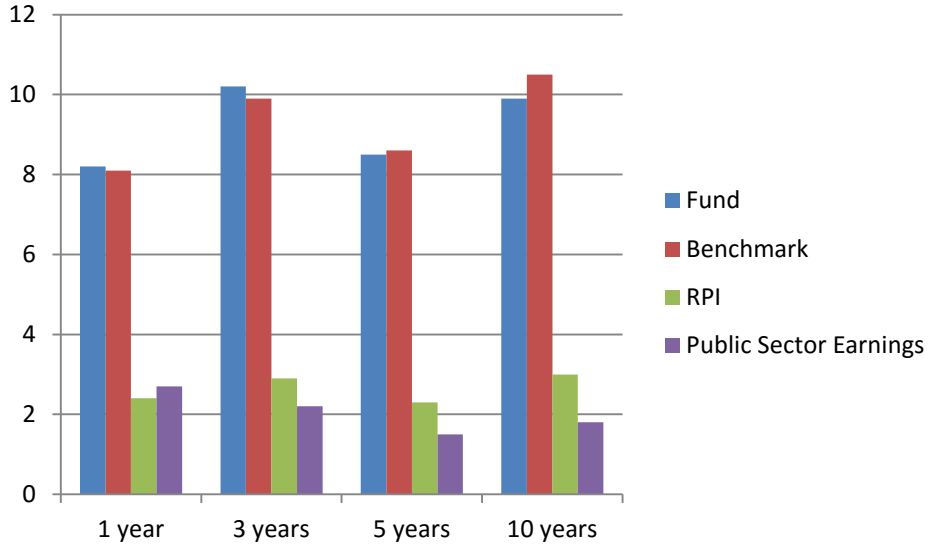
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance: JPMorgan, the Fund's custodian (to 31 March 2019), calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary) and PIRC compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 0.75% per annum.

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2018

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

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

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2019



	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	2.4	2.9	2.3	3.0
Public sector average Earnings increases	2.7	2.2	1.5	1.8
LCC Fund performance	**8.2**	**10.2**	**8.5**	**9.9**
LCC Benchmark Performance	**8.1**	**9.9**	**8.6**	**10.5**
Relative Performance	**0.1**	**0.2**	**(0.2)**	**(0.5)**

2.3 **10 Year Returns**

The Fund's performance over ten years, at 9.9%, is slightly behind the Fund's benchmark return of 10.5%, with the gap having closed since last year. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.0% and 1.8% p.a. respectively. The biggest impact on performance over this period is from 2010. This was a result of a number of asset allocation changes made over the year and those changes not reflected in the benchmark until they were all complete. This drift from the benchmark over the year negatively impacted the performance as can be seen in the table at paragraph 3.6.

2.4 **5 Year Returns**

Five year returns of 8.5% per annum are ahead of both price and pay inflation. The Fund's actual performance is marginally behind the strategic benchmark return of 8.6%. This reflects the underperforming active managers over the period.

2.5 **3 Year Returns**

Three year returns, at 10.2%, are again ahead of both inflation and average earnings, and also ahead of the strategic benchmark return of 9.9%. This reflects outperformance by the global equity managers .

3 ATTRIBUTION ANALYSIS

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

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

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

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

3.5 The poor performance of Invesco in the year ended March 2019 was negated by the out performance of Columbia Threadneedle and Morgan Stanley Global Brands, which led to an overall out performance in stock selection over the year.

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

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2010	29.7	36.7	**(5.1)**	(3.1)	(2.1)
2011	7.9	7.8	**0.1**	0.1	0.0
2012	1.5	2.4	**(0.8)**	(0.2)	(0.6)
2013	12.6	11.3	**1.2**	0.1	1.1
2014	6.3	6.2	**0.1**	0.2	(0.1)
2015	12.3	12.4	**(0.1)**	(0.1)	0.0
2016	0.0	1.4	**(1.4)**	(0.6)	(0.8)
2017	19.8	19.3	**0.3**	0.0	0.3
2018	3.3	3.0	**0.3**	(0.4)	0.7
2019	8.2	8.1	**0.1**	0.0	0.1

4 PIRC LOCAL AUTHORITY UNIVERSE

4.1 The PIRC Local Authority (LA) Universe is an aggregation of 64 funds covering £193bn of assets within the LGPS sector, and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar one of the London Pool, and with funds from all other pools except Central.

