

County Offices  
Newland  
Lincoln  
LN1 1YL

8 July 2020

**In accordance with the powers granted by the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 this will be a virtual meeting.**

### **Pensions Committee**

A meeting of the **Pensions Committee** will be held on **Thursday, 16 July 2020 at 10.00 am as a Virtual - Online Meeting via Microsoft Teams** for the transaction of the business set out on the attached Agenda.

Access to the meeting is as follows:

Members of the Pensions Committee and officers of the County Council supporting the meeting will access the meeting via Microsoft Teams.

Members of the public and the press may access the meeting via the following link:  
<https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?Cid=136&Mid=5584>  
where a live feed will be made available on the day of the meeting.

Yours sincerely



Debbie Barnes OBE  
Chief Executive

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

Councillors E W Strenghel (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  
R Waller, District Council Representative



**PENSIONS COMMITTEE AGENDA  
THURSDAY, 16 JULY 2020**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes of the previous meeting held on 11 June 2020</b>	5 - 6
<b>4</b>	<b>Independent Advisor's Report</b> <i>(To receive a report by Peter Jones, Independent Advisor, which provides a market commentary on the current state of global investment markets)</i>	7 - 10
<b>5</b>	<b>Pension Fund Update Report</b> <i>(To receive a report by Jo Ray, Head of Pensions, which provides the Committee with an update on Fund matters over the quarter ending 31 March 2020)</i>	11 - 46
<b>6</b>	<b>Pensions Administration Report</b> <i>(To receive a report by Yunus Gajra, Business Development Manager (WYPF), which provides an update on current administration issues)</i>	47 - 70
<b>7</b>	<b>Employer Monthly Submissions Update</b> <i>(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which provides the Committee with up to date information on Employer Monthly Submissions for the first quarter of the financial year 2019/20 (January to March))</i>	71 - 74
<b>8</b>	<b>Investment Management Report</b> <i>(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which covers the management of the Lincolnshire Pension Fund assets over the period from 1 January to 31 March 2020)</i>	75 - 94
<b>9</b>	<b>Annual Report on the Fund's Property and Infrastructure Investments</b> <i>(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which outlines the performance of the fund's property and infrastructure investments for the year ended 31 March 2020)</i>	95 - 108
<b>10</b>	<b>Lincolnshire Pension Fund Risk Register</b> <i>(To receive a report by Jo Ray, Head of Pensions, which presents the Pension Fund Risk Register to the Committee for annual review and approval. In addition, it presents the Coronavirus Risk Register for consideration)</i>	109 - 122

- 11 Annual Pensions Committee Training Plan and Policy** 123 - 138  
*(To receive a report by Jo Ray, Head of Pensions, which sets out the training policy and the annual training plan for the Pensions Committee members for the year to June 2021)*
- 12 Pension Fund Draft Annual Report and Accounts** 139 - 336  
*(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which brings the draft Annual Report and Accounts for the Pensions Fund to the Committee for approval)*
- 13 CONSIDERATION OF EXEMPT INFORMATION**  
*(In accordance with Section 100(A)(4) of the Local Government Act 1972, the following agenda items have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of these items of business)*
- 14 Property Investment** 337 - 344  
*(To receive an exempt report by Jo Ray, Head of Pensions, which provides the Committee with information in relation to property investment)*
- 15 Investco - Global ex. UK Equity Portfolio Presentation Update** 345 - 384  
*(To receive an exempt report by Claire Machej, Accounting, Investment and Governance, which provides an update on the presentation received by the Committee at its June meeting)*

#### **Democratic Services Officer Contact Details**

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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:

<https://www.lincolnshire.gov.uk/council-business/search-committee-records>



## **PENSIONS COMMITTEE 11 JUNE 2020**

### **PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)**

Councillors 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) and R Waller (District Council Representative)

Roger Buttery attended the meeting as an observer

Officers in attendance:-

Andrew Crookham (Executive Director Resources), Peter Jones (Independent Advisor), Claire Machej (Accounting, Investment and Governance Manager), Jo Ray (Head of Pensions) and Rachel Wilson (Democratic Services Officer)

### 71 APOLOGIES FOR ABSENCE

There were no apologies for absence.

### 72 DECLARATIONS OF MEMBERS' INTERESTS

Steve Larter (Small Scheduled Bodies Representative) declared that he was a deferred and active member of the Pension Fund.

Mr A Antcliff declared that he was an employee of Lincolnshire County Council and a member of the Pension Fund.

### 73 MINUTES OF THE PREVIOUS MEETING HELD ON 19 MARCH 2020

RESOLVED:

That the minutes of the meeting held on 19 March 2020 be approved as a correct record and signed by Chairman, subject to it being noted that Steve Larter should have also been recorded as a current member of the Pension Fund and that there was a typographical error on the last line of minute number 62.

**2**  
**PENSIONS COMMITTEE**  
**11 JUNE 2020**

74 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

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

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

Members received a presentation from representatives of Invesco Asset Management who managed the Global ex. UK Equity Portfolio.

A number of questions and points from the Committee were responded to.

RESOLVED

That the presentation be noted.

76 MANAGER PRESENTATION - MORGAN STANLEY DIVERSIFIED ALTERNATIVES

Members received a presentation from representatives of Morgan Stanley Diversified Alternatives.

A number of questions and points from the Committee were responded to.

RESOLVED

That the presentation be noted.

77 MANAGER PRESENTATION - BORDER TO COAST PENSIONS PARTNERSHIP

Members received a presentation from representatives of the Border to Coast Pensions Partnership.

A number of questions and points from the Committee were responded to.

RESOLVED

That the presentation be noted.

The meeting closed at 12.08 pm

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Independent Advisor's Report</b>

**Summary:**

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

**Recommendation(s):**

That the Committee note the report.

## **Background**

### **Investment Commentary – July 2020**

#### **Covid-19 epidemic: what has changed? Everything or nothing?**

In one sense, this is a ridiculous question! The epidemic has turned the entire global way of living completely “upside down”. It cannot be the same as before the crisis hit in February 2020 – at least not for a number of years and until medical advances, such as a vaccine, can give confidence in the virus being brought under control. And yet, as members will be well aware, the stock markets of the world, notably that of the USA, are at levels close to where they were before the epidemic became widespread.

#### **Chronology of markets through the developing crisis**

In late December, the world became aware of a strange new virus circulating in China. Previous serious virus outbreaks, such as SARS and Ebola, had little impact on the developed western world, so this one hardly registered as a global threat – and certainly not as an investment risk. All this changed when the Chinese authorities stunned the world with a lock down of the city of Wuhan, with its population of some 10 million people. That was on 23<sup>rd</sup> January. By the 5<sup>th</sup> February, a cruise liner, the Diamond Princess, was in quarantine at a Japanese port. By then, few could have been confident that this was a purely Asian problem. By 15<sup>th</sup> February, the first European cases had been confirmed. A week later, the full force of the pandemic was obvious in northern Italy.

It was not until then that the stock markets woke up to the seriousness of the situation – that this really was a global – not localised – pandemic.

### **Stock market reaction**

As you will all recall, equity markets then fell very sharply. The main US stock market index, the S&P 500, fell 34% over the ensuing month or so. In the latter stages of the decline, the desperation for cash to fund margin calls in options and futures positions exacerbated the circumstances and led to panic selling. Once this phase had passed, some modest bounce back was to be expected. But the pace and extent of the subsequent rise took everyone by surprise. At the time of writing, most markets (UK equities are the exception) are within about 10% of levels seen in mid-February, before the pandemic became widespread. So, a very solid recovery in share prices has occurred. Long dated government bond prices (e.g. UK gilts, US Treasury bonds), not surprisingly because they are “safe haven investments”, rose sharply when the pandemic struck – i.e. yields fell and they remain at historically low levels.

### **Global recession**

And yet the world is in the grip of an unprecedented recession, caused by the near universal lockdown of personal freedoms and the consequent effect on working lives and hence economic output. These much needed draconian measures are now being lifted so that there are signs of an early recovery in output. Global output is still forecast to fall about 5% on the year 2020 – and probably double that figure in the UK.

Members will be well acquainted with the extraordinary efforts of Central Banks around the world to provide huge amounts of liquidity and financial support to their respective governments. The key objective of the authorities has been (and will remain) to provide private individuals with financial support to offset their loss of income from employment and self-employment. The other key aim has been to minimize the number of businesses facing bankruptcy from the lockdown and thus the resulting job losses. The issue facing investors is to judge how successful these efforts will be. At the time of writing, the coronavirus seems to be receding (except in isolated pockets) and the lockdown is largely being eased in most if not all countries around the world. Economies have stopped contracting in size and are beginning to expand again – albeit from a low base. In the early stages we may well see a “V shaped” recovery in many economies. But much economic capacity has probably been permanently lost, so that a full recovery is likely to take several years, at least, and revert to a long slog rather than a rapid bounce back. Unemployment must inevitably rise, once government support measures are withdrawn – with all the personal misery that such job losses entail.



## **What of markets?**

Central Banks were obliged in 2009/10, at the time of the financial crisis, to step in with huge financial support. Little of that had been withdrawn when the pandemic struck. Their support during the current crisis has been many times larger – as it needed to be. So Central Bank support has not changed and cannot change, in my view, whilst the health of the global economy is so fragile. It may need to be intensified if the recession becomes entrenched.

The consequence for markets, both equities and fixed interest securities, is that ample liquidity will be an enduring feature of the financial landscape. Markets will stay at elevated levels and financial returns to investors will be inadequate to meet their respective liabilities. Investment purists, basing their views on economic prospects, will argue that markets are far too high and liable to a sharp correction. My view is that markets will be driven for the foreseeable future by excessive cash and not so called fundamentals. Are they vulnerable to a fall? Of course, but I doubt that any fall will be severe (say over 10%). Central banks and governments will stand ready to intervene, especially if the coronavirus were to return to the northern hemisphere next winter. To that extent, little has changed.

## **Conclusion**

Peter Jones  
29<sup>th</sup> June 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.

## **Background Papers**

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

This report was written by Peter Jones, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters over the quarter ending 31 March 2020 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Breaches Register Update
5. Risk Register Update
6. Asset Pooling Update
7. Investment Consultancy Services Appointment
8. Actuarial Services Appointment
9. FSS Updates
10. Conference and Training Attendance

**Recommendation(s):**

That the Committee

- 1) note the report;
- 2) approve the extension of the Investment Consultancy Services contract for an additional twelve months; and
- 3) approve the amendments to the Funding Strategy Statement.

**Background**

**1. Funding Level Update**

- 1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2019, to the current quarter end, 31 March 2020. The accuracy of this type of funding update is expected to decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last

valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a 100% funding level.

- 1.2 At the last formal valuation, the Fund assets were £2,353m and the liabilities were £2,536m. This represented a deficit of £183m and equated to a funding level of 93%. Since the valuation the funding level has fallen by 10% to 83%. The graph below shows the changes to the funding level since 31 March 2019.

**Change in funding level since last valuation**



- 1.3 Over the period 31 March 2019 to 31 March 2020 the deficit, in real money, has increased from £183m to £440m. Investment returns of -5.8% over the period since the valuation has been lower than expected. In particular, there has been a drop in the value of the Fund’s assets over the first quarter of 2020 as a result of the current pandemic. The outlook for future investment returns over the next 20 years on the Fund’s portfolio of assets has fallen (from 4.0% p.a. to 3.3% p.a.), increasing the value placed on liabilities. This has been almost offset by the fall in inflation which has reduced the value of the liabilities, all else being equal. Since the valuation contributions have broadly matched the accrual of new benefits.

- 1.4 The table below shows the main impactors on the deficit.

## Overall effect

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	(183)
Contributions (less benefits accruing)	3
Interest on surplus/(deficit)	(7)
Excess return on assets	(228)
Change in inflation & expected future investment return	(25)
Surplus/(deficit) as at 31/03/2020	(440)

## 2. Responsible Investments

### Voting

- 2.1 To enable the Fund to fulfil its stewardship responsibilities as an active shareholder, the active equity managers (Invesco and Border to Coast) are required to report on their voting on a quarterly basis.
- 2.2 Appendix A presents summarised information in respect of how the Invesco have voted in relation to the Fund's equity holdings, specifically where they have voted differently to the company management's recommendation. Border to Coast has produced a more detailed proxy voting report, which is also attached in appendix B.
- 2.3 Please contact the author of this report if you wish to see full detail of all votes cast over the quarter.

### Local Authority Pension Fund Forum Membership

- 2.3 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](http://www.lapfforum.org). Some of the highlights during the quarter included:

- During this quarter LAPFF undertook 55 engagements with 36 companies, on issues ranging from human rights and employment standards to climate change reporting and environmental risk.
- Over the last few months, the number of banks being targeted for their lending policies on climate has increased. LAPFF stepped up its engagement with banks over their lending policies to ensure that they are aligned with Paris Agreement objectives and are undertaking lobbying in a manner consistent with these objectives. To this end, LAPFF met both with ANZ Bank and with Barclays during the quarter to encourage them along these lines.
- As part of the community engagement element of the investor tailings dam initiative, LAPFF has been liaising with community representatives over a list of high risk tailings dams in Brazil. Vale has by far the largest number of dams on the list, but Anglo American and Arcelor Mittal are also represented. Therefore, LAPFF has approached all three companies to try to gain assurances that they have taken adequate steps to prevent further tailings dam collapses. All three companies have responded positively to these requests.
- LAPFF members co-filed two resolutions with Amazon and Alphabet. Both of these resolutions were aimed at social issues. The Amazon resolution sought to involve employee representatives at board level, while the Alphabet resolution requested board level oversight of human rights risks. Both resolutions were blocked by the SEC. This outcome was disappointing but not unexpected in light of the SEC's recent consultation on shareholder resolutions. This consultation seemed to be aimed at reducing the number of resolutions that US companies receive by making it harder to file and co-file. It remains to be seen what the outcome of the consultation will be, but it is likely that the shareholder resolution route in the US will be significantly curtailed, if not abandoned altogether, in light of these developments.
- LAPFF has been partnering with Sarasin and other institutional investors in engagements with the Big Four auditing firms and Shell, BP and Total about incorporating climate appropriately in the audit process. While the engagements with the audit firms were less than encouraging, both the audit firms and the companies themselves are showing signs of movement on this issue.

- 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 C. 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 No areas have changed since the last quarter's report.
- 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 Breaches Reporting - update**

4.1 The Fund, and those charged with its governance, has a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix D shows those breaches logged since recording began. Since the last quarter end, one breach has been added, detailed below:

- **Late payment of contributions** – a separate paper is presented to the Committee at paper 7, updating the Committee on all monthly employer contribution breaches over quarter (January to March).

#### **5 Risk Register Update**

5.1 The risk register is brought to this Committee at agenda item 10, therefore an update is not provided in this report.

#### **6 Asset Pooling Update**

##### **Sub Funds**

6.1 Following the transition to the Investment Grade Credit Fund in February/March, the post transition report from Analytics has been issued, and a post transition workshop has been held with Border to Coast, Blackrock, Analytics and the Partner Funds. There was one key issue of concern relating to currency hedging, which has highlighted additional controls to be put in place for future transitions, as part of the "lessons learned" process. It was also the subject of much discussion at the Joint Committee (papers of which were shared with the Committee).

6.2 The next investment is into the Multi Asset Credit (MAC) Fund, in the second half of 2020/first half of 2021. Following a delay due to the disruption in markets caused by the pandemic in March, officers are now progressing the initial investment into the appointed core MAC manager's fund ahead of the move to Border to Coast.

6.3 The transition from the UK Passive equity mandate managed by LGIM to the Border to Coast internally managed UK equity fund has also progressed. Transition costs were minimised as another partner fund was looking to exit the internal fund, and therefore holdings were able to be crossed. Officers worked closely with Border to Coast and LGIM to ensure that the transition was enacted as efficiently as possible.

6.4 Border to Coast have held a number of workshops with officers and advisors on the property offering, which will be one of the more complex transitions and will take a number of years. Further information on this will be brought to the Committee later this year.



- 6.5 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast, through attendance at virtual meetings and workshops, on the development of the sub-fund products.

### **Joint Committee Meetings**

- 6.6 The papers of the 16 June JC were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for that meeting:

- Elections for the Roles of Chairman and Vice Chairman of the Joint Committee and nominations for the Border to Coast Board
- Joint Committee Budget
- Border to Coast Market Review
- Listed Equity Fund Performance Report
- Sterling Investment Grade Transition
- Pooling Property Assets
- Chief Executive Officer (CEO) Report

- 6.7 The elections for the roles of Chairman and Vice Chairman were held, with Cllr Tim Evans (Surrey) being appointed as Chairman for the coming year, and Cllr David Coupe (Teesside) being appointed as Vice Chairman. Cllr Anne Walsh (Tyne & Wear) was nominated as the shareholder NED, to be put forward to the Board and shareholders for approval.

- 6.8 The next JC meeting will be held on 1 October 2020 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strenjiel, who can raise them at the meeting.

### **Shareholder Matters**

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

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

- 6.11 There was only one shareholder resolution since the last report. This was related to the merger of the Northumberland Pension Fund with the Tyne and Wear Pension Fund, which reduced the number of shareholders in

Border to Coast to eleven from twelve. The resolution enabled the redistribution of the share capital so that all eleven partner funds held equal shares following the merger. This was approved.

## **7 Investment Consultancy Services Appointment**

- 7.1 As the Committee are aware, there is currently a project underway by the Scheme Advisory Board (SAB) looking at governance across the LGPS, called the Good Governance Review, which will provide a framework for all Funds to follow. This is expected to be in place for April 2021.
- 7.2 The contract for Investment Consultancy services was awarded to Hymans Robertson in January 2014, with an expiry date of 31 December 2020. Given the upcoming guidance for governance arrangements and the potential changes that may be required, officers believe it would be useful to extend the current contract with Hymans Robertson for an additional twelve months. This would allow for a full governance review of the Lincolnshire Fund against the new requirements to be undertaken ahead of appointing a consultant.
- 7.3 In addition, the creation of the asset pools and the long term transition of all assets to Border to Coast means that the roles of the investment consultant and the independent advisor will change, therefore this extension also allows for this to be considered in the governance review.
- 7.4 Officers therefore request that the Committee approve a twelve month extension to the Investment Consultancy services contract to 31 December 2021.

## **8. Actuarial Services Appointment**

- 8.1 At the March meeting of this Committee, it was agreed that the tender process for Actuarial Services for the Fund would be carried out by a working group of officers and volunteers from the Pensions Committee. An email was sent to all members in June requesting volunteers, and the both Cllr Strengiel and Cllr Adams responded positively to the request, in addition to the Committee's Independent Advisor, Peter Jones, offering his services.
- 8.2 The working group will be working over the summer months to provide a recommendation to the Committee at the October meeting.

## **9. Funding Strategy Update**

- 9.1 The latest Funding Strategy Statement (FSS) was approved by the Committee at the March 2020 meeting. Following further discussion with the Fund Actuary since the Valuation, there are some recommended changes to the FSS. These include one major change and two minor ones. The amended FSS with the proposed changes has been sent out to employers

for consultation, and no responses have been received at the time of writing this report. The amendments are explained in the paragraphs below.

### **Major change - new transferee admission agreements**

- 9.2 As reported previously to the Committee, the LGPS (Amendment) Regulations 2018 created the new ability for admitted body employers to receive any surplus on cessation in the Fund (“an exit credit”). Prior to this any surplus was retained within the Fund, whilst the employer was required to pay any deficit due. The regulations allowing the repayment of surplus to LGPS employers came into effect on 14 May 2018.
- 9.3 Previously the nature of an employer’s participation in the Fund has not been a concern for the Fund, due to the requirement for guarantees and other forms of risk mitigation. However, the implementation of the new regulations changes the profile of risk to the Fund, as employers may not always be able to repay a deficit but the Fund will always be able to repay a surplus. Surpluses often arise as a matter of chance, based on changes in financial conditions between the date of joining and leaving the fund.
- 9.4 New transferee admitted bodies are created as a result of the award of a contract by a scheme employer. These new employers typically have a short participation period in the Fund and therefore cessation events occur frequently. Officers have worked with the Fund Actuary to consider and construct a funding model for new contractor admissions that will manage the change in the risk profile following implementation of the new regulations in a way that is “fair” to both the employer and the Fund.
- 9.5 The proposed new approach is to formalise a “pass-through” arrangement for all new contractors going forward. Under this approach the contractor pays an appropriate fixed employer contribution rate, agreed by the awarding authority and the Fund Actuary, during their participation in the Fund. At the end of the contract any funding surplus or deficit falls back to the awarding authority (who will ultimately have funded the pension contributions via the cost of the contract), and no cessation deficit/surplus is payable by/to the contractor. This arrangement is set out within the contract terms between the two parties, in a risk sharing arrangement.
- 9.6 This approach mirrors many of the arrangements that our awarding employers are currently entering into with contractors outside of admission agreements, as contractors’ demand to be protected from pension funding risk.
- 9.7 Any cessation deficit or surplus reverting to the awarding authority will be absorbed into the existing assets and liabilities of that authority and be considered as part of the funding evaluation at the next triennial valuation.
- 9.8 Under the proposed approach an individual funding position is still allocated to the admitted body, as in addition to the pass-through rate they still retain responsibility for admitted body controlled risks e.g. excessive salary growth,

early payment of benefit on unreduced terms, augmentation of benefit etc. Again, this needs to be clearly set out in any contract arrangements.

- 9.9 As mentioned in paragraph 8.1 employers have been consulted about this potential change to the funding approach, and communications will continue to ensure that pensions are considered at the beginning of any potential outsourcings or contract renewals.
- 9.10 It is not proposed to apply the changes retrospectively to existing admission agreements, but to make this the default option for any new contractor admission from September.