4.2 This was a year of political uncertainty, a burgeoning trade war between the US and China and no resolution to the Brexit issue. Despite this, investment returns, though volatile, were positive and the average Local Authority Fund produced a return of almost 7% for the year. This was slightly below the longer term average of around 8% p.a. but was ahead of inflation and actuarial assumptions.

4.3 Asset class returns were tightly grouped with bonds, property and equities returning 4%, 6% and 7% respectively. Private equity was the best performing asset class at 15%, followed by infrastructure at 12%. Absolute return investments all performed relatively poorly, averaging only 1% for the year.

4.4 Since the 1990's, Funds have been using specific strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. This means that comparison across the Universe can be misleading, as funds are trying to meet their own return requirements rather than compete for the highest return.

4.4 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. Strategic

benchmarks, and the overall return requirement, is linked to the individual liability profiles of each fund, and their funding levels. The most important performance comparison is actual performance against the individual funds strategic benchmark.

4.5 The table below shows how the strategic asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2019 and 2018.

Asset Class	**Lincolnshire**	**LA Average**	
		2019	**2018**
Equities	60.0	55	55
UK	20.0	14	15
Overseas	40.0	41	40
Bonds	13.5	19	18
Property	9.0	9	8
Infrastructure	2.5	3	3
Alternatives	15.0	8	8
Diversified Growth	0.0	3	4
Cash	0.0	3	3

4.6 Across the LA Universe, there has been a continuing movement from UK equities to overseas equities, an increase in bonds and a decrease in diversified growth.

4.7 The Fund structure is close to the average on equities, property and infrastructure, and the avoidance of diversified growth and the underweight to bonds both had a small positive impact on the relative return. Equity selection was the key element, adding almost 2% to relative return.

4.8 The performance of the Fund against the average of those Funds subscribing to the Local Authority universe ranked at the 10th percentile over the year.

4.9 The table below shows the improving position of the Lincolnshire Fund in the LA Universe over 1, 3, 5 and 10 years.

	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
LCC Fund performance	**8.2**	**10.2**	**8.5**	**9.9**
Universe Average	**6.6**	**10.5**	**8.8**	**10.7**
Ranking	**10**	**42**	**59**	**82**

5 Conclusion

5.1 The Pension Fund's investment performance of 9.9% over the 10 year period ended 31st March 2019 was slightly behind the strategic benchmark of 10.5%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.0% per annum.

5.2 Looking at the last year, there was a positive contribution from stock selection in the year ended March 2019, and a neutral contribution from asset allocation, with overall performance was positive, and ranked at the 10th percentile of the Local Authority Universe.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Background Papers

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

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

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Pension Fund External Audit Report**

Summary:

This report summarises the findings from the work undertaken by the Council's External Auditors, Mazars, in giving their opinion on the Pension Fund Accounts and Annual Report. Their findings were initially reported to the Council's Audit Committee in their Audit Completion Report in July 2019 and is summarised here for the Pensions Committee.

Recommendation(s):

That the Committee note this covering report and the Audit Completion Report prepared by the Council's External Auditors, Mazars.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31 March 2019 have been completed and were approved by this Committee at its meeting on 18 July. These have now been independently audited by the Council's external auditors, Mazars. A copy of the Audit Completion Report is attached to this report at Appendix A. This details the findings from their work on the Pension Fund Annual Accounts.

2. The Audit Completion Report is broken down into four sections and includes four appendices. The key points to note from the external auditors work on the Pension Fund Accounts are:

Financial Statements Audit:

3. As part of their work, the External Auditor considers any significant risks that exist and key areas of management judgement. Two significant risks were considered:

   - Management override of controls; and
   - Valuation of unquoted investment for which a market price is not readily available.

4. Mazars did not identify any issues to bring to members attention from their work in this area.

5. They also reviewed key areas of managed judgement (including accounting estimates). No risks were identified which might give rise to material mis-statements.

Internal Control Recommendations:

6. Mazars have considered the internal controls in place relevant to the presentation of the financial statements. No significant control deficiencies where identified in the course of their work.