### **Minor amendments – Small Scheduled Bodies Pool and McCloud Treatment for Cessations**

- 9.11 The Small Scheduled Bodies pool is made up of Town and Parish Councils, who normally have very few members (often only one or two) and are pooled to spread the risk and to reduce the volatility of their contributions. Clarification has been added to the cessation calculation process of the employers in this pool, in respect of how deficits are calculated.
- 9.12 As the Committee are aware, there is no agreed remedy for the McCloud court case and how it might impact the benefit structure for members, and therefore the costs to employers. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. The change made is to clarify that 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 will be that the Actuary will add a 1% loading to calculated liabilities for "gilts exit" cessations (where there is no guarantor). On the grounds of consistency, simplicity and pragmatism, there would be no adjustment to a cessation value where the obligations are being passed on elsewhere.
- 9.13 The Committee are asked to agree the proposed changes detailed above, namely:
- the funding strategy for new transferee admission agreements - specifically the move to a "pass-through" arrangement for new employers, with an agreed fixed contribution rate, no surplus or deficit crystallisation on cessation, and additional payments only required for employer controlled risks;
  - the clarification on cessations for the Small Scheduled Body Pool; and
  - the clarification on the approach to the McCloud impact on cessations.
- 9.14 Once approved by the Committee, the amended Funding Strategy Statement will be published to reflect the change in funding approach.

## **10 Conference and Training Attendance**

- 10.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars, webinars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend.
- 10.2 The Committee and officers are therefore requested to share information on relevant events they have participated in since the last Committee meeting.

## Conclusion

- 11 The work with Border to Coast continues and progress is underway for the next transitions into Multi-Asset Credit and UK Equities.
- 12 The Committee are requested to approve the extension of the Investment Consultant contract for one year, as explained in section 7 and the updates to the FSS, as explained in section 9.

## 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	Invesco Voting Activity
Appendix B	Border to Coast Voting Activity
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register

## Background Papers

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

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

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Appendix A

Invesco Voting – January to March 2020

Company Name	Country	Meeting Date	Meeting Type	Proponent	Proposal Number	Proposal Text	Management Recommend.	Vote Instruction	Rationale
Costco Wholesale Corporation	USA	Annual	22-Jan-20	Share Holder	5	Disclose Board Diversity and Qualifications Matrix	Against	Abstain	The shareholder proponent is asking Costco to adopt a policy to disclose a director nominee's ideological perspectives. Invesco will generally ABSTAIN from such environmental and social shareholder resolutions.
Jabil Inc.	USA	Annual	23-Jan-20	Management	1.6	Elect Director John C. Plant	For	Withhold	The nominee is a CEO and sits on more than 2 public company boards (withhold only at outside boards).
Visa Inc.	USA	Annual	28-Jan-20	Management	1a	Elect Director Lloyd A. Carney	For	Against	The nominee is a CEO and sits on more than 2 public company boards (withhold only at outside boards).
Tyson Foods, Inc.	USA	Annual	06-Feb-20	Management	1k	Elect Director Barbara A. Tyson	For	Against	The nominee is an incumbent and attended less than 75% of the board and committee meetings that they were scheduled to attend during the previous fiscal year without a valid excuse.
Tyson Foods, Inc.	USA	Annual	06-Feb-20	Share Holder	4	Report on Deforestation Impacts in Company's Supply Chain	Against	Abstain	Invesco will ABSTAIN on this type of proposal.
Tyson Foods, Inc.	USA	Annual	06-Feb-20	Share Holder	5	Report on Lobbying Payments and Policy	Against	For	Invesco will vote FOR this proposal.
Tyson Foods, Inc.	USA	Annual	06-Feb-20	Share Holder	6	Report on Human Rights Risk Assessment Process	Against	For	Invesco will vote FOR this proposal.
Apple Inc.	USA	Annual	26-Feb-20	Share Holder	4	Proxy Access Amendments	Against	For	Invesco will vote FOR this proposal.
Apple Inc.	USA	Annual	26-Feb-20	Share Holder	5	Assess Feasibility of Including Sustainability as a Performance Measure for Senior Executive Compensation	Against	Abstain	Invesco will generally ABSTAIN from environmental and social shareholder resolutions.
Apple Inc.	USA	Annual	26-Feb-20	Share Holder	6	Report on Freedom of Expression and Access to Information Policies	Against	For	Invesco will vote FOR this proposal.
Novartis AG	Switzerland	Annual	28-Feb-20	Management	10	Transact Other Business (Voting)	For	Against	A vote AGAINST is warranted because:- This item concerns additional instructions from the shareholder to the proxy in case new voting items or counterproposals are introduced at the meeting by shareholders or the board of directors; and- The content of these new items or counterproposals is not known at this time. Therefore, it is in shareholders' best interest to vote against this item on a precautionary basis.
Helmerich & Payne, Inc.	USA	Annual	03-Mar-20	Management	1f	Elect Director Jose R. Mas	For	Against	The nominee is a CEO and sits on more than 2 public company boards (withhold only at outside boards).
AmerisourceBergen Corporation	USA	Annual	05-Mar-20	Share Holder	4	Provide Right to Act by Written Consent	Against	For	Invesco will vote FOR this proposal.
AECOM	USA	Annual	10-Mar-20	Share Holder	5	Provide Right to Act by Written Consent	Against	For	Invesco will vote FOR this proposal.
QUALCOMM Incorporated	USA	Annual	10-Mar-20	Management	4	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	A vote AGAINST this proposal is warranted. For FY2019, the CEO

Company Name	Country	Meeting Date	Meeting Type	Proponent	Proposal Number	Proposal Text	Management Recommend.	Vote Instruction	Rationale
									received a \$3.6 million special, fully vested equity award in connection with the settlement and multi-year license and supply agreements entered into with Apple and related parties. While the rationale for the special award is compelling, there are insufficiently mitigated concerns surrounding both the decision to grant special equity awards in two consecutive years and the absence of any performance- or service-vesting criteria attached to this year's award. Concerns are also noted with respect to the magnitude of the CEO's annual LTI awards. While the company's long-term performance has trailed peers as of the end of FY2019, the CEO received a \$2 million increase to the annualized value of his target LTI opportunity for the second consecutive year, bringing the target annual value of his long-term incentives in line with median total pay of company-selected peers.
The Walt Disney Company	USA	Annual	11-Mar-20	Management	3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	A vote AGAINST this proposal is warranted. Although meaningful improvements were made to address shareholders' concerns, including the elimination of certain compensation increases the CEO would otherwise be contractually entitled to, there remain significant concerns regarding CEO pay magnitude and structure. Specifically, the CEO's base salary is more than double that of company peers at \$3 million. The CEO's target and maximum annual incentive pay opportunities remain set at \$12 million and \$24 million, which is 400 percent and 800 percent of base salary, respectively. This resulted in an annual incentive award for 2019 that exceeded the CEO total pay peer median. In addition, performance awards under the LTI program continue to target merely median performance, while goals under the STI program are only disclosed as a range, with specific target goals undisclosed.
The Walt Disney Company	USA	Annual	11-Mar-20	Share Holder	5	Report on Lobbying Payments and Policy	Against	For	Invesco will vote FOR this proposal.
Starbucks Corporation	USA	Annual	18-Mar-20	Management	1d	Elect Director Mary N. Dillon	For	Against	The nominee is a CEO and sits on more than 2 public company boards (withhold only at outside boards).
Starbucks Corporation	USA	Annual	18-Mar-20	Share Holder	4	Report on Risks of Omitting Viewpoint and Ideology from EEO Policy	Against	Abstain	Invesco will ABSTAIN from this type of shareholder proposal.

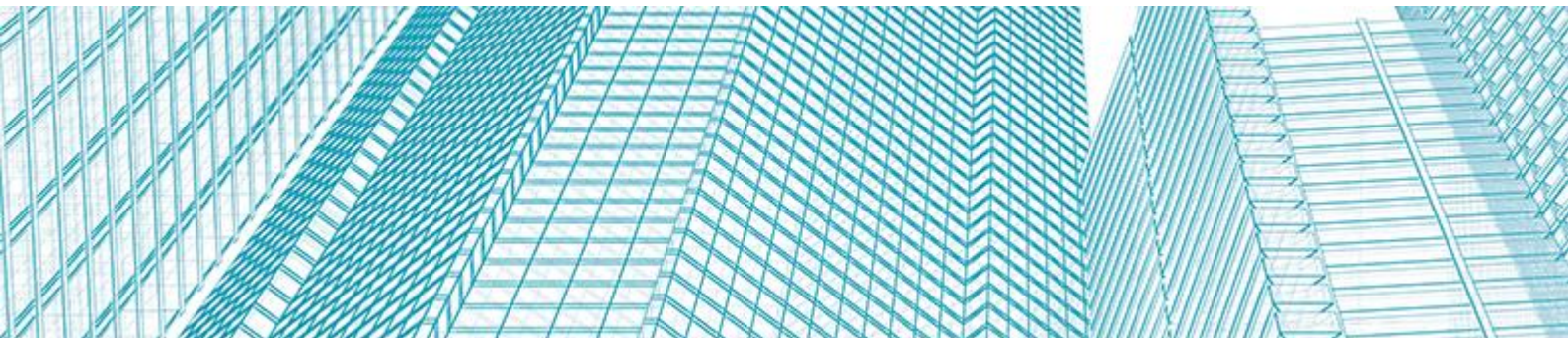


Company Name	Country	Meeting Date	Meeting Type	Proponent	Proposal Number	Proposal Text	Management Recommend.	Vote Instruction	Rationale
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.1	Elect Director Tango, Yasutake	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.2	Elect Director Iwai, Mutsuo	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.3	Elect Director Terabatake, Masamichi	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.4	Elect Director Minami, Naohiro	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.5	Elect Director Hirowatari, Kiyohide	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Japan Tobacco Inc.	Japan	Annual	19-Mar-20	Management	3.6	Elect Director Yamashita, Kazuhito	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Elior Group SA	France	Annual/Special	20-Mar-20	Management	8	Approve Compensation of Philippe Guillemot, CEO	For	Against	A vote AGAINST the remuneration granted to Philippe Guillemot is warranted as it includes a significant exceptional payment. Although previously mentioned in the remuneration policy, it is not supported by extensive disclosure on how the amount was determined, while it represents 100 percent of base salary and is granted in cash with no performance conditions attached.
Elior Group SA	France	Annual/Special	20-Mar-20	Management	17	Authorize Repurchase of Up to 10 Percent of Issued Share Capital	For	Against	This resolution warrants a vote AGAINST as the share repurchase program can be continued during a takeover period.
Kao Corp.	Japan	Annual	25-Mar-20	Management	3.1	Elect Director Sawada, Michitaka	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Kao Corp.	Japan	Annual	25-Mar-20	Management	3.2	Elect Director Takeuchi, Toshiaki	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Kao Corp.	Japan	Annual	25-Mar-20	Management	3.3	Elect Director Hasebe, Yoshihiro	For	Against	The nominee is non-independent and the full board comprises less than

Company Name	Country	Meeting Date	Meeting Type	Proponent	Proposal Number	Proposal Text	Management Recommend.	Vote Instruction	Rationale
									'50.1%' independents (based on the relevant stock exchange's definition of independence).
Kao Corp.	Japan	Annual	25-Mar-20	Management	3.4	Elect Director Matsuda, Tomoharu	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Novo Nordisk A/S	Denmark	Annual	26-Mar-20	Management	5.2	Reelect Jeppe Christiansen as Director and Deputy Chairman	For	Abstain	The nominee is not an independent member of the compensation committee and the committee comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Novo Nordisk A/S	Denmark	Annual	26-Mar-20	Management	5.3f	Reelect Kasim Kutay as Director	For	Abstain	The nominee is not an independent member of the nominating committee and the committee comprises less than '50.1%' of independents (based on the relevant stock exchange's definition of independence).
Novo Nordisk A/S	Denmark	Annual	26-Mar-20	Management	7.3a	Approve Creation of Pool of Capital for the Benefit of Employees	For	Against	A vote AGAINST the issuance authorization proposed under Item 7.3a is warranted because the shares are offered at market discount, for which no maximum discount level has been disclosed.
Skanska AB	Sweden	Annual	26-Mar-20	Management	14.b	Reelect Par Boman as Director	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
Skanska AB	Sweden	Annual	26-Mar-20	Management	14.d	Reelect Fredrik Lundberg as Director	For	Against	The nominee is a CEO and sits on more than 5 public company boards. The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
AGC, Inc. (Japan)	Japan	Annual	27-Mar-20	Management	2.1	Elect Director Ishimura, Kazuhiko	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
AGC, Inc. (Japan)	Japan	Annual	27-Mar-20	Management	2.2	Elect Director Shimamura, Takuya	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
AGC, Inc. (Japan)	Japan	Annual	27-Mar-20	Management	2.3	Elect Director Hirai, Yoshinori	For	Against	The nominee is non-independent and the full board comprises less than '50.1%' independents (based on the relevant stock exchange's definition of independence).
AGC, Inc. (Japan)	Japan	Annual	27-Mar-20	Management	2.4	Elect Director Miyaji, Shinji	For	Against	The nominee is non-independent and the full board comprises less than

Company Name	Country	Meeting Date	Meeting Type	Proponent	Proposal Number	Proposal Text	Management Recommend.	Vote Instruction	Rationale
									'50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.1	Elect Director Arioka, Masayuki	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.2	Elect Director Matsumoto, Motoharu	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.3	Elect Director Takeuchi, Hirokazu	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.4	Elect Director Saeki, Akihisa	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.5	Elect Director Tsuda, Koichi	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Nippon Electric Glass Co., Ltd.	Japan	Annual	27-Mar-20	Management	2.6	Elect Director Yamazaki, Hiroki	For	Against	The nominee is non-independent and the full board comprises less than '50.1% independents (based on the relevant stock exchange's definition of independence).
Broadcom Inc.	USA	Annual	30-Mar-20	Management	3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	A vote AGAINST this proposal is warranted. Concerns are raised regarding the multi-year equity grants to certain NEOs that are intended to equate to four years of annual equity awards. While the grants are half performance-based, they include multiple vesting opportunities and the goals are not particularly rigorous. Multi-year grants can limit the compensation committee's ability to adjust pay levels over the period.

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## Proxy Voting Report

Period: January 01, 2020 – March 31, 2020

Votes Cast	309	Number of Meetings	24
For	281	With Management	279
Withhold	0	Against Management	28
Abstain	0	Other	2
Against	28		
Other	0		
Total	309	Total	309

In 74% of meetings we have cast one or more votes against management recommendation.

# General Highlights

## **COVID-19 Impact on Voting Season**

As companies attempt to come to grips with the new reality of a coronavirus pandemic, few aspects of 'business as usual' have remained untouched. The ritual of annual general shareholder meetings (AGMs) is no exception. Uncertainty abounds as news on postponed, cancelled, or revamped AGMs trickles in.

A likely outcome is that many shareholder meetings will be postponed. Countries have different legal timelines requiring companies to hold their AGMs after the closure of the fiscal year. While companies make the choice to postpone their AGMs individually, regulators have already extended the legal deadline to hold the AGM later in the year. Italy and the Netherlands will likely see much of the AGM activity concentrate around June, rather than the upcoming weeks as initially planned. That brings challenges of its own – investors expect certain markets to hold their AGMs at the same times each year and prepare accordingly. When these timelines are reshuffled, an even more concentrated season can mean less time to analyze important proposals at AGMs and to engage with issuers. It remains to be seen if this risk materializes.

Other shareholder meetings have moved online. Virtual meetings can have advantages, such as reduced costs, and better accessibility for shareholders, according to law firm Norton Rose Fullbright. But we have generally been wary of this trend. Even though more shareholder can tune in, the quality of debate can suffer drastically. The largest concern is an inability to ask questions or the board cherry-picking comments to respond to. Some best practices have emerged, such as opening a forum ahead of time for shareholders to submit queries, holding a live Q&A as would have been the case in person, and the (tele-)presence of all board members.

On the other end of the spectrum, some companies have simply streamed a video link on the internet. A shareholder meeting which shareholders are not invited to and does not give them a voice during the session can hardly be described as such.

In these circumstances, prudence is understandably top of mind. Companies should be given some leeway to minimize disruption and protect the health and safety of employees and shareholders. But the way in which companies do respond draws our attention once more to the importance of the annual general meeting, which helps to maintain board accountability towards shareholders.

# Voting Highlights

## **Visa Inc - 01/28/2020 - United States**

Proposal: Advisory Vote on Executive Compensation

Visa Inc. operates a retail electronic payments network and manages global financial services. The Company also offers global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses, and government entities.

Large US companies regularly put suitably large executive compensation plans up for vote at their annual shareholder meetings. The numbers alone can make for impressive reading, but shareholders have to balance strengths and weaknesses in compensation plans before reaching a voting decision. At Visa's AGM this year, we perceived the weaknesses to outbalance the strengths and voted against the Advisory Vote on Executive Compensation.

The Advisory Vote on Executive Compensation (say-on-pay) is a non-binding resolution whereby corporates publish a report outlining how compensation policies have been applied to executives' remuneration in the past year. It has no legal weight, so even a majority disapproval will not block payments to the CEO. However, the say-on-pay performs an important signaling role, allowing shareholders to put the board on notice that they believe compensation plans are not sufficiently aligning interests between investors and executives.

In the case of Visa, two factors contributed to our vote against the say-on-pay: height and structure. First, despite good financial performance in the preceding year, we found the total quantum of remuneration for the named executive officers to be excessive. Understanding that retaining top executive talent is a priority for global corporations, we find that companies need to be prudent in maintaining a reasonable height of total compensation. With reported CEO pay of nearly USD 25 million last year, we found Visa to fall foul of that expectation.

Second, the compensation plan's structure did not match best practice. Under the long-term incentive plan (LTIP), we would expect a diversified set of return-based metrics with performance measured over at least a 3-year period. Visa's LTIP is heavily skewed towards rewarding earnings-based performance, and measures this on an annual timescale. This may fail to properly reflect the exposure of long-term shareholders to the company's value creation. Finally, the LTIP also makes significant use of stock option awards, which are not tied to company performance. Options can create undesirable incentives, as their value is driven by volatility, once again not aligning with the priorities of a long-term investor.

In aggregate, these factors meant that we were unable to support the compensation proposal at Visa's AGM.

## **Samsung Electronics - 03/18/2020 - South Korea**

Proposal: Company engagement on board nomination

Samsung Electronics Co., Ltd. manufactures a wide range of consumer and industrial electronic equipment and products such as semiconductors, personal computers, peripherals, monitors, televisions, and home appliances.

Independence is one of the various aspects we pay attention to when assessing the overall composition and effectiveness of a board. We wish to see boards that are capable of truly objective oversight while also having the skillsets and experience to understand the context in which management is operating. We believe that an independent board with adequate oversight will contribute to enhance and protect long-term shareholder value.

The board of directors at Samsung has experienced a relatively high turnover in recent years. Most recently, the chairman of Samsung Electronics' board resigned from his role just two months after being found guilty of 'union sabotage'. In December, he was sentenced to 18 months in jail after a High Court ruled that he had violated labor laws by disrupting union activities at Samsung. His resignation comes as Samsung Group heir Jay Y. Lee is facing a retrial over a bribery scandal that has engulfed Samsung executives and South Korea's former president.

During the company's 2020 annual shareholder meeting, several notable changes to its board composition were proposed, including the election of a new independent Chairman. Director Bahk, the incoming independent Chairman of the board, was proposed for this role due to his board tenure of four years and previous position as Minister of Finance and Employment. Proxy advisory agencies have questioned the new Chairman's independence due to his affiliation with a university that received a donation from Samsung in the past. However, from previous conversations with the company, we have been assured that director Bahk is fully independent and has retired from his previous positions which raised these initial concerns. Therefore we supported his nomination at the shareholder meeting.

Additionally, the board nominated two new directors with the aim of enhancing expertise on key topics not sufficiently covered by the current board and contributing to board refreshment. Both nominees bring valuable skillsets to the board given their expertise within various operational departments at Samsung. One nominee is the newly appointed CFO who will be tasked with drafting the new shareholder return policy. Based on these positive characteristics of the nominated directors, we supported their election Samsung's board at their most recent annual shareholder meeting.



# Votes Against Management

In the following instances, Border to Coast Pension Partnership voted against the recommendation of management at the shareholder meeting. In each instance where a vote against management has been cast, the rationale for the vote is also provided.

Issuer Name	Meeting Date	Proposal Description	Management Recommendation	Vote Decision	With Or Against Management	Vote Note	Meeting Type
Accenture plc	1/30/2020	Advisory Vote on Executive Compensation	For	Against	Against Management	The performance period is too short. Annual bonus is determined on a discretionary basis. Performance goals not disclosed for long-term incentives.	Annual
Adient plc	3/12/2020	Advisory Vote on Executive Compensation	For	Against	Against Management	Pay and performance disconnect	Annual
Adient plc	3/12/2020	Amendment to the 2016 Director Share Plan	For	Against	Against Management	Excessive compensation	Annual
Al Dar Properties	3/18/2020	Appointment of Auditor and Authority to Set Fees	For	Against	Against Management	The company has not provided sufficient information.	Annual
Becton, Dickinson And Co.	1/28/2020	Shareholder Proposal Regarding Right to Call Special Meetings	Against	For	Against Management	A 10% threshold for calling a special meeting is appropriate	Annual
CGI Inc	1/29/2020	Elect Serge Godin	For	Against	Against Management	The nominee is the Chair of the board and the company has not put the dividend policy up for vote.	Annual
CGI Inc	1/29/2020	Shareholder Proposal Regarding Disclosure of Vote Results by Share Class	Against	For	Against Management	Adoption of this proposal may provide shareholders with more clarity concerning how different	Annual

							classes of shareholders have cast their votes	
Deere & Co.	2/26/2020	Adoption of Exclusive Forum Provisions	For	Against	Against Management		The proposed amendments reduce shareholder rights.	Annual
Easyjet plc	2/6/2020	Appointment of Auditor	For	Against	Against Management		The tenure of the auditor is excessive.	Annual
Easyjet plc	2/6/2020	Authority to Set Auditor's Fees	For	Against	Against Management		The tenure of the auditor is excessive.	Annual
Easyjet plc	2/6/2020	Authorisation of Political Donations	For	Against	Against Management		Oppose all political donations due to reputational risks and democratic implications of companies becoming involved in funding political processes	Annual
Imperial Brands Plc	2/5/2020	Authorisation of Political Donations	For	Against	Against Management		Oppose all political donations due to reputational risks and democratic implications of companies becoming involved in funding political processes	Annual
Kangwon Land, Inc	3/30/2020	Financial Statements and Allocation of Profits/Dividends	For	Against	Against Management		The Company has bundled the approval of the financial statements with the allocation of dividends.	Annual
Kao Corporation	3/25/2020	Elect Michitaka Sawada	For	Against	Against Management		Nominee is the CEO and serves on the Compensation Committee.	Annual
Naver Co Ltd	3/27/2020	Financial Statements and Allocation of Profits/Dividends	For	Against	Against Management		The Company has bundled the approval of the financial statements with the allocation of dividends.	Annual
Naver Co Ltd	3/27/2020	Elect BYUN Dae Gyu	For	Against	Against Management		Affiliated Chairman and serves on both Nominating and Compensation committees.	Annual

Naver Co Ltd	3/27/2020	Share Option Previously Granted By Board Resolution	For	Against	Against Management	Not in shareholders' best interests	Annual
Naver Co Ltd	3/27/2020	Share Option Grant	For	Against	Against Management	Not in shareholders' best interests	Annual
SKF AB	3/26/2020	Elect Hans Stråberg	For	Against	Against Management	The audit committee is not sufficiently independent. The remuneration committee is not sufficiently independent.	Annual
SKF AB	3/26/2020	Elect Ronnie Leten	For	Against	Against Management	The audit committee is not sufficiently independent. The remuneration committee is not sufficiently independent.	Annual
SKF AB	3/26/2020	Elect Hans Stråberg as Chair	For	Against	Against Management	The nominee is an affiliate serving on the remuneration and audit committees.	Annual
SKF AB	3/26/2020	Remuneration Policy	For	Against	Against Management	The compensation plan lacks of clawback provisions.	Annual
TAV Havalimanlari Holding Anonim Sirketi	3/23/2020	Compensation Policy	For	Against	Against Management	The company has not disclosed a maximum award level.	Annual
TAV Havalimanlari Holding Anonim Sirketi	3/23/2020	Authority to Carry out Competing Activities or Related Party Transactions	For	Against	Against Management	Potential Conflict of Interests; Granting unfettered discretion is unwise	Annual
Virgin Money UK Plc.	1/29/2020	Authorisation of Political Donations	For	Against	Against Management	Oppose all political donations due to reputational risks and democratic implications of companies becoming involved in funding political processes	Annual
Visa Inc	1/28/2020	Advisory Vote on Executive Compensation	For	Against	Against Management	Performance periods under LTIP are too short for the EPS component.	Annual
Walt Disney Co (The)	3/11/2020	Advisory Vote on Executive Compensation	For	Against	Against Management	The Company received an F in the Glass Lewis Pay for Performance	Annual

Walt Disney Co (The)	3/11/2020	Shareholder Proposal Regarding Lobbying Report	Against	For	Against Management	model. Total CEO compensation is excessive. Increased transparency is in the best Annual interests of shareholders.
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## The Pension Regulator's and Scheme Advisory Board Compliance Checklist

### Summary Results Dashboard

No	Completed	Compliant
<b>Reporting Duties</b>		
A1	G	G
A2	G	G
A3	G	G
A4	G	G
<b>Knowledge &amp; Understanding</b>		
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
<b>Conflicts of Interest</b>		
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
<b>Publishing Scheme Information</b>		
D1	G	G
D2	G	G
D3	G	G
D4	G	G
<b>Risk and Internal Controls</b>		
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
<b>Maintaining Accurate Member Data</b>		
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
<b>Maintaining Contributions</b>		
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
<b>Providing Information to Members and Others</b>		
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
<b>Internal Dispute Resolution</b>		
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
<b>Reporting Breaches</b>		
J1	G	G
J2	G	G
J3	G	G
<b>Scheme Advisory Board Requirements</b>		
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	G	G
K6	G	G
K7	A	A
K8	G	G
K9	G	G
K10	G	G
K11	G	G
K12	G	G
K13	G	G
K14	G	G
K15	G	G

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## Lincolnshire Pension Board Record of Breaches

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

Appendix D

		of ABS's went out unsealed	unauthorised individuals	company for explanation. Breach reported to information security officers at both WYPF and LPF	impacted, human error the cause.		
Sept 17	Contributions	Late payments May to August	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Issue raised at LEAF meeting
Sept 17	LCC - Leavers information	Outstanding leavers information not sent to WYPF by LCC	Incorrect ABS's, over statement of liabilities	LCC given opportunity to provide improvement plan and timescales	Not reported, but under review.		
Dec 17	LCC - Leavers information – updated	Outstanding leavers information not sent to WYPF by LCC	Incorrect ABS's, over statement of liabilities	Improvement plan provided, presentation to Board to discuss in January	Not reported, but under review.		
Dec 17	Contributions - updated	Late payments Sept to November	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Issue to be raised at March employers meeting
Mar 18	LCC Leavers information – updated	Outstanding leavers information not	Incorrect ABS's, over statement of	Update on improvement plan presented	Not reported, but under review.		

Appendix D

		sent to WYPF by LCC	liabilities	to Board to discuss in March			
March 18	Contributions - updated	Late payments December to February	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Issue to be raised at March employers meeting
April 18	LCC Leavers information – updated	Outstanding leavers information not sent to WYPF by LCC	Incorrect ABS's, over statement of liabilities	LCC self-reported to TPR	Reported	Jan 19 - Improvement plan completed and reported back to TPR	Regular updates to be provided to TPR and Board
July 18	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
July 18	LCC Leavers information – updated	Outstanding leavers information not sent to WYPF by LCC	Incorrect ABS's, over statement of liabilities	LCC self-reported to TPR	TPR updated		Regular updates to be provided to TPR and Board
September 18	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
September 18	LCC Leavers information – updated	Outstanding leavers information not sent to WYPF	Incorrect ABS's, over statement of liabilities	LCC self-reported to TPR	TPR updated		Regular updates to be provided to TPR and Board

Appendix D

		by LCC					
December 18	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
February 19	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Fines increased
June 19	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
Sept 19	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
December 19	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
March 20	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers

Appendix D

			- e.g. retirements				Review of process

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Pensions Administration Report</b>

**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 2020 to 31 December 2020.

<b>KPI's for the period 1.1.20 to 31.03.20</b>						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
AVC In-house (General)	67	10	66	85	98.51	1.88
Age 55 Increase to Pension	3	Next Payroll	3	85	100	20
Change of Address	246	5	237	85	96.34	1.83

Change of Bank Details	84	5	70	85	83.33	4.79
DWP request for Information	1	10	1	85	100	3
Death Grant Nomination Form Received	509	20	509	85	100	2.44
Death Grant to Set Up	22	5	22	85	100	0.73
Death In Retirement	144	5	138	85	95.83	2.33
Death In Service	8	5	7	85	87.5	2.5
Death on Deferred	5	5	5	85	100	1.6
Deferred Benefits Into Payment Actual	303	5	283	90	93.4	1.47
Deferred Benefits Into Payment Quote	344	35	330	85	95.93	8.75
Deferred Benefits Set Up on Leaving	768	10	722	85	94.01	8.53
Divorce Quote	52	20	50	85	96.15	4.17
Estimates for Deferred Benefits into Payment	10	10	10	90	100	2
General Payroll Changes	81	5	79	85	97.53	1.57
Initial Letter Death in Service	8	5	8	85	100	1.75
Initial letter Death in Retirement	144	5	142	85	98.61	1.71
Initial letter Death on Deferred	5	5	4	85	80	2.8
Monthly Posting	761	10	751	95	98.69	1.66
NI adjustment to Pension at State Pension Age	12	20	12	85	100	12.42
Payment of Spouses Child Benefits	59	10	55	100	93.22	3.36
Pension Estimate	168	10	163	75	97.02	2.36
Pension Saving Statement	1	20	1	100	100	1
Refund Actual	227	10	222	95	97.8	1.19
Refund Quote	228	35	226	85	99.12	2.6
Retirement Actual	121	3	117	90	96.69	1.59
Set Up New Spouse Pension	59	5	49	85	83.05	3.36
Spouse Potential	2	20	2	85	100	2.5
Transfer In Actual	39	35	37	85	94.87	6.87
Transfer In Quote	59	35	58	85	98.31	3.71
Transfer Out Payment	25	35	23	85	92	9.84
Transfer Out Quote	64	20	58	85	90.63	8.84
Update Member Details	1568	20	1564	100	99.74	1.28



## 2.0 Scheme Information

2.1 Membership numbers in the Lincolnshire Fund are as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	22,973	27,043	580	23,524	2,536
Percentage of Membership	29.97	35.28	0.76	30.69	3.30
Change from Last Quarter	-157	-371	-119	+200	-81

2.2 The number of new joiners in the Fund were during the period 1 January 20 to 31 March 20 were 1083 made up as:

Lincolnshire County Council	349
Other Employers	734

2.3 The number of members who are in the 50:50 scheme are 183 made up as:

Lincolnshire County Council	86
Other Employers	97

2.4 Age Profile of the Scheme

Status	Age Groups												TOTAL
	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	
Active	320	1,481	1,554	1,986	2,493	2,730	3,672	3,720	3,043	1,630	261	83	22,973

2.3 Employer Activity - During Jan 20 to March 20

New Academies and Education Trusts	5
New Town and Parish Council	0
New Admission Bodies	0
<b>Total of New Employer</b>	<b>5</b>
Employers Exited	6
<b>Total Numbers of employers</b>	<b>276</b>

3.0 Member and Employer Contact

3.1 Over the quarter January to March we received **0** online customer responses.

Over the same period **193** Lincolnshire member's sample survey letters were sent out and **25 (13%)** returned:

Overall Customer Satisfaction Score:

<b>January to March 2019</b>	<b>April to June 2019</b>	<b>July to September 2019</b>	<b>October to December 2019</b>	<b>January to March 2020*</b>
81.3%	83.5%	87.9%	84.5%	78.7%

\* There were no identifiable reasons indicated in the survey responses as to why the scores were lower in the last period.

**Appendix A** – Customer survey results.

3.2 Employer Training

Over the quarter October 2019 to 31 December 2019 one Employer training session on ‘Your Monthly Return’ was held.

LPF Customer satisfaction score was 90.87%.

**Appendix B** – Employer feedback summary.

**4.0 Internal Disputes Resolution Procedures**

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

**Stage 1 appeals against the fund**

No appeals in this period.

**Stage 1 appeals against scheme employers**

No appeals in this period.

## **Stage 2 appeals**

Two decision made in this period.

<b>Date application received</b>	<b>Reason for appeal</b>	<b>Current position/Outcome</b>	<b>Date decision letter sent</b>
21/1/2020	Appeal re details of pay/contributions used in calculation of benefits.	Turned down. Pay information provided by LCC (Serco) checked across the member's post and we were happy with the information provided.	27/3/2020
31/10/19	Refusal to pay CETV when member was within a year of normal retirement age.	Information requested from employer. Holding letter sent to extend deadline to 10/1/2020. Appeal now concluded and turned down.	10/1/2020

## **Ombudsman**

### 4.2 One case outstanding

<b>Date application received</b>	<b>Details of complaint</b>	<b>Current position/outcome</b>	<b>Date complete</b>
5/7/2019	The member's appeal was in regard to a dispute over the periods of service used in her pension calculation. The member had worked changing hours in a number of different employments over the years. The scheme employer did not hold complete historical information of her working hours.	Being dealt with by LCC Legal. Information provided to them. Further information provided to LCC Legal in September. Payment of £500 compensation agreed in October. Chasing up with LCC Legal to see if final decision has been made.	

## **5.0 Administration Update**

### 5.1 On 23 March the Prime Minister asked that everyone stay at home except for a few restricted activities one of which was:

'Travelling to and from work, but only where work absolutely cannot be done from home'.

Urgent negotiations commenced with Bradford Council's IT to procure remote working equipment for the bulk of the staff that could not work from home, and within a matter of a couple of weeks all staff were enabled to work remotely.

Staff now only attend the office on a needs basis, i.e. to print, to scan post etc. Alternative arrangements for these tasks are now also in place.

After a short period of downtime for some individual members of staff who may have been self-isolating or had childcare issues when schools closed, it is now almost business as usual.

5.2 The Pension Regulator's advice applicable to DB schemes for administrators recommends that the focus of service delivery at this time should be on the following areas:

- Payment of benefits
- Employer contributions
- Minimising the risk of scams
- Supporting good decision making.

5.3 TPR also provided some comfort to administrators by recognising that some administrative breaches may occur at this time but they will maintain a 'proportionate and fair approach' to any action to take.

#### 5.4 Payroll

We have tested and proved that our payroll can be run by members of staff working from home if necessary. However, we have made one change which is that our daily payroll will now be run weekly each Thursday.

#### 5.5 Transfer Values

The processing of transfers is a second level priority. Club transfers and transfers from schemes with a guarantee date will be processed although it might be more slowly.

#### 5.6 Transfers in

Transfers in from personal pensions i.e. money purchase or defined contribution (DC) schemes are more of a concern as investment values are likely to have dropped in the period between receiving the member's election forms and requesting the money.

We are currently investigating with some of the bigger personal pension providers what their view is on proceeding in these circumstances and what the members' options might be. When we have more information on this we will write to affected members in line with the TPRs direction to support good decision making.

#### 5.7 Transfers Out

We are aware that unscrupulous financial advisers may still try to target firefighters to release benefits. We have therefore added the tPR's latest guidance on scams to our website and briefed both the Contact Centre and Fire Team staff on these issues.

#### 5.8 Children's Pensions

Because schools, colleges and universities have closed, we will continue to pay children's pensions where we know students are only part-way through a course. For students who we know are in their last year of school, we would ask them as normal if they intend to go on to further study. If they say they are intending to continue their studies we will continue to pay their pension as normal (this is usual

practice). For college or university students who we know are in their final year of study, we will suspend the pension as normal in June.

#### 5.9 Deferred Benefit Statements (DBS)

The number of Deferred Benefit Statements produced for all LPF members currently stands at 21,728 which represents 82.1% of members eligible to receive one. The number of statements produced each day was initially reduced from 2,000 to 500 each day. Now that working arrangements are more settled the limit has been increased to 1,000 per day.

#### 5.10 Annual Benefit Statements (ABS)

The number of Annual Benefit Statements produced for LPF members currently stands at 74.1% of members eligible to receive one. Similar to DBS's, the number of statements produced each day was initially reduced from 2,000 to 500 each day. Now that working arrangements are more settled the limit has been increased to 1,000 per day.

#### 5.11 Remote Working

The arrangements for staff working remotely are operating well, with staff being able to do their normal work without any major issues. In line with Government advice, the arrangements are set to continue for the foreseeable future.

#### 5.12 Security Breaches

During this period one security breach was logged which were reported to the Council's Data Protection Officer. This was deemed to be an isolated incident due to human error and was not reported to the ICO.

#### 5.13 Bradford Council Internal Audits

The following Internal Audits have been undertaken by the Council's Internal Auditors:

- Accuracy of contributions recorded on member records

Seven recommendations have been made which are welcomed. Most of them focus on exceptional cases. The issues arise for deferred and pensioner members (active members are fine). Phase three of the monthly contribution project has started which will address some of these recommendations. As part of this engagement Finance will work with Employers and Payroll providers to address some issues identified.

- Annual benefits statements

It is audit's opinion that the standard of control of identified risks in the system is **excellent**.

The audit review has determined that the identified risks are being effectively managed. The control environment is as expected and supports the achievement of key business objectives.

A key improvement in the production of annual benefits statements and deferred benefits statements has been the information made available to members on the value of their benefits at a number of stages from age 55 to their normal retirement age.

In addition to providing useful information to the members in receipt of the statements, the improvement has also had the added benefit of reducing the number of members making contact with the Pension Fund, who would otherwise be requesting this information.

#### 5.14 ISO9001 Quality Audits

The following internal quality audits were completed by WYPF staff:

- Diary Control System to verify entitlement to Children's Pensions;
- Divorce;
- General Payroll Maintenance; and
- Suggestions for improvements to working practices are being analysed by the relevant managers.

### 6.0 Current Technical Issues

See Appendix C.

### 7.0 Shared service Budget

#### 7.1 Cost per member

<b>LPF PENSION ADMIN</b>	<b>2018/19 OUTTURN £000</b>	<b>2019/20 BUDGET £000</b>	<b>2019/20 FORECAST PD09 £000</b>	<b>2019/20 OUTTURN PD13 £000</b>	<b>2019/20 VAR BGT - PD13 FAV (ADV) £000</b>	<b>2020/21 BUDGET £000</b>
<b>LPF member number</b>	<b>77,042</b>	<b>Number reduced as a result of linking members records</b>		<b>76,734</b>		<b>76,734</b>
<b>Cost per member</b>	<b>£13.45</b>			<b>£15.69</b>		<b>£16.60</b>
	<b>£1,036,211</b>			<b>£1,204,057</b>		<b>£1,273,563</b>

## 7.2 Shared Service Budget

<b>WYPF PENSION ADMIN</b>	<b>2018/19 OUTTURN £000</b>	<b>2019/20 BUDGET £000</b>	<b>2019/20 FORECAST PD09 £000</b>	<b>2019/20 OUTTURN PD13 £000</b>	<b>2019/20 VAR BGT - PD13 FAV (ADV) £000</b>	<b>2020/21 BUDGET £000</b>
Accommodation	£158	£142	£182	£282	£-140	£182
Actuary	£0	£0	£165	£165	£-165	£0
Computer	£15	£240	£265	£297	£-57	£265
Contingency	£0	£866	£0	£0	£866	£0
Employees	£3,165	£3,454	£3,419	£3,532	£-78	£3,547
Internal Recharge	£1,920	£2,235	£1,954	£1,722	£513	£2,244
Other Running Costs	£107	£70	£148	£142	£-72	£148
Transaction Costs	£0	£0	£0	£0	£0	£0
Printing & stationery	£259	£366	£593	£512	£-146	£650
<b>TOTAL EXPENDITURE</b>	<b>£5,624</b>	<b>£7,373</b>	<b>£6,726</b>	<b>£6,652</b>	<b>£721</b>	<b>£7,036</b>
<b>Total member number</b>	<b>418,143</b>			<b>423,929</b>		<b>423,929</b>
<b>Cost per member</b>	<b>£13.45</b>			<b>£15.69</b>		<b>£16.60</b>
Charge to WYPF Account	£-3,636	£-5,304	£-4,677	£-4,687	£-617	£-4,900
Other Income	£-163	£-126	£-36	£-40	£-86	£-36
Shared Service Income	£-1,825	£-1,943	£-2,013	£-1,925	£-18	£-2,100
<b>TOTAL INCOME</b>	<b>£-5,624</b>	<b>£-7,373</b>	<b>£-6,726</b>	<b>£-6,652</b>	<b>£-721</b>	<b>£-7,036</b>

## 8.0 Awards

WYPF were winners of the DB Scheme of the Year at the Pensions Age Awards held in London in February 2020.

### Conclusion

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

### Appendices

These are listed below and attached at the back of the report	
Appendix A	Customer survey results
Appendix B	Employer Feedback summary
Appendix C	Current Technical 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](mailto:Yunus.gajra@wypf.org.uk).



## Customer Survey Results - Lincolnshire Members

(1<sup>st</sup> January to 31<sup>st</sup> March 2020)

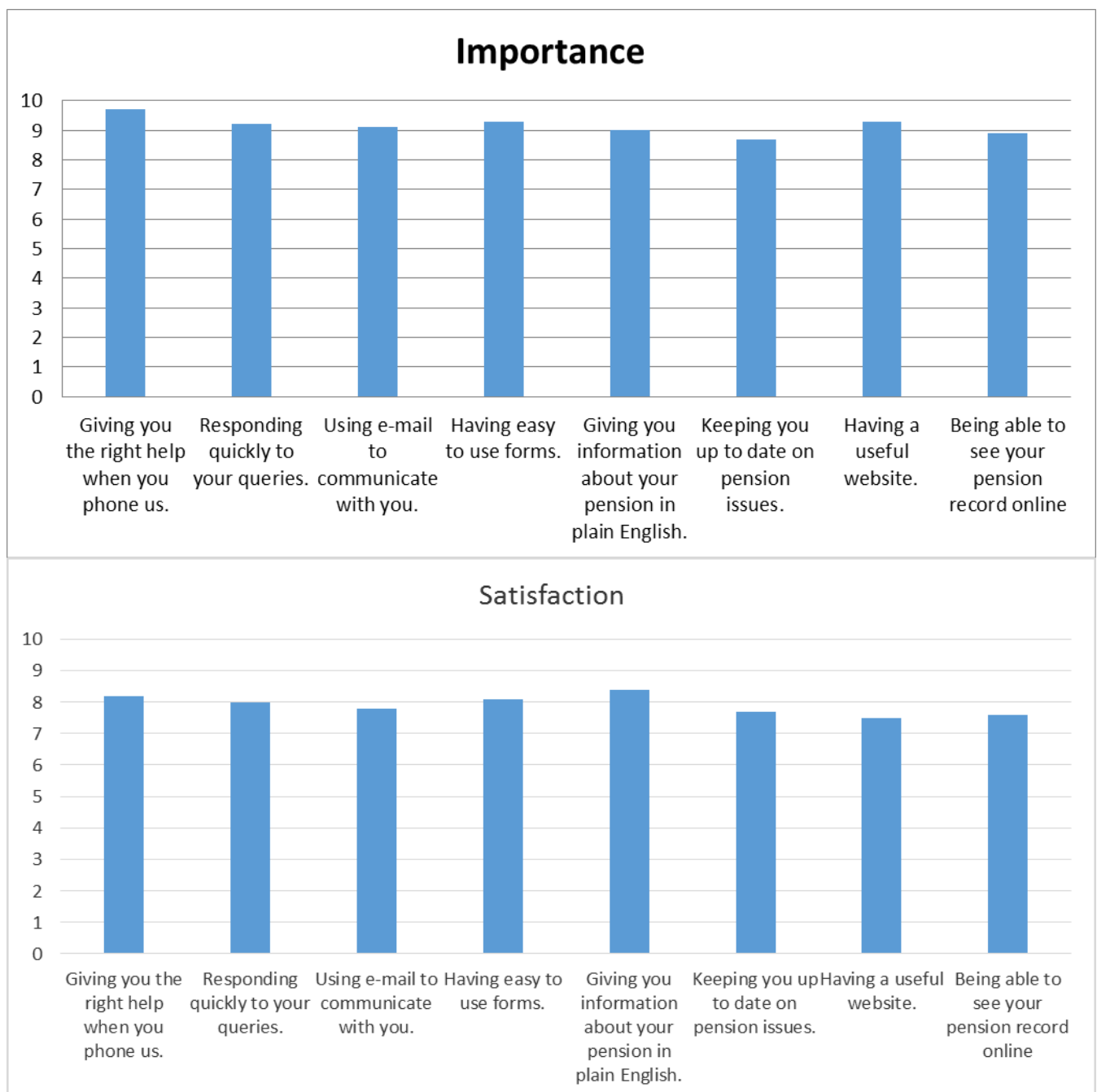
Over the quarter January to March we received **0** online customer responses.