Summary of Misstatements:

7. Mazars identified one unadjusted misstatement, just above their trivial threshold of £0.7m within the 2018/19 financial statements. This was linked to the valuation of private equity and infrastructure assets at year end, where the valuation data available for preparation of the accounts was superseded with more up to date information when Mazars were completing their audit work.

8. The final version of Financial Statements included an updated accounting policy, setting out the funds accounting practice around valuation information available at year end. This change to our accounting policies should address any timing movements in valuations between accounts preparation and audit. We would not expect such movements to be reported by the external auditor in future accounting periods.

Appendices to the Audit Completion Report:

9. The appendices to the audit completion report include:

- Appendix A – Draft Management Representation Letter, signed by the Executive Director of Resources;
- Appendix B – Draft Auditor's Report – included within the final version of the Financial Statements;
- Appendix C – Draft Consistency Report – published within the Pension Fund Annual Report; and
- Appendix D – Auditor Independence.

Audit Completion:

10. An unqualified audit opinion was issued on the Pension Fund accounts as part of the Lincolnshire County Council Statement of Accounts by the end of July 2019. The consistency opinion on the Annual Report was issued by 29 August. A copy of the Annual Report has been published on the Pension Fund website and all Fund employers have been notified. In addition, the link

has been shared with all County Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations. A summary of the annual report will be sent to all scheme members in the Autumn newsletters sent by WYPF, as the Fund's scheme administrator.

Conclusion

11. The audit of the Pension Fund Annual Report and Accounts for the year ended 31 March 2019 has been completed. The external auditor, Mazars, issued an unqualified audit opinion. Copies of the Pension Fund Annual Report and Accounts have been 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	External Audit, Audit Completion Report for Lincolnshire Pension Fund 2018/19

Background Papers

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

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

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Audit Completion Report - Draft

Lincolnshire Pension Fund

Year ending 31 March 2019

MAZARS

CONTENTS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Audit Committee
Lincolnshire County Council
County Offices
Newland, Lincoln
LN1 1YL

22 July 2019

Dear Members

Audit Completion Report – Lincolnshire Pension Fund - Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of the Executive Director for Resources and his team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242 052.

Yours faithfully

Lucy Nutley
Mazars LLP

Mazars LLP – Park View House, 58 The Ropewalk, Nottingham, NG1 5DW
Tel: 0115 964 4744 – www.mazars.co.uk

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the Lincolnshire Pension Fund for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 22 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement..

Sections 2 of this report outlines the detailed findings from our work on the financial statements. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing, subject to completing the remaining audit procedures, an unqualified opinion, without modification, on the amended financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B

Consistency Report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. Our draft consistency report is provided in Appendix C.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts.

Internal control recommendations

Based on the audit work completed to date there are no identified significant control deficiencies

Misstatements

There is one unadjusted misstatement that we are required to report, at page 9, to the Audit Committee.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Consistency opinion	We will complete our assessment of the final approved pension fund annual report when it has been approved by the Pension Committee at its 18 July 2019 meeting.
Closure procedures and review	We will complete our standard closure procedures, including clearing any remaining audit or quality control queries, our final review of the financial statements and consideration of post balance sheet events.

We will provide the Audit Committee with an update in relation to these outstanding matters at its 22 July 2019 meeting.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £23.6m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is still £23.6m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £0.7m based on 3% of overall materiality.

.

2. FINANCIAL STATEMEMENTS AUDIT

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements, to ensure no indication of bias.
	Audit conclusion Based on work completed to date, our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

2. FINANCIAL STATEMEMENTS AUDIT (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available	As at 31 March 2018 the fair value of investments which were not quoted on an active market was £297m (£313m as at 31 March 2019), which accounted for 13.7% (13.4% as at 31 March 2019) of the Fund's net investment assets. All of these investment assets are managed and valued, along with all other investment assets by the Fund Managers in place. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement on the part of the Fund Managers or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.

How we addressed this risk

Our work in this area has included:

- agreeing the valuations to supporting documentation including the latest investment Fund Manager valuation statements;
- reviewing the independent control assurance reports on the relevant Fund Managers to confirm that they do not highlight any risks of material misstatement relating to their procedures for valuation of these and other investment assets.
- reviewing the valuation statements to confirm that the basis of valuation was consistent with the Fund's accounting policies and they had been correctly disclosed in the financial statements.