Over the quarter January to March **193** Lincolnshire member's sample survey letters were sent out and **25 (13%)** returned:

Overall Customer Satisfaction Score;

January to March 2019	April to June 2019	July to September 2019	October to December 2019	January to March 2020
81.3%	83.5%	87.9%	84.5%	78.7%

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



**Sample of positive comments:**

<b>Member Number</b>	<b>Comments</b>
8127827	Very good always helpful when I contacted a pension advisor. I transferred a number of pensions into my LGPS pension, the process was straight forward and all the information I received was easy and clear to understand.
8124760	Marian has been very helpful at giving me facts to help me decide transfer in. Everyone on the phone has been very helpful. Soon I will be contacting you for my retirement and hope to receive continued good service.
8018573	Efficient with correct accurate information provided. WYPF responded to my enquires satisfactory which helped me to make my retirement decision. Accurate information is vital when making important decisions regarding a pension.
8017263	You have been very supportive and informative and did what you promised.
8132634	Never had any issue when calling, excellent service.

**Complaints/Suggestions:**

<b>Member Number</b>	<b>Comments</b>	<b>Summary of Acknowledgement Letter Sent to Member</b>
8129285	Not at all satisfactory. I was not kept informed during the pension transfer process. I requested an up to date figures once the pension had been transferred and was told I could not have it until the end of March as they are not available apart from then. The online service is impossible to access. I have given up on trying to use it.	Member was not happy about the length of time her transfer in took (approx 3mths) or that we could not supply a statement of benefits that included the transfer credits.  Letter to member to explain transfer in process and that timescale was not unreasonable and that annual statements are produced at the year end, once employer provides information and will include the transfer credits bought.
8125840	Very poor confused service. Yes, I wish to complain about the poor service and delay overall.	Apology letter sent.

**Employer Feedback (All funds)**

**Quarter 1 January – March 2020**

**Your Monthly Return – January 2020**

**Feedback score:**

**WYPF            96.42%**  
**LPF                90.87%**  
**Hounslow    No score available\***

<b>Comment</b>	<b>Action taken</b>
I hoped it would help me do my daily job but the content covered today is what our payroll department does.	The course description clearly explains what it is about and who it is suitable for.
Include basic training of employer portal, submitting leaver forms etc.	The portal itself is covered to some degree and more so in the complete guide workshop.

**A summary of the compliments**

- Very useful & helps my understanding of the process of completing on line forms/returns
- Workshop has helped me with a few queries, thank you

\*The feedback forms for this session are missing from the electronic register. Once back in the Bradford office I will check the secure store cupboard.

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## Current Issues

### 1) **Good Governance project**

SAB approved resources for Phase three of the Good Governance project. This phase will determine:

- the outcome measures it will use
- the format of this work, and
- a timetable for implementation.

### 2) **The LGPS (Amendment) Regulations 2020 – exit credits**

On 27 February 2020, MHCLG published a partial response to the consultation covering changes to the local valuation cycle and the management of employer risk. The response covers the proposals on exit credits only. MHCLG will submit a further response to the other proposals covered by this consultation in due course.

The response confirms that most respondents supported the proposal to allow administering authorities to take account of an employer's exposure to risk when calculating an exit credit. MHCLG confirms in the response that they will amend the LGPS regulations so that:

- administering authorities may determine the amount of any exit credit payment due, having regard to any relevant considerations
- the period within which an exit credit must be paid is increased from three months to six months
- administering authorities will not be obliged to enquire into the precise risk sharing arrangement adopted
- any exit credits that have not been paid shall only be due if the administering authority exercises its discretion to pay them
- any exit credits that have already been paid shall be treated as if the administering authority exercised its discretion to pay that amount – an administering authority may not seek to change the amount paid
- the Pensions Ombudsman has jurisdiction to hear complaints if any dispute is not resolved using the internal dispute resolution process
- administering authorities should set out their exit credit policy in their Funding Strategy Statement.

### 3) **2020/21 Draft employee contribution bands**

Below are the draft employee contribution bands, which will be effective from 1 April 2020. They are calculated by increasing the 2019/20 employee contribution bands by the September 2019 CPI figure of 1.7% and then rounding down the result to the nearest £100.

**Table 1: Contribution table England and Wales 2020/21**

<b><u>Band</u></b>	<b><u>Actual pensionable pay for an employment</u></b>	<b><u>Main section contribution rate for that employment</u></b>	<b><u>50/50 section contribution rate for that employment</u></b>
<u>1</u>	<u>Up to £14,600</u>	<u>5.50%</u>	<u>2.75%</u>
<u>2</u>	<u>£14,601 to £22,800</u>	<u>5.80%</u>	<u>2.90%</u>
<u>3</u>	<u>£22,801 to £37,100</u>	<u>6.50%</u>	<u>3.25%</u>
<u>4</u>	<u>£37,101 to £46,900</u>	<u>6.80%</u>	<u>3.40%</u>
<u>5</u>	<u>£46,901 to £65,600</u>	<u>8.50%</u>	<u>4.25%</u>
<u>6</u>	<u>£65,601 to £93,000</u>	<u>9.90%</u>	<u>4.95%</u>
<u>7</u>	<u>£93,001 to £109,500</u>	<u>10.50%</u>	<u>5.25%</u>
<u>8</u>	<u>£109,501 to £164,200</u>	<u>11.40%</u>	<u>5.70%</u>
<u>9</u>	<u>£164,201 or more</u>	<u>12.50%</u>	<u>6.25%</u>

**4) Automatic Enrolment (AE) earnings trigger 2020/2021**

The AE earnings trigger for 2020/21 will be £10,000. This is the same as 2019/20. The Government confirmed this in a [written statement on automatic enrolment](#) to Parliament on 13 February 2020. It will lay legislation following the February recess to that effect.

**5) The Pensions Regulator (TPR) seeks to extend supervision to select administrators**

TPR is seeking a voluntary extension to its supervision regime. This has already been introduced for the largest schemes in the UK. It will attempt to build relationships with pensions administrators of critical importance. These are the top 75 outsourcing companies and in-house teams in the country.

Key areas of focus for interaction will include:

- trustee relationship management
- handling of client transitions
- data quality controls
- due diligence on scams
- member communications
- resourcing and training
- business continuity and cyber resilience.

TPR is hopeful that a final list could be ready by the end of 2020.

**6) 2020 Public Service Pension Scheme (PSPS) Indexation and Revaluation**

On 25 February 2020, the Government made a written statement on indexation and revaluation. The statement confirms that the following LGPS benefits will both increase by 1.7% In April 2020:

- pensions in payment, and
- active member career average benefits.

The statement also confirms the increases that will apply to career average benefits in other Public Service Pension Schemes:

- Police Pension Scheme: 2.95%
- Firefighters' Pension Scheme: 4%
- Civil Service Pension Scheme: 1.7%
- NHS Pension Scheme: 3.2%
- Teachers' Pension Scheme: 3.3%
- Armed Forces Pension Scheme: 4%
- Judicial Pension Scheme: 1.7%.

### 7) **LGPS National Knowledge Assessment (NKA)**

Hymans Robertson have launched their NKA. This follows their first ever LGPS National Confidence Assessment (NCA). The assessment will look at the knowledge levels of key decision makers. Key decision makers are Pension Committee (PC) and Pension Board (PB) members. By participating in the assessment, each administering authority will receive:

- their own results report
- Hymans Robertson analysis and suggested next steps
- their benchmarked position against other LGPS administering authorities
- a recommended training plan tailored for their PC and PB.

Following the assessment, Hymans Robertson will publish a National Report. This will contain commentary and analysis on the current LGPS PC and PB landscape. Hymans Robertson will send an invitation to all administering authorities in March 2020. Completion of the survey will take 15 to 20 minutes for each PC or PB member. Hymans have announced an extension to the NKA, which will now continue into May 2020. For further information, please contact [marketing@hymans.co.uk](mailto:marketing@hymans.co.uk).

### 8) **Employment tribunal makes interim declaration in favour of firefighters**

The Fire Brigades Union won a landmark victory which allowed members of the 1992 and 2006 firefighters pension schemes in England and Wales to be treated as if they had remained members of their original pension scheme. The decision was an interim declaration covering immediate cases such as members who have taken ill-health retirement, the final declaration is expected in July 2020 but it may be some time before this part of the remedy can be put into effect for all claimants.

Some members of the Firefighters' Pension Scheme may have been better off in the new CARE scheme and would suffer a detriment if they simply moved back to the old schemes, so the government's intention is to ensure that such persons can keep the benefits they have accrued.

A consultation will be issued in the Spring on the exact remedy for the unfunded public sector schemes.

The ruling could result in other public sector staff being returned to their original pension schemes. One possible remedy for the LGPS is that the underpin is extended so affected member gets the best of either the CARE or Final Salary benefits. Funds should be preparing a strategy to contact employers and ideally giving them sufficient warning that requests for McCloud/Sargeant.

Whilst there is uncertainty over what the eventual remedy will look like for the LGPS, what is more certain is the fact that the major pain is going to be felt in an administrative sense. It's almost certain that Funds will need to collect data for virtually all members who joined the scheme prior to 2014 and left after 2014, input that information into the administration system and then deal with any recalculations that are required.

#### **9) Obtaining IRMP opinions during the pandemic**

LGA have queried the position about obtaining opinions from Independent Registered Medical Practitioners (IRMPs) during the current crisis with the Association of Local Authority Medical Advisers (ALAMA), who confirmed that ill health applications should continue to progress during the pandemic. The following statement has been published on the ALAMA website:

“During the current COVID-19 crisis, it is important to continue to progress ill health retirement applications. It is also particularly important that assessments remain fair and reasonable, and that should include requesting GP and specialist reports as required. There has never been a requirement for these assessments to be face to face, therefore paperwork reviews, with telephone clarification if needed, is the most appropriate way to progress these.

If it is not possible to get reports, an assessment should be based on whether reports are likely to influence your decision further, and whether you have enough objective evidence to make an opinion. Opinions should always be ‘on balance of probability’. There will be times when you simply don’t have sufficient objective evidence to support ill health retirement, and you have been unable to get clinical reports. You should suggest that the applicant requests copies of clinical reports direct from their GP.”

Employers and administering authorities may experience delays in obtaining an IRMP’s opinion in relation to an ill health retirement application or a Tier 3 ill health review. Any such delay could affect the date from which an ill health pension is payable, or the date that a Tier 3 pension is upgraded to Tier 2. To help them make their decisions, employers and administering authorities may wish to ask IRMPs to include in their report information about any delays due to COVID-19 that have affected the member’s application.



**10) Death in service guarantees for frontline COVID-19 staff**

The Department of Health and Social Care issued a press release on 27 April 2020 about a new guaranteed life assurance scheme for frontline health and care workers in England. Families of eligible workers in England who die from coronavirus will receive a £60,000 payment, funded by the Government. Full details of the scheme are not yet available. We understand that any payment would be in addition to death in service benefits payable in respect of care workers who are also LGPS members.

**11) Cash flow survey**

The cash flow survey conducted by the LGA show that a small minority of funds anticipate issues due to loss of dividend income or delayed employer contributions. Any new issues identified in the survey responses that are not covered in existing regulations have been referred to the new SABEW practitioner advisory group and/or Government to consider. You can read a summary of the cash flow survey responses on the SABEW website.

**12) Job retention scheme**

Employers can now claim for wages through the Coronavirus Job Retention Scheme on the Government website. On 15 April 2020, the Chancellor made a Treasury Direction under the Coronavirus Act which sets out the legal framework for the Scheme. The Schedule to the Direction confirms that HMRC is responsible for making payments and managing the amounts of payments under the Scheme.

On 17 April 2020, HMRC published guidance on working out how much to claim through the Job Retention Scheme.

On 24 April 2020, the Government announced that furloughed workers will receive full parental leave entitlement. On the same date, The Maternity Allowance, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay (Normal Weekly Earnings etc.) (Coronavirus) (Amendment) Regulations 2020 [SI2020/450] were laid. The purpose of these new Regulations is to make sure workers who take family-related leave are not worse off because they have been furloughed

**13) Supreme Court Judgment on LGPS boycotts**

On 29 April 2020, the Supreme Court handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondents). The case was originally heard on 20 November 2019. The Supreme Court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not on the investments they make.

[A summary of the judgment \(PDF 180kb\)](#) published by the practice at 11KBW is available. Please note that this summary represents the views of 11KBW and not the SAB.

#### 14) **McCloud subgroup meetings**

The SAB has set up two working groups to work with MHCLG in developing and implementing the LGPS McCloud remedy. Due to the current restrictions, Lorraine Bennett, the chair of the implementation group, has formed three subgroups that will meet virtually. The subgroups are made up of representatives from employers, administering authorities, pension administration software suppliers, unions, actuarial firms, NILGOSC and the LGA.

**Data collection:** the data collection subgroup held their first virtual meeting on 22 April 2020. In order to implement the McCloud remedy, most administering authorities will need to gather service information from 1 April 2014 (2015 in Scotland) for members in scope of protection from employers. The group will produce a data collection template for employers and payroll providers to use to supply that information. To ensure the message to employers remains consistent, the group will draft key bullet points for administering authorities to include within their employer communications.

**Communications:** the communications subgroup met on 24 April 2020. The group will produce templates for administering authorities to use to request service data from employers. The group agreed that their priority is to produce communications for members that explain the scheme changes and make it clear that they do not need to make a legal claim, they will get the protection they are entitled to automatically.

**Software:** the software subgroup will consider what system changes are needed to implement the remedy.

#### 15) **Regulations extend accounting deadlines**

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 [SI2020/404] come into force on 30 April 2020. The Regulations extend the publication date for local authority audited accounts to 30 November 2020. The public inspection period will start on 1 September 2020. The Government has published an Explanatory Note to accompany the regulations.

There are no plans for an automatic extension to the publication date for LGPS fund reports and accounts. MHCLG will keep this matter under consideration. Please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) to inform us of any issues arising from these regulations.

#### 16) **Temporary changes to pensions tax for returning workers**

Members of certain public service pension schemes retain the right to retire (in normal health) before age 55. Under normal circumstances, rules covering reemployment must be followed if the pension and lump sum payments are to be considered authorised. Protected pension ages and re-employment are covered in Part 3 of Schedule 36 to the Finance Act 2004.

John Glen, the Economic Secretary to the Treasury issued a [written statement on temporary changes to pensions tax](#) on 22 April 2020. The statement confirms that the Government intends to 'temporarily suspend tax rules that would otherwise apply significant tax charges to pension income received by recently retired

individuals aged between 50 and 55'. The measure will only apply to those people returning to work as a result of COVID-19. HMRC have provided more information about this change in [Pension schemes newsletter 119](#).

Although we expect that these provisions will mainly affect employees returning to the NHS, it is possible that employees who recently retired from a 'uniformed' role who return to employment, including in a civilian role, in the fire or police service could be affected.

## 17) TPO

### **TPO COVID-19 update**

The Pensions Ombudsman (TPO) was providing a restricted service due to the pandemic. TPO have announced that from 22 April 2020 they will accept new applications by email, and that their phone lines are open from 9am to 5pm Monday to Friday. TPO will not have access to correspondence sent by post during the lockdown period. Please be aware that TPO response times may be longer than usual.

## 18) TPR

### **COVID-19: member communications and transfer warning**

The Pensions Regulator (TPR) published guidance on [communicating to members during COVID-19](#) on 29 April 2020. The guidance covers information we have included on our website, emails and standard correspondence about changes to our service delivery and response times.

The guidance emphasises the importance of supporting members to make an informed decision when they are considering a pension transfer.

TPR recognises that members are at risk of making decisions that reduce the value of their pensions, or of losing them entirely to pension scams during the current crisis. On 29 April 2020, the Pensions Regulator (TPR) announced that [Pension schemes are to issue a COVID-19 transfer warning](#) to members considering transferring from a defined benefit to a defined contribution pension during the crisis.

TPR, working with the FCA and the Pensions Advisory Service, has produced a [letter template \(PDF, 171kb\)](#) to issue to members requesting a CETV quote. The letter as currently drafted includes references to the Pension Protection Fund (PPF) and its role in paying pensions when employers become insolvent. This does not apply to the LGPS and could confuse members. We have requested that TPR supply a version of the letter for public sector schemes that does not include any references to the PPF. We will publish this public sector version as soon as it is available. In the meantime, administering authorities may choose not to send the template letter, or to send it with an explanation that the references to the PPF do not apply.

TPR has also requested that:

"You should actively monitor the number of requests for CETV quotes you receive and which advisers are supporting members' requests. If you identify unusual or concerning patterns, such as spikes in CETV requests or the

same adviser across a multitude of requests, please contact the FCA at [DBTransferSchemeInformation@fca.org.uk](mailto:DBTransferSchemeInformation@fca.org.uk).”

## 19) Other COVID-19 guidance

TPR has published useful guidance for pensions administrators and employers covering issues affected by COVID-19. Visit [COVID-19: What you need to consider](#) to find out more about the TPR guidance.

On 9 April 2020 TPR published the following guidance:

- [Automatic enrolment and DC pension contributions](#). Although not aimed at defined benefit pension schemes such as the LGPS, the guidance confirms that there is no change in employers’ responsibilities under automatic enrolment rules. The guidance also includes a reminder that employers must not encourage staff to opt out of the scheme or pay reduced contributions.
- [An update on reporting duties and enforcement activity](#). The update provides more detail about the flexible approach that TPR will adopt in response to certain breaches during the COVID-19 pandemic. The easements will remain in place until 30 June 2020, but this may be extended

## 20) MaPS provide a pensions dashboard update

On 8 April 2020, the Money and Pensions Service (MaPS) published Pensions Dashboard Programme – Progress Update Report. The MaPS intends to release a progress report every six months. The first report sets out:

- the pensions dashboards goals and some of the challenges associated with delivery
- that Primary legislation will provide certainty about the requirements placed on schemes and the timescales for compliance
- the importance of secure and accurate identity verification
- the challenge of specifying a consistent set of data standards so that information from different schemes can be displayed consistently
- the need to identify when in the staged onboarding process the dashboards should be made available to the public<sup>11</sup>
- the focus of the Pensions Dashboards Programme over the coming months.

The MaPs published two further papers in April 2020. Pensions Dashboards Data Definitions – Working Paper lists the set of data items that could be included in the dashboards data standards. This covers both data items that are needed to find a member’s pensions and those that would be useful for users to see on a dashboard. The list will be developed further in response to user and sector research. Options for achieving early breadth of coverage are considered in Pensions Dashboards Data Scope: Working Paper. This paper confirms that initial dashboards will only include information that is already available on annual statements. This should enable the maximum number of pension schemes to onboard at an early stage. More information is likely to be included in pensions dashboards in the future.

The MaPS will be asking for formal feedback at a later stage and welcomes informal feedback from stakeholders now.

**21) New procurement framework for pensions administration software**

The National LGPS Frameworks launched the Pensions Administration Software Framework on 27 April 2020.

The following providers have been appointed to the National LGPS Framework for Pensions Administration Software:

- Aquila Heywood Ltd
- Civica UK Ltd
- Equiniti.

You can access further information about the framework on the National LGPS Frameworks website. If you need more details about the framework or would like to see copies of the supporting documentation, please contact [NationalLGPSframeworks@norfolk.gov.uk](mailto:NationalLGPSframeworks@norfolk.gov.uk).

**22) Unions file court proceedings over cost control mechanism 'pause'**

Four unions including the FBU and the GMB have filed court proceedings against the Government. They claim that the pause in the cost control mechanism is unlawful. The 2016 valuation found that the cost of providing public service pension schemes was below target. The unions are arguing for an improvement in member benefits as a result of the valuation results.

In January 2019, the Government announced a pause in the cost control mechanism process due to the McCloud decision. The Government plans a new valuation once the remedies to remove the age discrimination have been finalised and the true cost of providing public service pension schemes can be assessed.

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Employer Monthly Submissions Update</b>

**Summary:**

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

**Recommendation(s):**

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

**Background**

- 1 There are just over 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 contributions due to the Fund on a timely basis. The date these are due is set out in the Fund's Administration Strategy, which all employers have signed up to, and has been set as 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 is responsible for monitoring employer contributions monthly. Additional checks on the detailed data submissions and employer rates are undertaken by the West Yorkshire Finance Team. The pensions system itself also 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, both the Lincolnshire and West Yorkshire Pension Fund teams are 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 March 2020**

Month	Payment of Contributions		Submission of Data	
<i>April</i>	6	2.3%	14	5.3%
<i>May</i>	3	1.1%	10	3.8%
<i>June</i>	3	1.1%	23	8.7%
<i>July</i>	9	3.4%	15	5.7%
<i>August</i>	6	2.3%	12	4.5%
<i>September</i>	3	1.1%	11	4.2%
<i>October</i>	2	0.7%	6	2.2%
<i>November</i>	3	1.1%	15	5.6%
<i>December</i>	3	1.1%	11	4.1%
January	1	0.4%	8	2.9%
February	4	1.5%	9	3.3%
March	1	0.4%	9	3.3%
<b>Total for 2019/20</b>	<b>44</b>		<b>143</b>	

- 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 submitted 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). The last quarter of the year has seen a reduction in the number of late submissions, even in light of the Covid-19 pandemic affecting February and March submissions. It appears that most employers have been able to successfully submit data and make payment to the Fund despite the challenges the pandemic has caused to working arrangements.
- 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. There have been no fines issued in the quarter January to March 2020.

**Table Two: Late contributions fines to March 2020**

<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>
2	2	5	4	3	3
<i>October</i>	<i>November</i>	<i>December</i>	January	February	March



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## 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.

## 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](mailto:claire.machej@lincolnshire.gov.uk).

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Investment Management Report</b>

**Summary:**

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 January to 31 March 2020.

The report covers:

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

**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 decreased in value by £322.8m (-12.7%) to £2,219.3m on 31 March 2020.

Asset Allocation

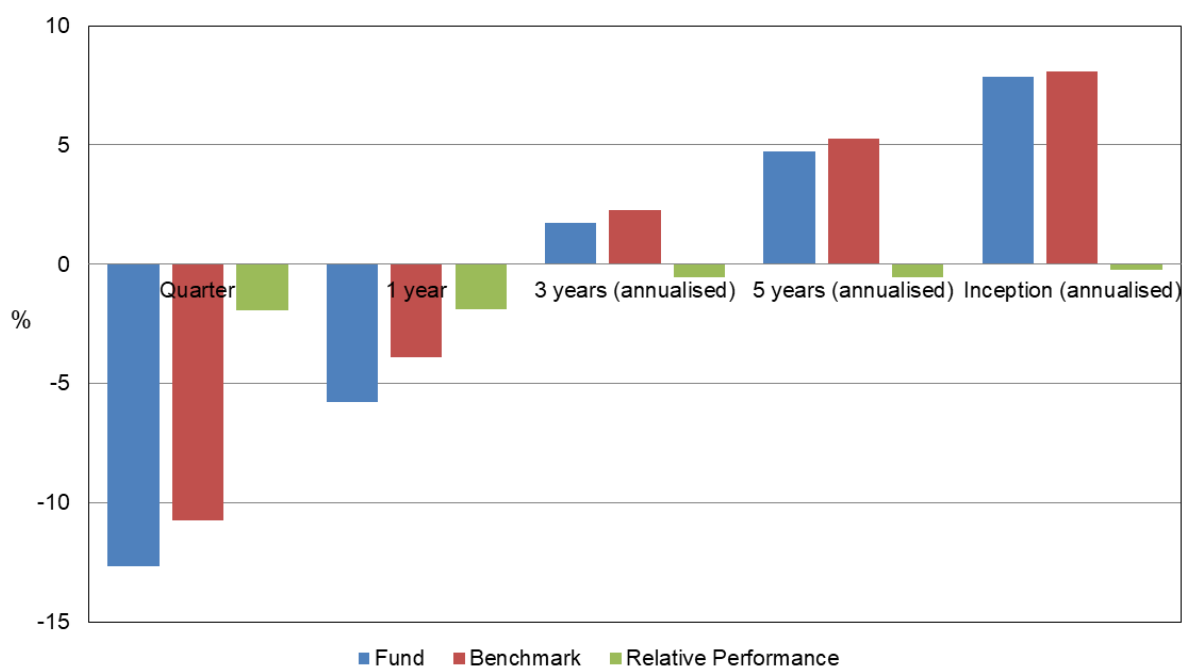
1.2 **Appendix A** shows the Fund's distribution as at 31 March. Across the asset classes Fixed Interest had breached its tolerance level (+1.7%). At a portfolio level all assets were within tolerance. As previously reported, rebalancing will not generally be undertaken ahead of the transition to Border to Coast. Holdings currently within Fixed Interest will be transitioned into the Border to Coast Multi Asset Credit Sub-Fund (3.5%) later in 2020.

1.3 The Fund's overall position relative to its benchmark is set out in the table over the page. This was a very turbulent quarter. The Covid-19 pandemic led to significant losses, particularly to equity holdings. This included UK equities which decreased by £117.9m (or -25.2%) and global equities which decreased by £191.5m (or -18.4%).

Asset Class	Q1 2020 £m	Q4 2019 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	350.1	468.0	15.8	16.0	(0.2)
Global Equities	848.0	1,039.5	38.2	40.0	(1.8)
Alternatives	342.6	346.2	15.4	15.0	0.4
Property	200.0	201.7	9.0	9.0	-
Infrastructure	49.6	47.9	2.2	2.5	(0.3)
Fixed Interest	414.9	425.5	18.7	17.0	1.7
Cash	14.1	13.3	0.6	0.5	0.1
<b>Total</b>	<b>2,219.3</b>	<b>2,542.1</b>	<b>100.0</b>	<b>100.0</b>	

## Fund Performance

1.4 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	-12.66	-10.74	-1.92
1 year	-5.79	-3.91	-1.88
3 years*	1.72	2.28	-0.56
5 years*	4.73	5.29	-0.56
Inception**	7.86	8.09	-0.23

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

1.5 Over the quarter, the Fund produced a negative return of (12.66%) (as measured by Northern Trust), underperforming the benchmark by (1.92%). The Fund was also behind the benchmark over the 1, 3 and 5 year periods and since inception.

1.6 Appendix B shows the market returns over the three and twelve months to 31 March 2020.

## 2. Individual Manager Update

2.1 The manager index returns for its largest holdings: equity, fixed interest and alternatives, are shown in the table below.

2.2 Over the quarter, three managers showed a negative return relative to their benchmark: Invesco, Border to Coast Global Equity Alpha and Morgan Stanley Alternatives. Blackrock Fixed Interest was very slightly ahead of the benchmark. All other funds matched their benchmark.

2.3 A detailed report on each manager outlining the investment process and performance can be found at Appendix C.

Manager	3 months ended 31 Mar 2020			Previous 12 months			Since Inception**			Target p.a. %
	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance* %	Manager Return %	Index Return %	Relative Variance* %	
Legal & General (UK Equities)	(25.1)	(25.1)	0.0	(18.5)	(18.6)	0.1	5.9	5.8	0.1	Match Index
Invesco (Global Equities ex. UK)	(16.2)	(15.2)	(1.2)	(8.1)	(5.0)	(3.3)	8.8	8.3	0.5	+1.0%
Border to Coast Global Equity Alpha (Global Equity)	(21.6)	(16.0)	(6.6)	N/A	N/A	N/A	(18.5)	(13.1)	(6.0)	+2.0%
Blackrock (Fixed Interest)	0.2	0.1	0.1	3.6	3.5	0.0	6.5	6.5	0.1	Match Index
Blackrock Interim (Fixed Interest)	(1.9)	(1.9)	0.0	0.1	0.2	0.0	1.1	1.0	0.0	Match Index
Border to Coast Investment Grade Credit (Fixed Interest)	1.0	0.8	0.2	N/A	N/A	N/A	1.0	0.8	0.2	+0.6%
Morgan Stanley (Alternative Investments)	(2.0)	2.4	(4.3)	4.6	6.1	(1.4)	4.5	5.0	(0.5)	3M LIBOR + 4%

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

\*\*Since Inception performance figures are annualised

## Hymans Robertson Manager Assessment

2.4 Hymans Robertson, as the Fund's Investment Consultant, has provided an assessment of the performance of the Fund's investment managers and portfolios. This focuses primarily on the quarter to March 2020. The table below summarises the assessment of each manager or section of the portfolio in relation to the following areas:

(1) Contribution to the Fund's overall performance – a high rating indicates that performance has a relatively large impact on total returns, while a low rating indicates it is less important at an overall level;

(2) The extent to which performance is reliant on the manager's skill or their model – a high rating indicates that a material proportion of the overall return is reliant on the manager, while a low rating indicates that returns are driven primarily by the underlying asset class;

(3) The degree to which expected performance correlates with the benchmark – a high rating indicates that the direction and magnitude of returns is expected to match the benchmark, while a low rating indicates that significant deviation from the benchmark is expected, particularly over the short term;

(4) Performance relative to the benchmark – a high rating (5) indicates a noteworthy level of outperformance, while a low rating (1) indicates a particularly poor result over the quarter. Performance relative to benchmark is most relevant where a high degree of correlation is expected;

(5) Performance relative to expectations – a high rating (5) indicates a noteworthy level of outperformance, while a low rating (1) indicates a particularly poor result over the quarter; and

(6) Overall assessment of how the manager has performed over the period. A rating of 3 indicates that performance has been broadly in line with expectations. Hymans Robertson suggests that discussion is focused on the lowest rated managers or sections of the Fund. These are highlighted in red in the table below.

Manager / Allocation	Relative impact on total returns	Importance of skill / model	Expected correlation with benchmark	Return relative to benchmark	Return relative to expectations	Overall Rating
	(1)	(2)	(3)	(4)	(5)	(6)
Equities						
LGIM UK Equity	Moderate	Low	High	3	3	3
Border to Coast Global Equity Alpha	Moderate	Moderate	Moderate	1	2 <sup>a</sup>	2
Invesco	High	Moderate	High	1 <sup>b</sup>	2	1

Manager / Allocation	Relative impact on total returns	Importance of skill / model	Expected correlation with benchmark	Return relative to benchmark	Return relative to expectations	Overall Rating
Bonds						
Blackrock Bonds	Low	Low	High	3	3	3
Blackrock Corporate Bonds	Very Low	Low	High	3	3	3
Border to Coast Investment Grade Credit	Low	Moderate	Moderate	N/A	3 <sup>c</sup>	3
Alternatives						
Morgan Stanley Alternatives	Moderate	High	Low	2	5 <sup>d</sup>	5
Legacy Private Equity	Very Low	Moderate	Low	5	5	5
Property and Infrastructure						
Domestic Property	Low	Moderate	Moderate	3	3	3
Global Property	Very Low	High	Low	4	4	4
Infrastructure	Very Low	High	Low	3	3	3

3.2 The comments which follow highlight issues which the Committee may wish to discuss in more detail and relate to the references in the table above:

(a) In a previous review of the Border to Coast Global Equity mandate, it was concluded that the portfolio may have a slight bias towards investing in Value stocks. Therefore, it is reasonable to expect some underperformance relative to the market cap benchmark in light of market developments over the quarter. Even allowing for that, the performance over Q1 2020 was disappointing. It is understood that the mandate has recovered a proportion of the underperformance since the quarter end, and it is expected that a Value bias will be helpful in future if there is a Value recovery (Value has underperformed significantly in recent years);

(b) Invesco continued to underperform over the quarter. The assessment of their performance takes into account the prolonged period of underperformance, and the anticipated level of tracking error for the fund. The size of the allocation to Invesco makes this even more important;

(c) The Border to Coast bond allocation has performed broadly in line with expectations since inception during the quarter; and

(d) Although Morgan Stanley underperformed relative to their benchmark over the quarter, it is considered that the mandate performed well under the

circumstances. In particular, the large allocations to Private Equity and Hedge Funds which dominate the portfolio appear to have held up well.

- 3.3 Overall, the Fund is highly dependent on the performance of equities as these allocations make up over 50% of total assets. The bonds and alternative allocations provide some diversification, but the impact is limited due to the relatively small size of these allocations.



#### 4. Conclusion

- 4.1 This reporting period saw the value of the Fund decrease by £322.8m to £2,219.3m due to significant influences from the Covid-19 pandemic. Over the quarter, the Fund produced a negative return of (12.66%), underperforming the benchmark which returned (10.74%).
- 4.2 At the end of the period the asset allocation, compared to the strategic allocation, was:
- overweight Alternatives, Fixed Interest and Cash; and
  - underweight UK Equities, Global Equities and Infrastructure.

#### 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

Appendix A	Distribution of Investments
Appendix B	Market Returns (31 March 2020)
Appendix C	Detailed Manager Reports (quarter ended 31 March 2020)

#### Background Papers

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

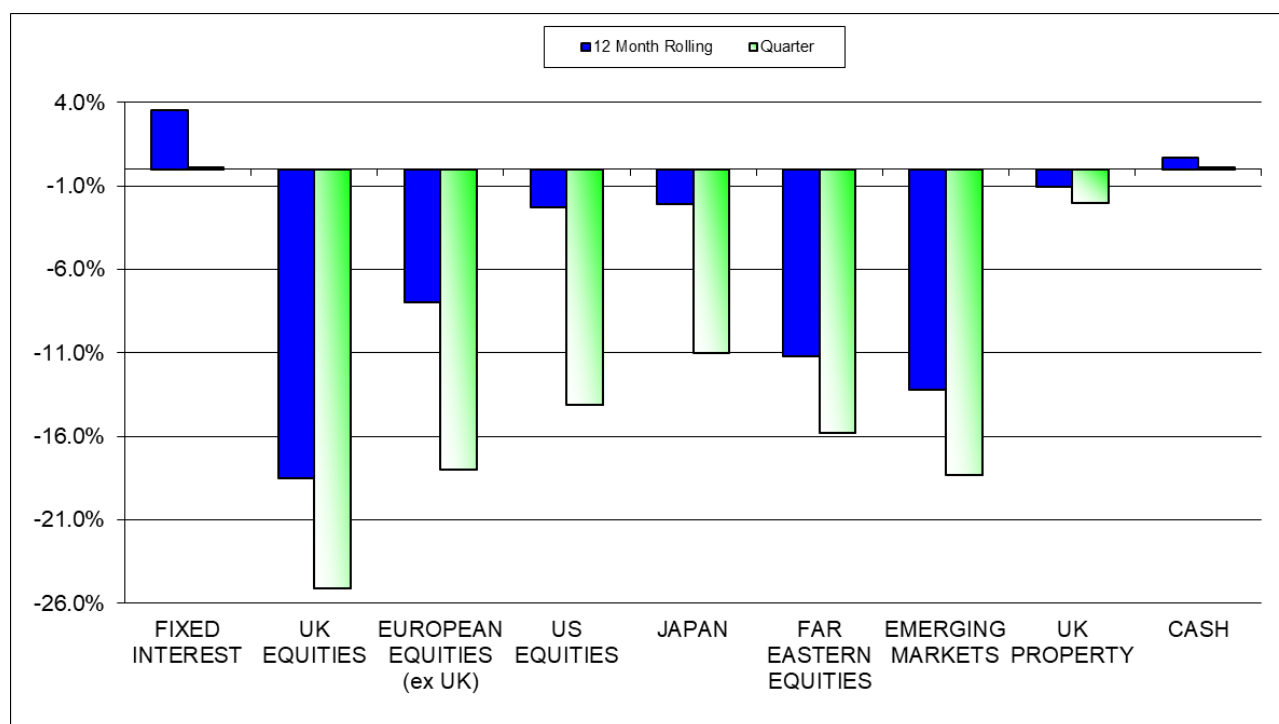
This report was written by Claire Machej, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

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## DISTRIBUTION OF INVESTMENTS

INVESTMENT	31 March 2020			31 December 2019			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
<b>UK EQUITIES</b>								
UK Index Tracker				76,352	0.0%	0.0%		
Legal & General	350,105,961	29.2%	15.8%	467,958,808	31.0%	18.4%	16.0%	+/- 2.0%
<b>TOTAL UK EQUITIES</b>	<b>350,105,961</b>		<b>15.8%</b>	<b>468,035,160</b>		<b>18.4%</b>	<b>16.0%</b>	
<b>GLOBAL EQUITIES</b>								
Invesco	503,011,376	42.0%	22.7%	599,437,807	39.8%	23.6%	22.5%	+/- 2.5%
Threadneedle				139,566	0.0%	0.0%		
Schroders				214,623	0.0%	0.0%		
Border to Coast Global Equity Alpha	344,976,065	28.8%	15.6%	439,759,625	29.2%	17.3%	17.5%	+/- 2.0%
<b>TOTAL GLOBAL EQUITIES</b>	<b>847,987,441</b>		<b>38.3%</b>	<b>1,039,551,621</b>		<b>40.9%</b>	<b>40.0%</b>	
<b>TOTAL EQUITIES</b>	<b>1,198,093,402</b>	<b>100%</b>	<b>54.1%</b>	<b>1,507,586,781</b>	<b>100%</b>	<b>59.3%</b>	<b>56.0%</b>	<b>+/- 6.0%</b>
<b>ALTERNATIVES</b>	<b>342,596,839</b>		<b>15.4%</b>	<b>346,199,203</b>		<b>13.6%</b>	<b>15.0%</b>	<b>+/- 1.5%</b>
<b>PROPERTY</b>	<b>199,975,475</b>		<b>9.0%</b>	<b>201,701,684</b>		<b>7.9%</b>	<b>9.0%</b>	<b>+/- 1.5%</b>
<b>INFRASTRUCTURE</b>	<b>49,550,141</b>		<b>2.2%</b>	<b>47,872,104</b>		<b>1.9%</b>	<b>2.5%</b>	<b>+/- 1.5%</b>
<b>FIXED INTEREST</b>								
Blackrock	149,015,979	35.9%	6.7%	148,738,928	35.0%	5.9%	6.0%	+/- 1.0%
Blackrock Interim	85,597,477	20.6%	3.9%	276,726,501	65.0%	10.9%	3.5%	+/- 1.0%
Border to Coast Investment Grade Credit	180,327,295	43.5%	8.1%				7.5%	+/- 1.0%
<b>TOTAL FIXED INTEREST</b>	<b>414,940,752</b>	<b>100%</b>	<b>18.7%</b>	<b>425,465,430</b>	<b>100%</b>	<b>16.7%</b>	<b>17.0%</b>	<b>+/- 1.5%</b>
<b>TOTAL UNALLOCATED CASH</b>	<b>14,101,683</b>		<b>0.6%</b>	<b>13,251,726</b>		<b>0.5%</b>	<b>0.5%</b>	<b>+ 0.5%</b>
<b>TOTAL FUND</b>	<b>2,219,258,292</b>		<b>100%</b>	<b>2,542,076,927</b>		<b>100%</b>	<b>100.0%</b>	

**CHANGES IN MARKET INDICES  
MARKET RETURNS TO 31 MARCH 2020**



INDEX RETURNS	12 Months to March 2020 %	Jan-Mar 2020 %
FIXED INTEREST	3.5%	0.1%
UK EQUITIES	-18.5%	-25.1%
EUROPEAN EQUITIES	-8.0%	-18.0%
US EQUITIES	-2.3%	-14.1%
JAPANESE EQUITIES	-2.1%	-11.0%
FAR EASTERN EQUITIES	-11.2%	-15.8%
EMERGING MARKETS	-13.2%	-18.3%
UK PROPERTY	-1.0%	-2.0%
CASH	0.7%	0.1%

**Lincolnshire Pension Fund**  
**UK Equities – Legal & General (LGIM)**  
**Quarterly Report March 2020**

### Investment Process

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

### Portfolio Valuation

Value at 31.12.19	Value at 31.03.20
£467,958,808	£350,105,961

### Performance

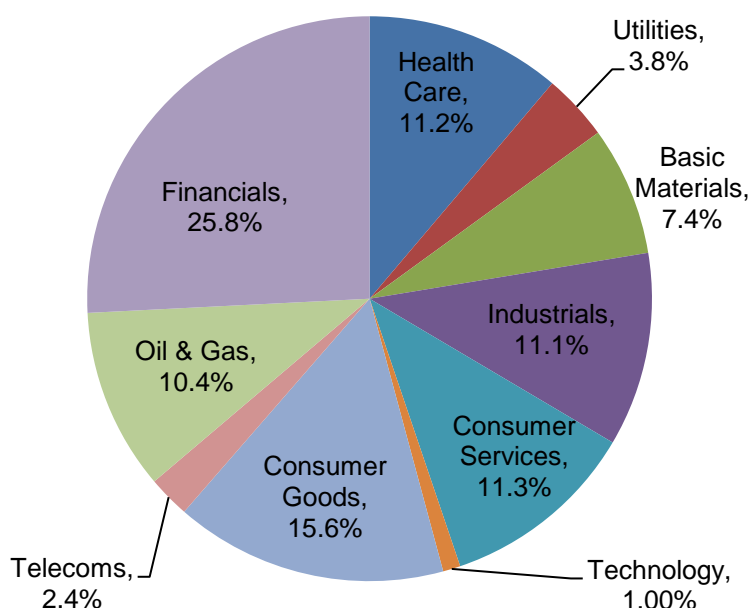
Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	(25.1)	(18.5)	N/A	N/A	5.9
Benchmark	(25.1)	(18.6)	N/A	N/A	5.8
Relative Performance	0.0	0.1	N/A	N/A	0.1

\*annualised, inception date February 2017

Top Ten Holdings	
Company	% Weighting
AstraZeneca	5.4
HSBC Holdings	5.3
Glaxosmithkline	4.2
BP	3.9
British American Tobacco	3.6
Diageo	3.4
Royal Dutch Shell A	3.3
Royal Dutch Shell B	2.9
Unilever	2.5
Rio Tinto	2.3
<b>Total</b>	<b>36.8</b>

### Whole Fund Sector Breakdown



**Lincolnshire Pension Fund**  
**Global Equities – Invesco (Global Ex UK Enhanced)**  
**Quarterly Report March 2020**

**Investment Process**

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

**Portfolio Valuation**

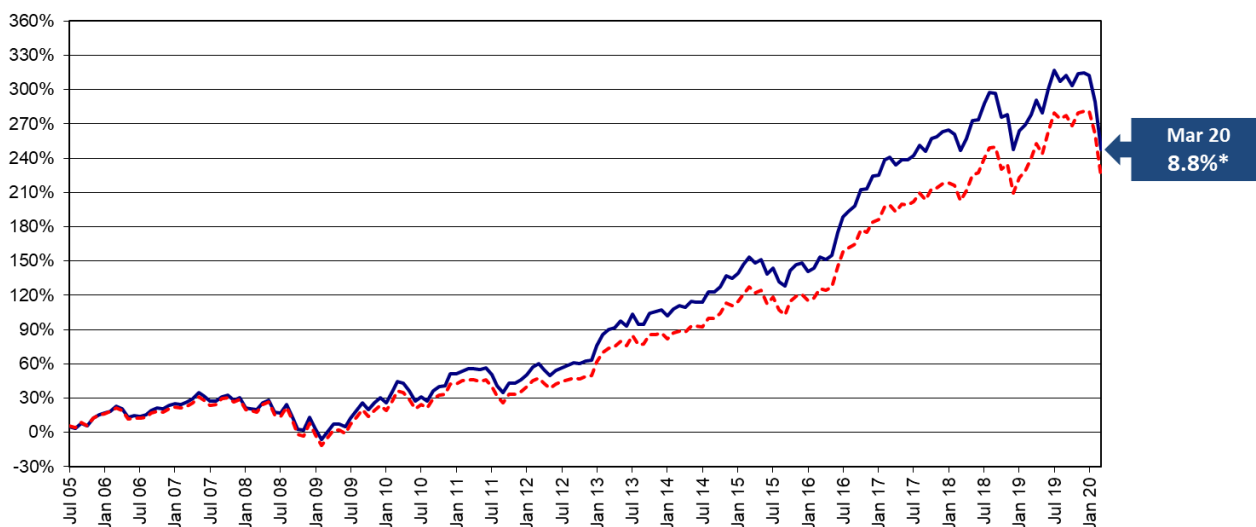
Value at 31.12.19	Value at 31.03.20
£599,437,807	£503,011,376

**Performance**

In the first quarter of 2020 the strategy underperformed its benchmark. Relative performance is based on different aspects: the IQS Factors had the largest negative impact on relative performance. Overweights in stocks with an attractive score in the Quality, Price Momentum and Earnings Momentum factors contributed to relative performance. On the other hand, stocks with a high score in the Value factor detracted.