Audit conclusion

Our work to date has not highlighted any material issues to bring to your attention.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

2. FINANCIAL STATEMEMENTS AUDIT (CONTINUED)

Opening Balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

The draft Financial Statements were published on 31 May 2019 and were of good quality. We were provided with a complete set of working papers at the start of the audit and these were of good quality too. Officers responded promptly to any audit queries or requests for additional working papers.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections that relate to the financial statements of the Lincolnshire Pension Fund.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

At this stage, based the audit work carried out, we have not identified any significant control deficiencies that we are required to report to you. Our assessment of the Council's IT general controls is still in progress though and we are awaiting information requested from Serco before we can finalise the audit work. We will update the Audit Committee at its 22 July 2019 meeting if there are any matters arising from that work that we are required to report.

4. SUMMARY OF MISSTATEMENTS

Based on the audit work to date there is one unadjusted identified misstatements for 2018/19 which is just above our trivial threshold for reporting to the Audit Committee. No material misstatements have been identified and no material amendments have been made to the draft financial statements. We will update the Audit Committee at its 22 July 2019 meeting if there are any further reportable misstatements arising from the remaining audit work.

Unadjusted misstatement

		Pension Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Investment Assets			710	
	Cr: Net Returns on Investments		710		

During our detailed tested we identified a net £710k difference between the Investment Asset balances recorded in the financial statements and the latest valuation reports. The differences were due to differences between the valuation reports available to officers when the draft financial statements prepared and the latest valuation reports being based on up to date information. These differences, attributable to the timing of the availability of information are not unusual and the difference is not to be amended by Management. Management is to review its accounting practice in relation to these cash flow changes and expects to change the accounting polices in 2019/20 to accommodate these non-material fluctuations.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

[To be provided to us on client headed note paper]

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

23 July 2019

Dear Lucy

Lincolnshire Pension Fund - audit for year ended 31 March 2019
This representation letter is provided in connection with your audit of the financial statements of the Lincolnshire Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director for Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Executive Director for Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments
Unquoted investments are included in the net assets statement at the value estimated by the Fund Manager managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements referred to in the attached appendix are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Executive Director for Resources
22 July 2019

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to Members of Lincolnshire County Council

Opinion on the Pension Fund financial statements

We have audited the financial statements of Lincolnshire Pension Fund for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director for Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Executive Director for Resources for the financial statements

As explained more fully in the Statement of the Executive Director for Resources's Responsibilities, the Executive Director for Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Executive Director for Resources is also responsible for such internal control as the Executive Director for Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director for Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Executive Director for Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

By 31 July 2019

APPENDIX C
DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of Lincolnshire County Council on the Pension Fund Financial Statements included within Lincolnshire Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Lincolnshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion
In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Lincolnshire County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Executive Director for Resources and the auditor
As explained more fully in the Statement of the Executive Director for Resources Responsibilities, the Executive Director for Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Lincolnshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Lincolnshire County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Lincolnshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the members of Lincolnshire County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Lincolnshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lincolnshire County Council and Lincolnshire County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP

Park View House,
58 The Ropewalk
Nottingham
NG1 5DW

Date to be confirmed

APPENDIX D
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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MAZARS

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Investment Beliefs Report**

Summary:

This report summarises the work undertaken at the Committee training held on 3 September 2019 to create a set of Investment Beliefs and Responsible Investment Beliefs.

Recommendation(s):

That the Committee note the report and:
1) Agree the Committee's Investment beliefs; and
2) Agree the Committee's Responsible Investment Beliefs.

Background

1. It is considered best practice to have considered and documented the investment beliefs of the Pensions Committee, and also the responsible investment beliefs. These are built into the investment strategy setting for the Fund, and can be used to assist decision making. In addition they can be used to ensure that new members on the Committee understand previous investment decisions taken. It has been a number of years since these were discussed in the Lincolnshire Fund, and they have not previously been formally included within the Investment Strategy Statement (ISS).

2. Given that a strategy review was being undertaken as part of the triennial valuation process, it was therefore considered an appropriate time to renew and revitalise the investment and responsible investment beliefs of the current Committee, and, once agreed, to include them explicitly in the ISS.