Contributions from countries and currencies, which are a residual of the multi-factor portfolio optimisation approach, was negative in this period. Active sector weights added to relative performance, especially underweights in energy and overweights in health care, while underweights in utilities and materials had a negative impact. Other factors contributed negatively to the relative performance this period mainly driven by the exposure in smaller capitalised stocks.

**Invesco Performance Since Inception**



— Performance      - - - Index

\* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year*	5 Year*	Inception*
Invesco	(16.2)	(8.1)	0.7	6.5	8.8
MSCI World ex UK	(15.2)	(5.0)	2.6	7.3	8.3
Relative Performance	(1.2)	(3.3)	(1.9)	(0.8)	0.5

\* annualised, inception date 01/07/2005

## Turnover

Holdings at 31.03.20	Holdings at 31.12.19	Turnover in Qtr %	Turnover in Previous Qtr %
495	491	14.86	8.92

## 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 in Popular, Ford Motor, Cummins and NTT DoCoMo were increased with trade weights of 0.35%, 0.33%, 0.31% and 0.25%, respectively. On the other side, Citrix Systems with a trade weight of 0.35% was sold. Positions in Walt Disney, Boeing, Novartis and Toyota Motor with trade weights of 0.46%, 0.44%, 0.44% and 0.44%, respectively were decreased.

## Largest Overweights

Roche	0.54%
JP Morgan Chase	0.48%
Microsoft	0.44%
Mitsui	0.41%
Leidos Holdings	0.40%

## Largest Underweights

Nike	(0.31%)
Linde	(0.28%)
Toyota	(0.26%)
Lockhead Martin	(0.26%)
Boeing	(0.24%)

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

1	Microsoft	£19,220,919	6	Alphabet	£6,015,208
2	Apple	£18,735,981	7	Procter & Gamble	£5,740,280
3	Amazon	£11,730,240	8	Facebook	£5,491,977
4	JP Morgan Chase	£6,598,594	9	Johnson & Johnson	£4,679,944
5	Roche	£6,073,869	10	Nestle	£4,482,950

## Risk Control

The ex-ante tracking error of the fund slightly increased to 0.99% (ex post target 1%). With 96%, the major part of the active risk was associated with stock selection factors. Further 2% came from risk indices representing style exposures within the portfolio. Country and currency, and sector risk contributions, by-products of stock selection, represented 1% each. Within a tight product specific range, the portfolio beta was 1.

**Lincolnshire Pension Fund**  
**Global Equities – Border to Coast Global Equity Alpha**  
**Quarterly Report March 2020**

**Investment Process**

The Border to Coast Global Equity Alpha Sub-Fund is designed to outperform the MSCI All Countries World Index by 2% per annum. The fund is made up of five high quality managers, which have been selected for their long term track record and blend of complementary investment styles and range of market caps. The fund will benefit from diversification due to low correlation between managers sources of outperformance. All five managers also consider responsible investment factors when making investment decisions.

**Portfolio Valuation**

Value at 31.12.19	Value at 31.03.20
£439,759,625	£344,976,065

**Performance**

The performance of this Fund has been disappointing in the first quarter of 2020, however, it is believed that much of this is linked to Covid-19, and does not represent poor-quality long-term stock selection from the underlying managers.

Covid-19 has impacted specific sectors (such as travel and leisure), as well as positions with risk over debt servicing, most acutely. In practice, this has resulted in the Fund's value managers underperforming the broader market. The allocation to value managers, as well as the lack of momentum exposure in the non-value managers, explains almost all of the underperformance. In contrast, the more defensive managers such as Investec Franchise have protected investor capital and outperformed as markets fell.

From a risk perspective, given the backdrop of an unprecedented period of market volatility, the Fund's short-term performance has been poor but remains within the range of outcomes implied by its risk profile. Given the 2% outperformance target, the Fund runs a higher tracking error than more conservative strategies, which means it will tend to have periods of meaningful divergence from the underlying index. This is particularly true in markets that are predominantly driven by exogenous shocks.

Looking forward, Border to Coast remain confident in the strategy and the ability of the managers to add value over long-term time horizons from bottom-up fundamental analysis.

	Quarter %	1 Year %	3 Year %	5 Year %	Inception*
B2C Global Equity Alpha	(21.6)	N/A	N/A	N/A	(18.5)
MSCI ACWI ND	(16.0)	N/A	N/A	N/A	(13.1)
Relative Performance	(6.5)	N/A	N/A	N/A	(6.0)

\*actual, not annualised – inception date 24/10/2019



## Purchases and Sales

There are no major transactions to report for the quarter.

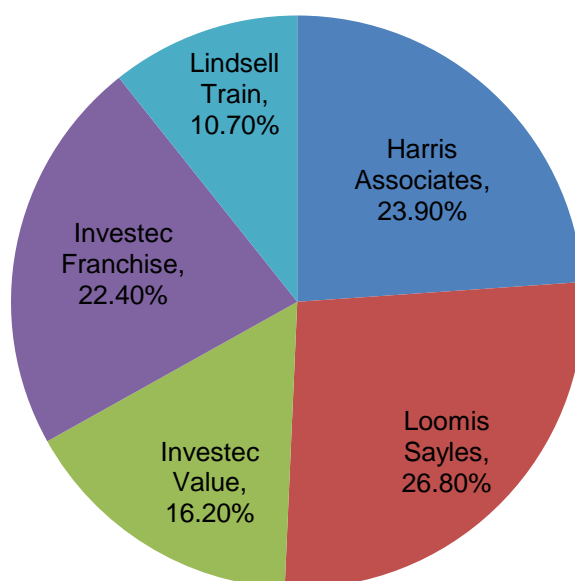
## Largest Overweights

Moodys Corporation	1.83%
Booking Holdings	1.63%
Bayer	1.58%
Verisign	1.49%
S&P Global	1.46%

## Largest Underweights

Apple	(2.84%)
Microsoft	(1.41%)
Amazon	(1.00%)
Alphabet C	(0.90%)
JP Morgan	(0.71%)

## Manager Breakdown



Whole Fund Sector Breakdown	
Sector	% Weighting
Financials	20.0%
Information Technology	16.0%
Consumer Discretionary	12.1%
Industrials	10.2%
Consumer Staples	12.3%
Health Care	11.8%
Communication Services	11.2%
Materials	2.9%
Real Estate	1.0%
Energy	0.7%
Cash	1.8%

**Lincolnshire Pension Fund  
Passive Bonds – Blackrock  
Quarterly Report March 2020**

**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.

<b>Pooled Fund</b>	<b>Indexing Method</b>
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**

<b>Portfolio</b>	<b>31.12.19 (£)</b>	<b>31.03.20 (£)</b>
Corporate Bond All Stocks Index Fund	74,551,535	75,373,058
Over 5 Years UK Index-Linked Gilt Index Fund	44,691,787	44,086,057
All Stocks UK Gilts*	29,495,605	29,556,863
Cash (residual)	1	1
<b>Total</b>	<b>148,738,928</b>	<b>149,015,980</b>

\*Switched from Overseas Bond Index Fund in February 2017

**Performance**

Over all periods the portfolio has performed as expected.

	<b>Quarter %</b>	<b>1 Year %</b>	<b>3 Year* %</b>	<b>5 Year* %</b>	<b>Inception* %</b>
Blackrock	0.2	3.6	3.0	5.1	6.5
Composite Benchmark	0.1	3.5	2.9	5.0	6.5
Relative Performance	0.1	0.0	0.1	0.1	0.1

\*annualised since inception 28/07/2010

**Allocation**

	<b>Target Allocation</b>	<b>Actual Allocation</b>
Aquila Life Corporate Bond All Stocks Index Fund	50%	50.6%
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	30%	29.6%
Aquila Life All Stocks UK Gilt Index Fund	20%	19.8%

**Lincolnshire Pension Fund**  
**Passive Bonds – Blackrock Interim**  
**Quarterly Report March 2020**

**Investment Process**

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

**Portfolio Valuation**

Value at 31.12.19	Value at 31.03.20
£276,726,501	£85,597,477

**Note: During the quarter, £190m was transferred out of Blackrock Interim and into the Border to Coast Investment Grade Credit sub-fund.**

**Performance**

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	(1.9)	0.1	0.9	N/A	1.1
Benchmark	(1.9)	0.2	0.9	N/A	1.0
Relative Performance	0.0	0.0	0.0	N/A	0.0

\*annualised since inception 14/09/16

**Lincolnshire Pension Fund**  
**Border to Coast Investment Grade Credit**  
**Quarterly Report March 2020**

**Investment Process**

The Fund aims to provide a total return (income and capital) which outperforms the total return of the iBoxx Sterling Non-Gilts Index by at least 0.6% per annum over rolling 5 year periods (net of management fee).

**Portfolio Valuation**

Opening Value at 28.02.20	Value at 31.03.20
£190,841,617	£180,327,295

**Performance**

The Fund was only set up during quarter one of 2020, with the final asset purchases being completed by 20 March 2020, from which date performance has been measured.

	March 2020 %	1 Year %	3 Year %	5 Year %	Inception* %
Border to Coast IGC	1.0	N/A	N/A	N/A	1.0
Benchmark	0.8	N/A	N/A	N/A	0.8
Relative Performance	0.2	N/A	N/A	N/A	0.2

\*annualised since inception 20/03/2020

**Lincolnshire Pension Fund**  
**Alternative Investments – Morgan Stanley**  
**Quarterly Report March 2020**

**Investment Process**

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

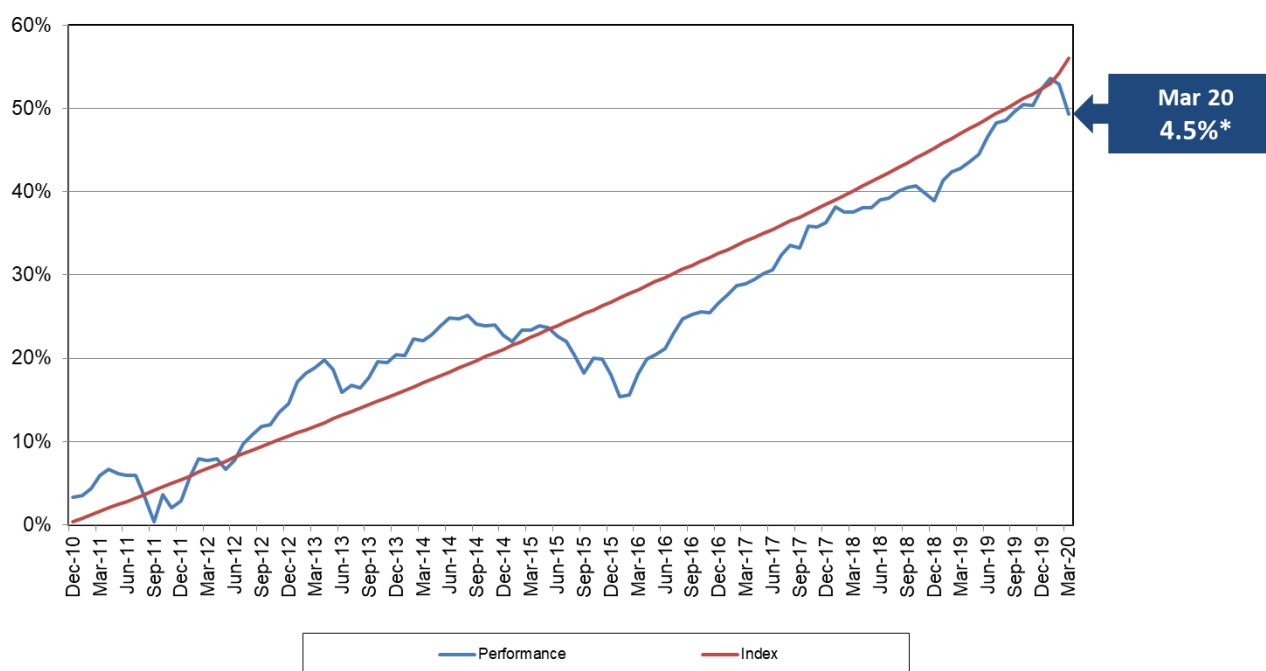
**Portfolio Valuation**

Value at 31.12.19	Value at 31.03.20
£327,526,187	£323,374,314

**Performance**

The total alternatives portfolio returned -1.47% during the first quarter of 2020. During the quarter, most asset classes contributed negatively given the broad declines in equity and credit markets for the period. Manager selection contributed significantly to returns, particularly stemming from lagged and positive marks in private markets while tactical decisions dragged on returns.

**Morgan Stanley AIP Performance Since Inception**



\* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year*% %	Inception* %
Morgan Stanley	(2.0)	4.6	5.0	3.9	4.5
3 Month LIBOR + 4%	2.4	6.1	5.2	5.0	5.0
Relative Performance	(4.3)	(1.4)	(0.2)	(1.0)	(0.5)

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

## Allocation

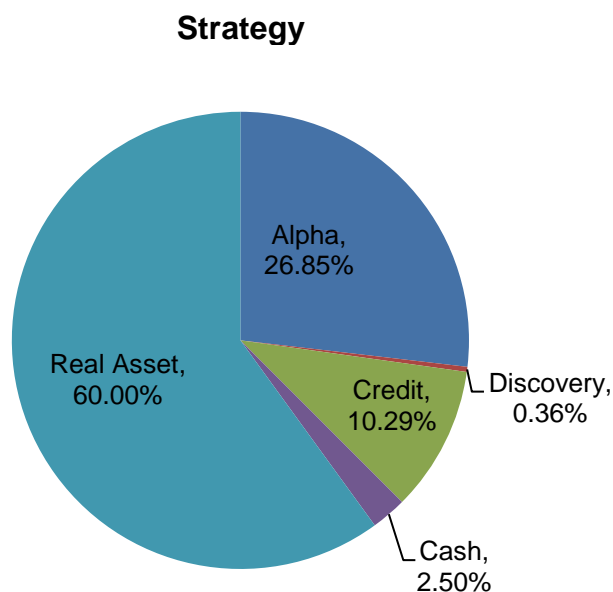
Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising four different asset allocations:

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

The table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 31 March 2020.

Asset Class	% Weighting
Private Equity	38.70%
Hedge Funds	23.60%
Private Debt	8.90%
Private Real Assets	6.50%
Senior Loans	5.50%
Commodities	5.20%
Emerging Markets Debt	4.50%
Catastrophe Risk	3.30%
Currency Hedges	2.50%
Other*	1.30%

\* Other includes: Listed Infrastructure and High Yield Bonds.



## Risk Control

Portfolio volatility since inception is 3.48%, within the guidelines specified by the mandate.

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Annual Report on the Fund's Property and Infrastructure Investments</b>

**Summary:**

This report outlines the performance of the Fund's property and infrastructure investments for the year ended 31 March 2020.

**Recommendation(s):**

The Committee note the report.

## **Background**

### **1. Introduction**

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

1.2 The Fund's strategic allocation of 9.0% to property is slightly higher than the average local authority pension fund, currently at 8.1%. The market value of holdings in property pooled vehicles at 31 March 2020 was £200.0m (9.0% of the Fund). Whilst the majority of exposure is to UK commercial property, to diversify the property allocation the Fund made commitments to European commercial property, property venture type funds and Asian commercial property.

1.3 The Fund also has a 2.5% strategic allocation to infrastructure. Again this is slightly higher than the average local authority pension fund, which is currently 1.26%. The market value of holdings in infrastructure pooled vehicles at 31 March 2020 was £49.6m (2.2% of the Fund).

1.4 The Fund's total property and infrastructure holdings as at 31 March 2020 are set out in table one over the page.

**Table One: Market value of property and infrastructure holdings at 31 March 2020**

<b>Property Pooled Investment Vehicle</b>	<b>Market value of holdings at 31 March 2019 £m</b>	<b>Market value of holdings at 31 March 2020 £m</b>
Balanced UK Property	178.6	175.5
Property Ventures	4.2	2.2
European Commercial Property	12.1	13.2
Infrastructure	44.4	47.8
Property/Infrastructure Cash	8.0	10.9
<b>TOTAL PROPERTY AND INFRASTRUCTURE</b>	<b>247.3</b>	<b>249.6</b>

1.5 The performance of the property and infrastructure holdings during 2019/20 was as follows:

- UK Commercial Property Unit Trusts return in the year saw an under performance, of **-0.27%** against a benchmark of **-0.01%**;
- Property Ventures was a significant underperformance of **-4.81%** against the benchmark of 7.00%; and
- Infrastructure also saw an underperformance of 4.98% against a benchmark of 6.00%.

1.6 To give this some context against other elements of the market, property holdings produced indexed returns of **-0.01%** (IPD index), over the twelve months to 31 March 2020, compared to UK equity returns of **-18.45%** (FTSE All Share) and UK index-linked bond returns of 0.22%.

1.7 The end of 2019/20 saw all markets significantly impacted by the coronavirus pandemic. The financial year ended with the imposition of a UK-wide lockdown following the onset of the Covid-19 pandemic, and significant disruption to the economy and real estate markets. As a result of this there is significant amount of uncertainty around the valuation of property funds and assets at 31 March 2020. This 'material valuation uncertainty' has been reflected in the valuations we have received for the four UK Commercial Property Funds and the European Property Growth Fund. This is likely to remain in place until the emergence of greater market transparency and transactional evidence, which may be forthcoming at different times for different sectors of the property market. Dealing in these Funds was also suspended from mid-March as an accurate market value for an orderly sale cannot be made at this time. These funds will remain suspended until this can be done.

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



## 2. BALANCED UK COMMERCIAL PROPERTY

2.1 The UK Commercial Property holdings represent the majority of the fund's property and infrastructure holdings (70.3% of holdings as at 31 March 2020). The pooled investment vehicles have been selected by officers to provide diversified exposure to the UK Commercial Property asset class with the intention of achieving broad market returns. A breakdown of holdings is set out in Table Two below. Offices are in regular contact with the various managers to monitor performance.

**Table Two: Balanced UK Commercial Property holdings as at 31 March 2020**

	<b>Market value of holdings at 31 March 2020 £m</b>
Aviva Pooled Property Fund	48.2
Royal London Exempt Unit Trust	24.2
Blackrock – UK Property Unit Trust	40.1
Aberdeen Standard - Trustee Investment Plan	63.0
<b>Total Balanced UK Property</b>	<b>175.5</b>

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

2.3 Table three below summaries the overall UK property sector in the Lincolnshire Portfolio verses the market index. **Appendix A** provides further details of the overall UK property sector and regional weightings of the individual pooled vehicles verses the index.

**Table Three: Overall UK property sector asset weightings at 31 March 2020**

<b>Property Sector</b>	<b>Lincolnshire Fund %</b>	<b>IPD %</b>	<b>Difference %</b>
Retail	21.7	23.0	-1.3
Offices	26.3	29.7	-3.4
Industrial	33.3	30.7	2.6
Other	18.7	16.6	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

2.4 Overall, the Fund's property allocation, when compared to an index of similar property funds, is overweight Offices in London, Industrials in the South East and cash. The Fund is underweight Offices in the South East and the rest of the UK, and Standard Retail.

2.5 At an individual fund level:

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

- Royal London has no allocation to shopping centres or offices in the rest of the UK. They have an overweight position in offices in London and underweight in offices in the south east. Property sizes are generally smaller when compared to the other managers.
- Blackrock is heavily overweight other properties. They are underweight in standard retail and offices in the rest of the south east.
- Aberdeen Standard is overweight shopping centres and industrials in the south east. They are underweight other property and offices in the south east.

### **Investment Performance**

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

**Table Four: UK Commercial Property Investment returns to 31 March 2020**

	<b>2019 / 2020 %</b>	<b>3 years Annualised %</b>	<b>5 years Annualised %</b>	<b>10 years Annualised %</b>
Aviva	-0.5	5.0	4.8	6.0
Royal London	0.1	3.4	4.5	6.4
Blackrock	-1.2	4.4	5.3	6.7
Aberdeen Standard	-1.5	2.3	3.5	6.0
IPD UK PPFi All Balanced Median return	0.0	4.8	5.8	7.1

2.7 Aviva has underperformed the one year benchmark, delivering **-0.5%**, which was below the benchmark of 0.0%. The Fund's relative performance has steadily improved since September 2016 from a programme of strategic sales and repositioning. The Funds concentration of high-quality office and industrial assets in London and underweight exposure to the retail sector should help with its resilience. By the end of Q1 2020 the Fund's void rate reduced to 6.5%, against a benchmark of 8.9%.

2.8 This fund focuses on: Income Growth – delivering income growth through rent reviews, lease renewals, new lettings, repositioning assets and the creation of additional or higher value space; Portfolio Resilience – a concentrated high-quality portfolio with low credit risk and diverse income characteristics and Focused Strategy – investing in target locations that will benefit from economic, social and technological change to deliver outperformance over the long term.

2.9 Royal London returns have underperformed against the benchmark in all periods except the last 12 month, although performance here has only above the benchmark (0.1% against a benchmark of 0.0%). The Fund has seen higher income return and experienced lower capital declines compared to the benchmark during the last year. Industrials and offices have shown most resilience whilst retail and alternatives lagged behind. The Fund has benefited from having no shopping centres in the portfolio.

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

2.11 Blackrock is behind the benchmark in all periods, including **-1.2%** against a benchmark of 0.0% for the last 12 months. Much of the underperformance in the last 12 months relates to a capital reduction in values at 31 March 2020. The Fund's core investment strategies are in other property (including: primary healthcare and student accommodation), multi-let industrials and logistics warehouse development. The Fund believes it is well positioned with lower vacancy rates, lower concentration of top ten tenants and less leases expiring in the next five years than the benchmark.