3. A survey created by Hymans Robertson, the Fund's Investment Consultant, was circulated to all Committee and Board members over the summer to initiate discussion on the beliefs of the Committee and Board in respect of investments and responsible investment. Paul Potter, Hymans Robertson, then undertook a session with the Committee and Board on 3 September, to discuss the results from the survey. Much discussion was had to draw out the key themes across both areas, and following this, officers have summarised the output to create some broad beliefs across both areas.

4. These are now brought to the Committee for further discussion and agreement. Once the high level beliefs have been agreed, officers will develop them into a framework to share with the Committee, and include within the ISS.

Investment Beliefs

5. The key investment beliefs are shown below, for discussion:

- The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.

- Funding and investment strategy are linked; as the funding position improves, the level of investment risk should be reduced.

- Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.

- Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.

- Environmental, social and governance (ESG) issues are important to the long term success of the Fund.

- Although fees and costs matter, it is expected return net of all fees and costs that should be the Committee's focus, however transparency and understanding of costs is important.

Responsible Investment Beliefs

6. The key responsible investment beliefs are shown below, for discussion:

- Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.

- The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment would be a consideration. Disinvestment on a whole sector basis is not within the Committee's beliefs.

- Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes.

- The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

- The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.

- The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

Conclusion

7. The Committee have spent time considering both their investment beliefs and their responsible investment beliefs, to enable officers to draft those listed at paragraphs 5 and 6 above. Once the high level beliefs have been agreed, officers will develop them into a framework to share with the Committee, and include within the ISS.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

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

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**2019 Valuation Update Report**

Summary:

The Fund's Actuary, Hymans Robertson, will present the draft whole Fund results of the 2019 triennial valuation to the Committee.

Recommendation(s):

That the Committee note the report and approve the draft results.

Background

1. As part of the Local Government Pension Scheme (LGPS), the Lincolnshire Pension Fund is required to undertake a valuation of the Fund's assets and liabilities every three years – this is called the Triennial Valuation. The purpose of the valuation is to understand the overall funding level of the Pension Fund (i.e. does it have enough assets to meet its liabilities), to understand the individual funding levels of each employer and to set the contribution rates for all the employers for the next three year period.

2. The Committee approved the process for the Valuation at the March 2019 meeting of this Committee, and approved the assumptions to be used in the Valuation process at the July meeting.

3. The Fund's appointed Actuary, Hymans Robertson, received the membership and cashflow data from the Fund as at 31st March 2019, and will present the draft whole Fund results today.

4. Once finalised, individual employer results will be shared with each employer in the Fund. This will be accompanied by the draft Funding Strategy Statement (FSS), presented at agenda item 14, for consultation. This is expected to be in mid-November.

5. To assist employers understanding of their valuation results, two days of employer surgeries will be held at County Offices. These days will consist of a presentation from the Actuary on each day and bookable appointments with the Fund Actuary and the Head of Pensions.

6. Employers will be required to complete a declaration, agreeing the primary and secondary contribution rates, to be returned in January 2020.

7. The final Valuation report, including the rates and adjustments certificate which sets out employers' contribution rates for the three year period to March '23, will be brought back to this Committee for final approval in March 2020.

Conclusion

8. The Fund's Actuary will present the draft 2019 Valuation results at a whole Fund level to the Committee. Once agreed, the individual employer results will be shared, alongside the FSS for consultation.

9. The final Valuation report, including the rates and adjustments certificate which sets out employers' contribution rates for the three year period to March '23, will be brought back to this Committee for final approval in March 2020.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

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

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**03 October 2019**
Subject:	**Draft Funding Strategy Statement**

Summary:

This paper brings the draft Funding Strategy Statement (FSS) to the Committee for discussion. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence.

The FSS will be sent to all employers in the Fund with their draft results in November, for consultation, before being brought back to the Committee for final approval.

Recommendation(s):

That the Committee note the report and consider the draft Funding Strategy Statement.

Background

1. The Funding Strategy Statement (FSS) (draft attached as Appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation.

2. As employees contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities. The final agreed contribution rates for employers are shown in appendix B.

3. The purpose of the FSS, as defined by the Ministry of Housing, Communities and Local Government (MHCLG), 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.

4. The aim of this funding policy is:

   - 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.

5. 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:

   - What is a suitably (but not overly) prudent funding target?

   - 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.

   - 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.

6. The FSS also includes mechanisms for dealing with employers ceasing, ill-health retirements and early retirement costs.

7. The key risks, around financial, demographic and governance issues, and the controls in place are detailed in appendix C of the FSS.

8. The FSS should to be read alongside the Triennial Valuation Report, the Investment Strategy Statement and the Governance Compliance Statement to provide a full overview of the Fund's governance structure.

9. As the Committee are aware, there are some outstanding issues that require clarification/agreement before the FSS can be finalised. It is expected that further information will be available before the document is sent to employers in November. The key areas are highlighted in yellow and cover the subjects below:

   - the McCloud court case and its potential impact on the LGPS benefits structure;
   - the LGPS Valuation cycle;
   - the position of higher education establishments within the Regulations;
   - the Fund's approach to ill health insurance; and
   - those areas requiring review once draft individual results are available.

10. The key changes to the document since the last version updated in 2018 are shown below:

   - Additional wording to cover new 'Exit credits' legislation (throughout);
   - Tidying up of actuarial terminology and additional explanation of Hymans Economic Scenario Service model (throughout and appendix E);
   - Dealing with McCloud/cost cap benefit uncertainty (Section 2.6 and Section 3.3 note j);
   - Noting the Valuation cycle consultation and the Fund's policy on interim assessments (Section 2.7);
   - Tidying up the wording for the approach for new academies joining the Fund or moving to/from a Multi-Academy Trust (Section 3.3 note g); and
   - Extended wording to cover possible employer post cessation agreements (Section 3.3 note j).

11. The FSS will be sent to all employers in the Fund for consultation with their draft valuation results. This will allow them with an opportunity to raise any questions or comments ahead of this being brought back to this Committee for final approval in March.

Conclusion

12. The Funding Strategy Statement has been reviewed as part of the 2019 Triennial Valuation process, and has been updated to take account of the strategy used to finalise employer contribution rates. The FSS will be sent to all employers in the Fund with their draft results in November, for consultation, before being brought back to the Committee for final approval.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Funding Strategy Statement 2019

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

Lincolnshire Pension Fund

Funding Strategy Statement

September 2019

Contents

Funding Strategy Statement

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 post consultation and final approval date.

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 currently 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 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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Jo Ray, Head of Pensions, in the first instance at e-mail address jo.ray@lincolnshire.gov.uk or on telephone number 01522 553656.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated 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 likelihood of achieving that funding target over that time horizon, allowing for 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 an allowance for 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 is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated 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). 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, the period over which the funding target is achieved. 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 **likelihood 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, then the required likelihood 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**.

2.5 How is a funding level 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 funding level and deficit/surplus 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, funding levels and deficits are short term, high level risk 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 likelihood 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 time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from McCloud court case and its potential impact on the LGPS Benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

The Fund has taken the following action:

TBC

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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, reserves the right to 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. 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**	**Other Scheduled Bodies**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**	**Internal Drainage Boards, Parish and Town Councils**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)				Ongoing participation basis, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, 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 or % of payroll where pooled
Treatment of surplus	Covered by stabilisation	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority					Preferred approach: contributions kept at	Preferred approach:

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies*	Designating Bodies
	arrangement						Primary rate. However, reductions may be permitted by the Administering Authority to reduce the surplus over the remaining contract term	contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority
Likelihood 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	Cessation is assumed not to be generally possible, as				Can be ceased subject to		Participation is	Can be ceased

Type of employer	Scheduled Bodies	Community Admission Bodies and Designating Employers	Transferee Admission Bodies*	Designating Bodies
participation: exit debt/credit payable	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).	terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.	subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see Note (j)

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit 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. based on the return from long-term 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 2019 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 next formal valuation. 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 2020 for the 2019 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)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer, covering the period until the next formal valuation, will normally be set as a monetary amount. However, the Administering Authority reserves the right to amend these rates between formal valuations.

Note (e) (Likelihood 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 likelihood. A higher required likelihood 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 likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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, for the purpose of setting contribution rates, 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 assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. 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 calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance or removal of the formal guarantee currently provided to academies by the DfE. 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 greater than expected rise in liabilities;
- 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, or other basis agreed with the ceding employer. 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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer. 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. Any risk sharing 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, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will

make no allowance for the potential benefit changes.