2.12 Aberdeen Standard is significantly behind the benchmark over all periods, particularly in the last 12 months. Much of the underperformance in the last 12 months relates to a capital reduction in values at 31 March 2020 and the Funds overweight position in shopping centres. The Fund is continuing to reduce its retail exposure, in particular its shopping centre holdings, through sales and redevelopments.

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

## **Outlook**

2.14 2020 is likely to be a very challenging year. The full extent of the impact of Covid-19 on UK real estate markets and the relative performance of the various real estate sectors is still to be seen. Although it is expected it will lead to an acceleration in the decline of retail rental values. Occupiers are facing entirely new conditions and many businesses will be forced to close. Many other companies are likely to face cashflow issues, which will impact on their ability to pay rent. It is believed that retail and leisure will be worst affected areas, with supermarkets, industrial assets and primary health care proving more resilient.

### 3. PROPERTY VENTURES

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

**Table Five: Property Venture holdings as at 31 March 2020**

	<b>Undrawn Commitments 31 March 2020</b>	<b>Market value of holdings at 31 March 2020</b>
	<b>£m</b>	<b>£m</b>
RREEF – Property Ventures Fund III	0.0	0.5
Franklin Templeton European Fund of Funds	0.3	0.3
Franklin Templeton Asian Fund of Funds	3.0	1.1
Igloo Regeneration partnership	0.0	0.3
<b>Total Property Ventures</b>	<b>3.3</b>	<b>2.2</b>

#### **RREEF Ventures III Unit Trust**

3.2 The Committee approved the commitment of £10m in January 2006 and this has now been fully drawn down to fund a number of projects, most of which have now been realised. Unfortunately this investment was made before the financial crisis of 2008, and all property purchases were made in 2006 and 2007, ahead of the large fall in property asset values. The value of the Fund's units at 31 March 2020 was £0.5m. The Fund has disposed of all properties and is now in the final stages of wind-down. This involves the termination of all the fund structures and return of capital to investors. A distribution was paid in May 2020 and a final distribution is likely during the second half of 2020/21.

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

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

3.4 The Committee approved the investment in October 2005 of €15m (£13.2m). So far this Fund of Funds has commitments to eleven underlying funds, including a portfolio of German nursing homes, a specialist French property investor, a UK real estate partnership, a pan European real estate fund and a German commercial property investor. During the year, the Fund continued the disposition of its investments. On a cumulative basis, 70.3% of the aggregated invested capital has been returned by the underlying real estate funds.

3.5 At 31 March 2020 the Fund's investment is valued at £0.3m, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent. Since inception €8.7m (£7.0m) has been distributed, and the year end investment multiple was 0.62. As at 31 March 2020 since inception the internal rate of return for the fund is -7.56%. Although the success of the individual investments within the fund has varied, performance overall has been substantially below target.

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

3.6 The Committee approved the investment in October 2007 of \$25m (£21.1m), with \$3.7m (£3.0m) left to be drawn down as at 31 March 2020. The Fund has made a total of sixteen investments and by the end of March 2020 there is only one underlying investment fund with unrealised assets remaining in the fund.

3.7 The value of the Pension Funds investment is £1.1m at 31 March 2020, but the valuation of the underlying funds is as at a terminal valuation, and therefore very prudent. Since inception \$20.9m (£14.0m) has been distributed, and the year end investment multiple was 1.25, with an internal rate of return of 0.53%. Managers are pleased with the portfolio assembled and the progress that has been achieved to date.

#### **Igloo Regeneration Partnership**

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

3.9 On 1 July 2017 the partnership entered into a 'wind up' period with assets being marketed for sale. By 31 March 2020 all assets had been sold and the fund hopes to make the last payment to investors by the end of the calendar year. As at 31 March 2020 the Pension Fund's investment value is £0.3m, having distributed £7.5m since inception, resulting in an investment multiple of 0.78.

### **4. EUROPEAN BALANCED PROPERTY FUND**

#### **Aberdeen Standard European Property Growth Fund – Unit Trust**

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

4.2 As at the 31 March 2020, this commitment had been fully drawn and the investment in the Fund was valued at £13.2m. Distributions of €6.5m (£5.2m) have been received.

## 5. INFRASTRUCTURE

5.1 In addition to the property allocations the Fund has made a 2.5% strategic allocation to infrastructure. This is made up commitments to three private finance initiative (PFI) funds with Innisfree, plus a further two new investments with Infracapital and Pantheon (see Table Six below).

**Table Six: Infrastructure holdings as at 31 March 2020**

	<b>Undrawn Commitments 31 March 2020 £m</b>	<b>Market value of holdings at 31 March 2020 £m</b>
Innisfree PFI Continuation Fund II	0.5	8.3
Innisfree PFI Secondary Fund	1.4	16.8
Innisfree PFI Secondary Fund 2	1.2	8.7
Infracapital Greenfield Partners I	7.3	9.5
Pantheon Global Infrastructure III	14.9	4.5
<b>Total Infrastructure</b>	<b>25.3</b>	<b>47.8</b>

### Innisfree Investments

5.2 The Fund has made commitments to funds managed by this specialist investor in PFI and similar projects, both in the UK and overseas. The investments offer prospective long term indexed returns in excess of those available from bonds. There is potential for improved returns from refinancing opportunities and contract variations.

### Innisfree Continuation Fund II – partnership

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

5.4 Following this Fund's acquisition of assets from an earlier Innisfree primary fund in April 2006, plus a number of subsequent follow on investments and disposals the fund now has a total of £337m committed to 12 project investments, all of which are operational. Fund assets include: three hospitals, five education projects, three accommodation projects all in the UK and a Dutch high speed rail link. From inception, the Fund's portfolio of investments has generated returns that are higher than was anticipated in the base case acquisition model, and investors have received an average net yield of 9.0%, compared to the 7.2% forecast.

5.5 The investment is currently valued at £8.3m and has distributed £7.4m to 31 March 2020 (with a further £0.3m distributed in April 2020 relating to the six month

period up to the end of March 2020). At 31 March 2020 the forecast long term gross IRR of the portfolio was 11.3%, compared to 8.75% in the acquisition base case.

### **Innisfree Secondary Fund (ISF) – partnership**

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

5.7 Secondary Funds are long term holders of PPP (public/private partnerships) and PFI projects which have typically reached their operating stage. Returns to investors are principally by way of cash generated by the projects during the remainder of their concession lives. ISF had its final closing on 30 June 2008, taking aggregate commitments to £600.5m, and now has 15 limited partners. As at 31 March 2019, the Fund had total commitments of £590.0m to 33 projects, and around 98% of investor commitments have been cash drawn. Projects include schools, hospitals, MOD buildings and infrastructure (roads – M6), in the UK, Canada and Sweden.

5.8 The investment is currently valued at £16.8m, having distributed £9.0m to 31 March 2020 (with a further £0.6m distributed in April 2020 relating to the six month period up to the end of March 2020).

### **Innisfree Secondary Fund 2 (ISF2) – partnership**

5.9 The Committee approved a commitment of £10m to the Innisfree Secondary Fund 2 in January 2013. ISF2 had its final closing on 31 March 2013, taking aggregate commitments to £544m, with 12 limited partners. The Fund was 79.7% committed to investments and 79.7% of investor commitment had been cash drawn at 31 March 2020. The Fund is similar to ISF and is invested in projects including schools, hospitals, MOD buildings and infrastructure (Thameslink), in the UK, Canada and Sweden.

5.10 The investment is currently valued at £8.7m, with outstanding commitments of £1.2m, and having distributed £3.7m to 31 March 2020 (with a further £0.4m distributed in April 2020 relating to the six month period up to the end of March 2020). At 31 March 2020 the forecast long term gross IRR of the portfolio was 10.6%.

### **Other Infrastructure Investments**

5.11 The Committee approved an increased commitment to infrastructure in January 2017. This set the strategic allocation to infrastructure at 2.5% of the fund. Following research and due diligence undertaken by Officers and the Investment Consultant it was agreed to commit £15m to Infracapital Greenfield Partners I in August 2017 and \$21m (£16.9m) to Pantheon Global Infrastructure III in February 2018.

5.12 During the year £2.0m was invested into these infrastructure schemes: £1.5m in Infracapital Greenfield Partners I and £0.5m in Pantheon Global Infrastructure III. No redemptions were made. It is too early to report on performance for these funds.

### **Infracapital Greenfield Partners I**

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

5.14 This fund has currently made commitments of £932.7m to nine schemes. The projects include: broadband infrastructure, bio, solar and wind energy, new train rolling stock and a portfolio of PPP assets. The pension fund's investment is currently valued at £9.5m, with outstanding commitments of £7.3m. It is too early to report on performance for this fund.

### **Pantheon Global Infrastructure III**

5.15 The Committee approved an increased commitment to infrastructure in January 2017, with a \$21m (£16.9m) commitment being made to Pantheon Global Infrastructure III in February 2018. This is a fund-of-funds, targeting a capital raising of \$1.2bn. The Fund's strategy is focused on a combination of secondary and co-investments in infrastructure opportunities. The Fund is targeting an equal allocation across midstream energy, power and utilities, transportation, social infrastructure and 'other' (including telecommunications). The fund is currently 40.4% committed.

5.16 The pension fund's investment is currently valued at £4.5m, with outstanding commitments of \$14.9m (£12.0m). It is too early to report on performance for this fund.

## **6. BORDER TO COAST PROPERTY AND INFRASTRUCTURE SUB-FUNDS & FUTURE INVESTMENTS**

6.1 The intention is for Border to Coast to build a UK property fund (holding direct real estate) which will replace the Funds current property allocations which are made using UK commercial property funds, and some specialist/regional funds. Work on this sub-fund is underway, but given the complexity of unwinding existing



property holdings, the cost of transacting in property and the illiquidity of these assets the timeline for moving into this fund is long. Current estimates are that the Border to Coast UK property sub-fund will not be operational until 2022.

6.2 In the meantime the Fund has available cash to commit to property schemes. It was agreed at the October 2018 Committee meeting to increase the allocation property by 1.5%, but to diversify from UK commercial property. Discussion was had at the December 2019 meeting about an investment opportunity in residential property, where there is currently a lot of interest from institutional investors, particularly in the private rental sector. A recommendation relating to this type of investment will be considered by the Committee at item 13 on this agenda.

6.3 The Fund currently has a separate allocation to infrastructure, plus some additional infrastructure investments within the diversified alternatives mandate managed by Morgan Stanley. Future infrastructure investments will be made through the Border to Coast once their full range of diversified alternatives funds is up and running. This is not likely to be before April 2021.

**7. Conclusion**

7.1 Overall, the Pension Fund’s investment in property generated a return of **-0.82%**, which was behind the benchmark (as measured by Northern Trust) return of 0.75%, however, within this there is significant a significant variation in performance. Infrastructure generated a return of 4.98%, which was behind the benchmark of 6.0%.

7.2 The property allocation, at 8.1% is slightly underweight its benchmark allocation of 9.0%, however, a further commitment to a new property investment is proposed, and infrastructure, at 2.2%, is also underweight its benchmark allocation, however, there is a further £25.3m in undrawn commitments.

**Consultation**

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

Yes

**b) Risks and Impact Analysis**

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

**Appendices**

These are listed below and attached at the back of the report	
Appendix A	UK Balanced Property Allocation – March 2020

## **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](mailto:claire.machej@lincolnshire.gov.uk).

## UK BALANCED PROPERTY ALLOCATION AT 31 MARCH 2020

March 2020	Retail %			Offices %			Industrial %		Other %		Total %
	Standard Retail	Shopping Centres	Retail Ware House	London	Rest SE	Rest UK	SE	Rest UK	Other Prop.	Cash	
<b>Aviva</b>	5.5%	0.0%	13.5%	25.4%	14.1%	0.0%	25.4%	2.2%	7.5%	6.4%	100.0%
<b>Royal London</b>	10.3%	0.0%	10.4%	20.2%	7.7%	0.0%	19.4%	13.4%	9.3%	9.3%	100.0%
<b>Blackrock</b>	4.4%	2.2%	13.6%	9.3%	7.1%	6.6%	18.9%	13.2%	19.7%	5.0%	100.0%
<b>Aberdeen Standard</b>	9.3%	6.9%	9.0%	11.8%	2.2%	3.8%	28.0%	10.7%	5.9%	12.4%	100.0%
<b>Weighted Average</b>	7.3%	3.0%	11.5%	16.1%	7.3%	2.9%	24.0%	9.3%	10.0%	8.6%	100.0%
<b>IPD UK Pooled Property Fund Indices</b>	9.9%	1.2%	11.9%	11.7%	11.7%	6.3%	19.9%	10.8%	11.5%	5.1%	100.0%
<b>Difference (absolute)</b>	-2.6%	1.8%	-0.4%	4.4%	-4.4%	-3.4%	4.1%	-1.5%	-1.5%	3.5%	

SE = South East

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Lincolnshire Pension Fund Risk Register</b>

**Summary:**

This report presents the Pension Fund Risk Register and Risk Policy to the Committee for annual review and approval. In addition, it presents the Coronavirus Risk Register for consideration.

**Recommendation(s):**

That the Committee:

- 1) review and approve the risk management policy;
- 2) review and approve the risk register; and
- 3) review and approve the Coronavirus risk register.

**Background**

1. Committee members will understand the importance of looking at risk as part of the normal Member training that the Council provides. Given the size and importance of the Pension Fund, it is best practice to have a separate risk register considering the key risks that can impact the Fund and how they can be mitigated, if at all possible. The risk register is reviewed annually at this Committee, and any additional changes or updates are reported in the quarterly Fund Update reports.
2. The risk management policy, which is a formal record of the Fund's appetite for risk, its risk management structures and its approach to risk management, is attached at appendix A.
3. Appendix B is the Pension Fund risk register. 28 risks have been identified, along with the controls in place to mitigate them. The presentation has been changed to group together risks by type, and risks have been reworded, split or expanded to provide greater clarity.
4. Given the recent unprecedented events resulting from the impact of the pandemic, an additional risk register, relating specifically to risks due to the Coronavirus situation was developed in March. Whilst these are all captured at a high level within the normal risk register, it was felt that it

would be useful to expand the risks that were associated with the current situation. This has been shared with the Committee on a monthly basis with updated comments added as appropriate, to provide assurance on the position of the Fund and its management in these uncertain times. The Coronavirus Risk Register is attached at Appendix C.

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

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

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

<b>LIKELIHOOD</b>	4				
	3				
	2				
	1				
		1	2	3	4
		<b>IMPACT</b>			

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

<b>1</b> <b>HARDLY EVER</b>	<b>2</b> <b>POSSIBLE</b>	<b>3</b> <b>PROBABLE</b>	<b>4</b> <b>ALMOST CERTAIN</b>
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Has never happened. No more than once in ten years. Extremely unlikely to ever happen.	Has happened a couple of times in last 10 years. Has happened in last 3 years. Could happen again in next year.	Has happened numerous times in last 10 years. Has happened in last year. Is likely to happen again in next year.	Has happened often in last 10 years. Has happened more than once in last year. Is expected to happen again in next year.
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For the **impact**, there are four possible scores, but considered across four areas:

	<b>SERVICE DELIVERY</b> Core business, Objectives, Targets	<b>FINANCE</b> Funding streams, Financial loss, Cost	<b>REPUTATION</b> Statutory duty, Publicity, Embarrassment	<b>PEOPLE</b> Loss of life, Physical injury, Emotional distress
<b>4</b> <b>CRITICAL</b> Disastrous impact, Catastrophic failure	Prolonged interruption to core service. Failure of key strategic project.	Severe costs incurred. Budgetary impact on whole Council Impact on other services. Statutory intervention triggered.	National media interest seriously affecting public opinion.	Loss of life. Multiple casualties.
<b>3</b> <b>MAJOR</b> Significant impact, Disruption to core services	Key targets missed. Some services compromised.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.
<b>2</b> <b>MINOR</b> Minor impact, Some degradation of non-core services	Management action required to overcome short-term difficulties.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Limited local publicity. Mainly within local government community. Causes staff concern.	Minor injuries or discomfort. Feelings of unease.
<b>1</b> <b>NEGLIGIBLE</b> No noticeable impact	Handled within normal day-to-day routines.	Little loss anticipated.	Little or no publicity. Little staff comment.	

7. Once the likelihood and the impact are assessed, this produces the overall risk score e.g. likelihood = 3, impact = 2 then the risk score is 6. This means that it would fall into the blue area of the matrix, and is a higher concern

than if it were in the green area. The Committee would need to be satisfied that they were comfortable with this level of risk, and that no further controls were required. There will always be some risks that cannot be fully mitigated.

### **Conclusion**

8. It is considered best practice to have identified the high level risks associated with managing a Pension Fund and to have put appropriate controls in place, and to set out a Risk Management Policy and Risk Register. An additional risk register has also been created, specifically to reflect the risks associated with the current pandemic. The latest versions of these are brought to the Pensions Committee for review and approval.

### **Consultation**

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

Yes

#### **b) Risks and Impact Analysis**

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

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Risk Management Policy
Appendix B	Pension Fund Risk Register July 2020
Appendix C	Coronavirus Risk Register

### **Background Papers**

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

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).



# **Risk Management Policy**

## **RISK MANAGEMENT POLICY**

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

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

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

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

### **THE FUND'S RM OBJECTIVES**

The Fund's RM objectives are to:

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

## KEY MECHANISMS FOR DELIVERY

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

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

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

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**Pension Fund  
RISK REGISTER**

**Areas covered**

Governance  
Investments and Funding  
Operational  
People

**Service Objectives**

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

Fully Refreshed July 2020

ID	Linked to Objective	Description of Risk		Risk Owner	Existing Controls	Status	Owner	1:Low...4:High		Overall Current Risk Score
		Source (Lack of....Failure to ....)	Consequences (Results in ....Leads to ....)					L	I	
<b>Governance</b>										
G1	1,2,3,4,5,6,7	Governance requirements not met	Financial loss Damaged reputation Legal issues	Head of Pensions	Governance compliance statement Pension Committee reporting Monthly member letter Investment Strategy Statement Funding Strategy Statement Trained Committee members and officers Pension Board	Good	Head of Pensions	1	2	2
G2	1,3,4	Failure to ensure that the Committee's knowledge and understanding of pensions related activities is robust and meets all statutory requirements.	Improper scrutiny and challenge, non-compliance, loss of professional investor status with inability to implement investment strategy, reputational damage, secretary of state intervention	Head of Pensions	induction training, training policy and annual training plan, additional committees for training session, self assessment	Good	Head of Pensions	1	2	2
G3	1,3,4	Failure to ensure that the Pension Board's is effective in carrying out its role.	Ineffective scrutiny and challenge, non-compliance, reputational damage, Pensions Regulator intervention	Head of Pensions	induction training, ongoing training and work plan, additional meetings for training session, self assessment	Good	Head of Pensions	1	2	2
G4	1,3,4,5	Governance of asset pooling - management of relationship with BCPP	Inability to implement asset allocation decisions Increased costs Reduced returns	Head of Pensions	Joint Committee Officer operation group Senior officer group	Fair	Head of Pensions	2	3	6
<b>Investment and Funding</b>										
I1	1	Required returns not met due to poor strategic allocation	Damaged reputation Increase in employer contribution	Head of Pensions	Professional advice Triennial review Performance monitoring Monthly Members letter Reporting to Pensions Committee	Good	Head of Pensions	2	3	6
I2	4	Custodian bank goes bust	Inability to settle trades No reconciliation, accounting or performance service Loss of access to cash accounts	Head of Pensions	Service level agreement with termination clause Regular Meetings Regular control reports Other Custodian options review markets	Good	Head of Pensions	1	3	3

I3	1,3,4	Poor investment performance from managers	Lower funding level Increase in employer contributions	Head of Pensions	Performance measurement Managers report monthly Reporting to pensions committee Diversification across managers Manager meetings	Good	Head of Pensions	2	3	6
I4	1	Assets not enough to meet liabilities	Lower funding level Increase in employer contributions	Head of Pensions	Valuation Asset Liability Study Quarterly reporting of funding level Professional advice	Good	Head of Pensions	2	3	6
I5	4	Non compliance of external managers	Damaged reputation Financial loss	Head of Pensions	FSA regulated Manager due diligence Investment Management Agreements Manager monitoring Report quarterly to team Review every 3 years Qualified officers Additional managers meetings Termination clause	Good	Head of Pensions	1	2	2
I6	1,3,4,5	Asset pooling - transition of assets	Inability to implement asset allocation Impact on performance of costs	Head of Pensions	Officer operations group Workstreams within Border to Coast Communicate to Committee regularly S151 meetings	Fair	Head of Pensions	2	3	6
I7	1,3	Failure to meet requirements as a responsible investor - across all ESG risks (including, climate change and a move to a low carbon economy)	Reputational risk, loss of Fund value	Head of Pensions	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	Good	Head of Pensions	1	2	2
I8	1,5	Economic uncertainty due to UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Head of Pensions	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	Poor	Head of Pensions	4	3	12
I9	1,5	Maturing Fund	Cashflow issues to pay pensions or commitments Increasing employer rates	Head of Pensions	Investment strategy Cashflow monitoring Discourage opt outs 50/50 scheme option Communication	Fair	Head of Pensions	3	2	6
<b>Operational</b>										
O1	6,7	Contributions and payments of pensions • Non-collection • Miscoding • Non-payment	If it doesn't get discovered it effects employers accounting report and Valuation, final accounts and cashflow in pension fund	Head of Pensions	Employer contribution monitoring Additional monitoring at specific times Reconciliations Improved employer contribution data Monthly returns checks UPM employer module Ongoing employer training	Good	Head of Pensions	1	3	3