OR

apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

OR

make adjustments to the liability valuation, at individual member level, of the post 2014 benefit accrual, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation. 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 surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation 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 participation basis or contractor exit 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 or surplus. 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 may 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 on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and Secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall

identified. The Administering Authority may need to seek legal advice in such cases, as the Admission 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:

- Designating 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.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.
- 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).

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Employers who are permitted to enter (or remain in) a pool at the 2019 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 2019 valuation, separate pools were operated for:-

- Lincolnshire County Council;
- Police and Crime Commissioner for Lincolnshire;
- Lindsey Marsh Internal Drainage Board;
- Parish and Town Councils;
- 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.
    - CIT Academies
    - Horncastle Education Trust

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).

3.8 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.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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.

3.9 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 or receive an exit credit 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 and a cessation deficit 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.

3.10 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 Investment Strategy Statement 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 actuary's assumptions for future investment returns (described in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore 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).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 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 quarterly Pensions Committee meetings, and these papers are public documents that can be viewed on the Administering Authorities website.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its 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 shared 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 (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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 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 shared website 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 Investment Strategy Statement (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 an 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 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, and submit accurate data submissions 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 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 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;
- MHCLG (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 and contribution rates 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.
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. 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-

Risk	Summary of Control Mechanisms
	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).
Effect of possible asset underperformance as a result of climate change	TBC

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 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)

Risk	Summary of Control Mechanisms
	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 Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular

Risk	Summary of Control Mechanisms
	intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

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.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated 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 likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

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 assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- at the end of the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 at the end of the time horizon;
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 likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this;

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. 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.

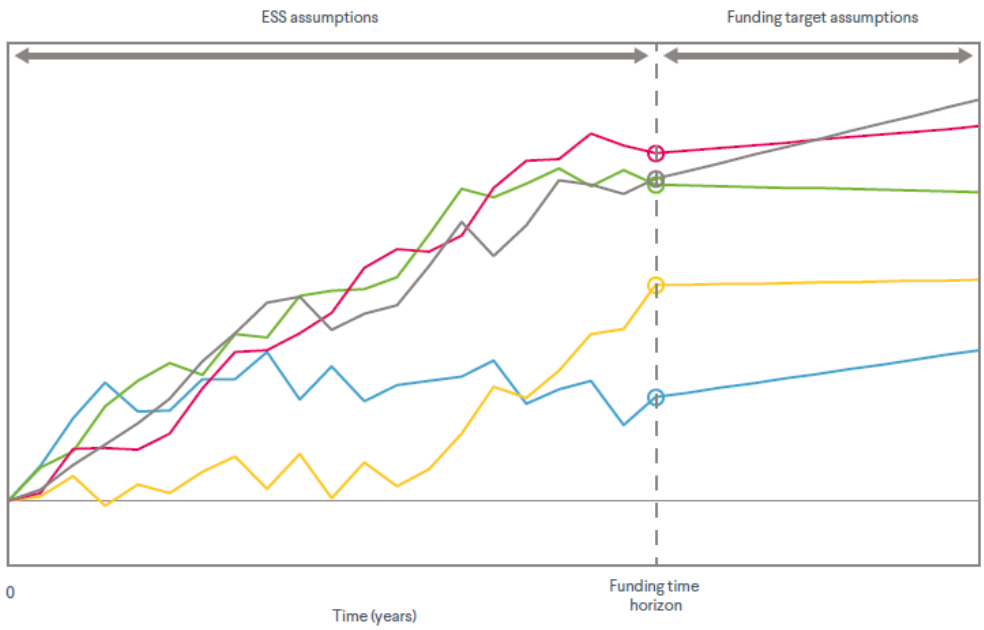
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2024, followed by

2. retail prices index (RPI) less 0.5% p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.7% p.a. This is a minor change from the previous valuation, which assumed a blended assumption of RPI less 0.6% per annum. The change has led to a very small increase in the funding target (all other things being equal).

b) 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.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced 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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), 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

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
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.
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**.
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 in funding as an objective measure of a risk-free rate of return.
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 100 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 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 period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees 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**. 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.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.