O2	6,7	Inability to deliver the administration service in accordance with the agreement	Members of the pension scheme not serviced Statutory deadlines not met	Head of Pensions	Performance Indicators General management indicators Bi-monthly meetings with WYPF Horizon Scanning Internal Audit Service Level Agreement Response to Audit Reports in the form of action plans Benchmarking & performance data Process management Error reporting Complaint reporting Customer Surveys	Good	Head of Pensions	2	3	6
O3	6	Calculating and paying pensions correctly (inc. completion of the Guaranteed Minimum Pension Reconciliation and communication with Pensioners)	Damaged reputation Financial loss	Head of Pensions	Internal control through audit process Constant monitoring / checking Quality standard at WYPF Process management NFI and Tracing services Data Cleansing	Fair	Head of Pensions	3	2	6
O4	4,6,7	Non-compliant in Information Governance - incl. GDPR compliance	Risk of fines Reputational risk Personal/sensitive data in the wrong hands	Head of Pensions	WYPF policies Reporting to Committee LCC policies	Fair	Head of Pensions	2	3	6
O5	4,6	Cyber security breach	Systems hacked Loss of Admin system leading to being unable to calculate and pay pensions Loss of data from third party service providers and managers	Head of Pensions	WYPF and Bradford Council policies LCC policies External provider control reports	Good	Head of Pensions	2	3	6
O6	6,7	Employer breaches	Reporting to TPR Fines to employers Reputational risk to LCC and WYPF	Head of Pensions	Make employers aware of responsibilities through Admin Strategy and training Reporting breaches procedure Contribution monitoring	Good	Head of Pensions	1	2	2
O7	1,6	Pension Freedom and Choice rules	Impact on cashflow Process not followed	Head of Pensions	Value of transfers monitored	Good	Head of Pensions	1	2	2
O8	2,6,7	Increasing employer numbers and/or reducing covenant strengths	Increased workload Incorrect rates paid	Head of Pensions	Admission agreements Bonds Employer covenant monitoring Contribution monitoring Employer communication and PFR roles	Good	Head of Pensions	3	2	6
O9	2	Financial Statements of Pension Fund incorrect or late	Damaged reputation Qualified accounts	Head of Pensions	Agreed timetable Externally audited Qualified and trained staff Closedown procedures	Good	Head of Pensions	1	2	2
O10	1,3,4,6	Fraud risk not managed	Financial loss Damaged reputation	Head of Pensions	Separation of duties Internal & external audit Monthly reporting Reconciliation procedures	Good	Head of Pensions	1	3	3

O11	1,3,4	Financial regulations (e.g. LCC / CIPFA) and statutory requirements not adhered to / legal guidelines not followed	LCC may incur penalties Damaged reputation Intervention from Secretary of State Intervention from the Pensions Regulator	Head of Pensions	Underlying regulation of Fund Managers FM control reports Contracts in place setting out parameters LCC staff appropriately qualified and aware of policies and procedures Pension Fund managed in line with statutory regulations Membership of CIPFA Pensions Network, PLSA etc. Pension Board	Good	Head of Pensions	1	2	2
O12	1,3,4,6	Financial or administration decisions challenged	Ombudsman report Reported to TPR	Head of Pensions	Performance monitoring and reporting Monthly and quarterly reporting Admin processes and procedures	Good	Head of Pensions	1	1	1
O13	3,4	Personal gain (internal or external) through: • Fraud or misappropriation of funds • Manipulating share price	Financial loss Damaged reputation	Head of Pensions	Declaration of interests Investment Management Agreements with Fund Managers Vetting of new Fund Managers through tender process Access restricted regarding transfer of funds - authorised signatories required Regulation of Fund Managers Insurance arrangements Code of Conduct Separation of duties	Good	Head of Pensions	1	1	1
O14	6,7									
<b>People</b>										
P1	2,3,4,6	Loss of key staff and loss of knowledge & skills	Inability to deliver service Statutory requirements not met Damaged reputation Pensioners not paid Inability to make investment/administrati on decisions Loss of professional investor status under MIFIDII	Head of Pensions	Diversified staff / team Look at other authorities with best practices to ensure LCC positions still desirable Attendance at pensions user groups, both WYPF and LCC Procedural notes which includes new systems as and when (LCC & WYPF) Section meetings / appraisals (LCC & WYPF) Regular team building (LCC & WYPF) B2C and partner funds relationship Head of Pensions obj. to support/train new Director Agreed training plan/skills gap analysis with Executive Director of Resources	Fair	Head of Pensions	3	2	6



**Pension Fund  
CORONAVIRUS RISK REGISTER**

**Areas covered**

Governance  
Investments and Funding  
Operational  
People

ID	Description of Risk	Risk Owner	Mitigating Actions (Treat/Tolerate)	Status	1:Low....4:High		Current Risk Score
	Risk Description				L	I	
<b>Governance</b>							
CG1	Committee and Local Board meetings disrupted	Head of Pensions	TREAT: 1) Use video / conference calls where possible. 2) Flexibility about meeting dates. 3) Ensure that delegated responsibilities are clearly understood. 4) Review decision making, delegations and meeting powers. 5) Hold Committee and Local Board meetings electronically - when possible. 6) Investigate whether quoracy can be relaxed. 7) Anticipate potential problems and agree actions to address them in advance. 8) Consider delegating responsibility to an emergency response. group.	Good	1	2	2
CG2	Governance with Border to Coast disrupted	Head of Pensions	TREAT: 1) Use video / conference calls. 2) Flexibility about meeting dates. 3) Consider delay of 2020/21 governance plan. 4) Scenario plan impact of the Strategic Plan.	Good	1	2	2
<b>Investment and Funding</b>							
CI1	Contribution rates for employers are unaffordable due to business interruption	Head of Pensions	TREAT/TOLERATE: 1) Consider covenant mitigation factors. 2) Conduct funding and risk discussions with employers. 3) Review contribution plans. 4) Consider alternative sources of funding/security. 5) Discuss individual rate reviews, covenant checks or possible terminations. 6) Temporarily adjust contributions where possible, with approval from the Actuary.	Fair	2	2	4
CI2	Business continuity failures mean employers are unable to meet contribution payment deadlines.	Head of Pensions	TREAT: 1) The Fund has sufficient cash reserves to mitigate negative cash-flow from total contribution failures for a number of months.	Fair	2	2	4
CI3	Investment downside risk has changed.	Head of Pensions	TREAT: 1) Consult with investment consultant, independent advisor and fund actuary. 2) Consider changes to investment strategy, if appropriate.	Fair	3	1	3
CI4	Planned strategic changes no longer appropriate.	Head of Pensions	TREAT: 1) Consult with investment consultant, independent advisor and fund actuary. 2) Reconsider planned asset allocation changes in light of market conditions.	Fair	3	2	6
CI5	Assets no longer aligned with benchmark/risk position	Head of Pensions	TREAT: 1) Review asset allocation. 2) Rebalance to take advantage of market opportunities, subject to a risk assessment - but avoid rebalancing if the risk/volatility is too great. 4) Assess investment opportunities in concert with our investment advisors. 5) Review performance targets.	Fair	3	2	6
CI6	Market distortions	Head of Pensions	TREAT: 1) Monitor market conditions. 2) Try to adhere to agreed strategies / asset classes unless there are very good reasons for deviating, following advice from the Investment Consultant.	Poor	4	2	8

CI7	Fire sale of assets	Head of Pensions	TREAT: 1) Review cash flow requirements and re-assess cash flow buffer. 2) Carefully consider asset transitions - particularly if they are distressed. 3) Consider maintaining a larger than usual cash surplus until the volatility abates.	Fair	3	2	6
<b>Operational</b>							
CO1	Pension administration disruption	Head of Pensions	TREAT: 1) Engage with WYPF to ensure contingency planning is tested and in place.	Fair	1	4	4
CO2	Failure to delivery objectives of the Pension Fund Business Plan within agreed timescales	Head of Pensions	TREAT/TOLERATE: 1) Re-prioritise business tasks. 2) Engage with Pension Committee and Local Board to understand decision making priorities.	Fair	3	1	3
CO3	KPIs deteriorate and volume of work in certain areas increases	Head of Pensions	TREAT/TOLERATE: 1) Accept reasonable disruption, relax the generic KPIs and refocus on key deliverables (deaths, retirements, divorces and urgent transfers).	Fair	3	1	3
CO4	Investment operations delay	Head of Pensions	TREAT: 1) Engage with BCPP, investment managers and custodians for assurance of their contingency plans. 2) Acknowledge that there will be agile working and we need to deal with alternative contacts.	Fair	2	2	4
CO6	Pension members concerned about market volatility	Head of Pensions	TREAT: 1) Agree basic communications plan with WYPF (e.g. pension benefits are not affected - use newsletter, blogs etc.). 6) Add message to website.	Good	2	1	2
CO7	Pension Fund Committee and Local Pension Board concerned about market volatility and business continuity	Head of Pensions	TREAT: 1) Communicate regular updates via email. 2) Share Pension Fund Coronavirus Risk Register.	Fair	3	2	6
<b>People</b>							
CP4	Pension Fund Team functionality diminished	Head of Pensions	TREAT: 1) Review business continuity plan. 2) Review responsibilities and signatory lists so day-to-day activities can continue. 3) Cross train staff, if possible. 4) Amend procedures / documents as necessary. 5) Anticipate potential problems and agree potential solutions to address them in advance.	Fair	2	2	4

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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Annual Pensions Committee Training Plan and Policy</b>

**Summary:**

This report sets out the training policy and the annual training plan for the Pensions Committee members for the year to June 2021.

**Recommendation(s):**

That the committee:

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

**Background**

1. There is a high level of risk involved in managing and making decisions relating to the Local Government Pension Scheme (LGPS). It is therefore essential that those involved with these tasks have the appropriate knowledge and skills to do so. The need for appropriate knowledge and skills in the management of pension schemes has been a key topic in recent years in both the public and private sector.
2. The introduction of the new Markets in Financial Instruments Directive (MIFID II) in January 2018, has made it is even more important that the Committee are appropriately trained to ensure that the Fund retains its Professional investor status.
3. Members and Officers are required to undertake training to satisfy the obligations placed upon them by the following:
  - Lord Hutton, in his review of Public Sector Pensions, included a key recommendation referring to the need for all Pension Committees and Boards to be properly trained.
  - The Public Service Pensions Act 2013 included a requirement for members of Pensions Boards in the public sector to have an

appropriate level of knowledge, and included a provision that required the Pensions Regulator to issue a Code of Practice relating to this for both Pension Board members and Scheme Managers (the Administering Authority).

- The Chartered Institute of Public Finance and Accountancy (CIPFA) launched a technical guidance for Representatives on Pensions Committees and non-executives (i.e. officers) in the public sector within a Knowledge and Skills Framework (KSF) in January 2010. The framework identifies the skill set for those responsible for pension scheme financial management and decision making. CIPFA followed this up with a Code of Practice which LGPS funds are expected to adhere to, reporting on how their Pension Committee members and officers are meeting the requirements of their Framework in the Annual Report and Accounts. The Pension Committee members' KSF is attached at appendix B.
  - Myners Principles – Scheme Administering Authorities have been required for some time to report on a 'comply or explain' basis their adoption of, and compliance with, the principles. This is set out in the Governance Compliance Statement. The CIPFA document Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom (2012) also details the expectations that the Administering Authority should meet.
4. The Pensions Committee has adopted the key recommendations and principles of the CIPFA Code of Practice, detailed below:
- Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
  - Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme financial knowledge and skills for those in the organisation responsible for financial administration and decision-making.
  - The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Knowledge and Skills Frameworks.
  - The organisation has designated a named individual to be responsible for ensuring that policies are implemented.
5. For the Lincolnshire Pension Fund, the Executive Director of Resources, Andrew Crookham, is the designated officer in this regard.

6. To ensure that the Fund complies with the requirements above, a training policy and annual training plan is produced (attached at appendix A) and agreed by the Committee. Evaluation of knowledge and skills is periodically undertaken to ensure any emerging knowledge gaps (due to either regulatory/market change or change in members or key officers) are addressed.
7. The CIPFA KSF (attached at appendix B for reference) covers six areas:
  - i. Pensions Legislative and Governance Context
  - ii. Pensions Auditing and Accounting Standards
  - iii. Financial Services Procurement and Relationship Management
  - iv. Investment Performance and Risk Management
  - v. Financial Markets and Products Knowledge
  - vi. Actuarial Methods, Standards and Practices
8. It is acknowledged that these areas are very wide; however, the framework requires an awareness or understanding in most areas, rather than detailed knowledge. There are also a number of different ways in which this information can be gained by members, such as during normal Committee meetings, training sessions or attendance at conferences or seminars. It is not expected for members of the Committee to have knowledge in all areas of the framework but a collective understanding by the Committee as a whole.
9. The training policy was last agreed at the July 2019 meeting of this Committee. It sets out the policy concerning the training and development of:
  - the members of the Pensions Committee; and
  - officers of Lincolnshire County Council responsible for the management of the LGPS.

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

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

- attend a basic training course (LGA Fundamentals or equivalent) designed for new members to the Pensions Committee within the first year on the Committee, or as a refresher when required;
  - complete the on-line training of the Pensions Regulator at <https://education.thepensionregulator.gov.uk/login/index.php> within six months of joining the Committee (and send their certificates to the Head of Pensions); and
  - undertake, as a Committee, regular training as set out in the annual training plan.
10. The Committee training plan presents the topics that will be covered in the normal Committee meetings and also the additional training sessions for the coming year. This will be updated for additional areas that are covered in Committee throughout the year, and will be used to assist in disclosure requirements for training in the Annual Report. The statement of compliance also requires Officers to keep a record of attendance at training courses and conferences by Members. Members are requested to inform Officers should they attend any meetings that are relevant to the Knowledge and Skills Framework.
11. A date of 17 September has been set aside for training in the Border to Coast Property offering and the options for the Global Equity allocation of the Fund. Committee members are asked to agree the topics for training for the session in September and discuss what topics they would like covered for the training meeting in February.
12. Committee members that attend external training events, including conferences, should be willing to provide a brief update to the next meeting of the Pensions Committee, covering the following points:
- their view on the value of the event and the merit, if any, of attendance;
  - a summary of the key learning points gained from attending the event; and
  - recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

## **Conclusion**

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

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

## **Consultation**

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

Yes

### **b) Risks and Impact Analysis**

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

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Training Policy and Annual Plan
Appendix B	CIPFA Knowledge and Skills Framework

## **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](mailto:jo.ray@lincolnshire.gov.uk).

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## **PENSIONS COMMITTEE TRAINING POLICY AND COMMITTEE TRAINING PLAN JULY 2020 TO JUNE 2021**

### **Policy Objectives**

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

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment.
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest.
- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Scheme.
- Those persons responsible for governing the Fund meet the requirements to be opted up to a professional investor status under MIFID II.

To assist in achieving these objectives, there is a **mandatory minimum** level of training that all members of the Committee agree to complete. Any Committee members failing to undertake the minimum requirements will be referred to the Chairman of the Committee.

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

### **Application of the Policy**

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

### **Review and maintenance**

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

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

## **CIPFA Knowledge and Skills Framework and Code of Practice**

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

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

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

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

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

## **Training Provision, Measurement and Assessment**

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

### **Members:**

#### Mandatory Minimum:

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

- Attend a basic training course (LGA Fundamentals or equivalent) designed for new members to the Pensions Committee within the first 18 months on the Committee;
- Complete the on-line training of the Pensions Regulator at <https://education.thepensionregulator.gov.uk/login/index.php> within six months of joining the Committee; and
- Undertake, as a Committee, regular training as set out in the annual training plan.

In addition:

- Highlight to officers any areas where further training would be desirable or required, following subjects covered in Committee meetings or following attendance at any external training events or conferences;
- Obtain a satisfactory collective level of knowledge and skills in relation to all modules of the CIPFA Framework. Support from officers and the Fund's Advisors will be available as and when required, but always in advance of any decision being taken; and
- Report as appropriate in external documentation the compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts and Governance Compliance Statement.

**Officers:**

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

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

**Delivery of Training**

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

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

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

### External Events

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

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

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members.

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

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

**PENSIONS COMMITTEE TRAINING PLAN JULY 2020 TO JUNE 2021**

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

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

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

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

<b>Date</b>	<b>Topic</b>	<b>KSF area(s)</b>
<b>Jul 2020</b> Committee papers	Independent Advisor Market Update	4,5
	Fund Update	1,3,4
	Pensions Administration Update	1
	Employer Contributions Monitoring	1
	Investment Management Report	4,5
	Annual Property Report	4,5
	Risk Register Annual Review	1,4
	Annual Training Report	1
	Annual Report and Accounts	1,2
	Property Investment Report	5
Fund Manager Report	4	
<b>Sep 2020</b> Training	Border to Coast Property Offering	5
	Global Equity Options	4,5

<b>Oct 2020</b> Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Audit Governance Report Annual Fund Performance Report Actuarial Appointment Report	4,5 1 1,3,4 1 1 4,5 2 4 3,6
<b>Dec 2020</b> Committee papers	External Manager Presentations	4,5
<b>Jan 2021</b> Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Border to Coast RI Policy and Voting	4,5 1 1,3,4 1 1 4,5 1,3,4
<b>Feb 2021</b> Training	To be agreed	
<b>Mar 2021</b> Committee papers	Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Fund Policies Review Annual Accounting Policies Review LPF Business Plan	4,5 1 1,3,4 1 1 4,5 1,4 2 1
<b>May 2021</b> Training	New Committee member training	1,2,3,4,5,6
<b>June 2021</b> Committee papers	External Manager Presentations	4,5

\*Committee papers and training may be subject to change.

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

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

Pensions legislative and governance context      Pensions accounting and auditing standards      Financial services procurement and relationship management      Investment performance and risk management      Financial markets and products knowledge      Actuarial methods, standards and practices

A regularly updated appreciation of the latest changes to the scheme rules. Knowledge of the role of the administering authority in relation to the LGPS.

**Pensions regulators and advisors**

An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

**General constitutional framework**

Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.



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



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

Report to:	<b>Pensions Committee</b>
Date:	<b>16 July 2020</b>
Subject:	<b>Pension Fund Draft Annual Report and Accounts</b>

**Summary:**

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

**Recommendation(s):**

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

### **Background**

1. The Pension Fund Annual Report and Accounts for the year ended 31 March 2020 (included at **Appendix A**) has been completed and is being independently audited by the Council's external auditors, Mazars. These accounts also form part of the Lincolnshire County Council Statement of Accounts.
2. The Annual Report and Accounts have been produced taking into account the guidance produced by Chartered Institute of Public Finance Accountants (CIPFA) and relevant accounting standards. There have been no changes to the guidance for preparing the annual report or accounts for 2019/20.

### **Covid-19 Impact**

3. The coronavirus pandemic has had an impact on the preparation of the Pension Fund's Statement of Accounts. This includes:
  - Accounts and Audit Regulations 2015. On 30 April 2020 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 came into force. This moved the deadline for publication of audited Statement of Accounts from 31 July 2020 to 30 November 2020. Approval and publication of draft accounts deadline also moved from 31 May to 31 August.

This change only applies to the 2019/20 accounts.

- Valuation of Illiquid Assets. The impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such some of the Pension Fund's holdings as at 31 March 2020 are difficult to value according to preferred accounting policy.

a. Pooled property unit trusts. Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.

This uncertainty has been disclosed within the Pension Fund Accounts.

b. Unquoted assets (including alternatives and private equity holdings). The fair value of these investments is unavoidably subjective in normal circumstances and Covid-19 disruptions may increase this. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

The Fund accounts are currently prepared using valuation information available at 31 March 2020 provided by investment managers and validated by the Fund's Custodian. These valuations are mainly based on audited accounts from earlier periods (e.g. 31 December 2019) rolled forward for cashflows, as is allowable by the Code. Normally these valuations would see small incremental movements in value, however, due to the coronavirus pandemic the 31 March actual valuations may be materially different to the rolled forward valuations currently reported in the accounts.

The Fund expects to start receiving the 31 March valuations in July 2020. When these valuations are received Fund Officers will consider their materiality both individually and collectively and revise the accounts to reflect these valuations if necessary.

### **Next Steps**

4. Valuation information from Fund Managers relating to unquoted assets will be considered by Fund Officers for materiality both individually and collectively when received. Following this consideration the accounts may be subject to amendment to take into account any valuation movements identified (including any potential impact on the fair value hierarchy disclosures). If required these changes will affect notes: 12, 14, 15 and 16, in addition to the Net Asset Statement. Any changes to the accounts will be shared with the external auditor before completion of this element of their audit work.

5. The draft Pension Fund Accounts, as part of the County Council draft Statement of Accounts, will be approved by the Audit Committee at its meeting on Monday 13 July.
6. Subject to the completion of audit work the final Pension Fund Accounts will be presented to the Audit Committee at their meeting in September. The final Pension Fund Annual Report and Accounts will then be reported to this Committee in October along with comments from the External Auditors report to 'Those Charged with Governance'.

### **Conclusion**

7. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31 March 2020 and presented to the Committee. The Accounts element of the report is subject to change in light of outstanding valuation information relating to unquoted asset valuations as at 31 March 2020.
8. Subject to completion of External Audit work the final Annual Report and Accounts will be presented to the Pensions Committee in October.

### **Consultation**

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

Yes

#### **b) Risks and Impact Analysis**

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

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Draft Pension Fund Annual Report and Accounts 2020

### **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](mailto:claire.machej@lincolnshire.gov.uk).

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Lincolnshire Pension Fund  
Annual Report & Accounts

# 2020

# Local Government Pension Scheme

Annual Report for the Year Ended 31 March 2020

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## Management Arrangements

### Administering Authority

Lincolnshire County Council

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### Pensions Committee Members as at 31 March 2020

#### County Councillors

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

#### District Council Representative

R Waller

#### Representative of Other Employers

S Larter

#### Employee Representative

A Antcliff (Unison)

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### Professional Advisors

#### County Council Officers

Executive Director of Resources  
 Head of Pensions

A Crookham BSc CPFA  
 J Ray

#### Independent Advisor

P Jones

#### Fund Actuary

Hymans Robertson

#### Fund Consultant

Hymans Robertson

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### Asset Pool and Operator

Border to Coast Pensions Partnership

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### Investment Managers of the Fund as at 31 March 2020

#### Equities:

Border to Coast  
 Invesco

#### Bonds:

Legal and General  
 Blackrock  
 Border to Coast

#### Alternatives:

Morgan Stanley

#### Private Equity:

Aberdeen Standard  
 Capital Dynamics  
 Pantheon

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<b>Infrastructure:</b>	Infracapital Innisfree Pantheon
<b>Property:</b>	Aberdeen Standard Aviva Blackrock Franklin Templeton Igloo Royal London Rreef

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<b>Auditors</b>	Mazars
<b>Investment Custodian</b>	Northern Trust
<b>AVC Provider</b>	Prudential
<b>Fund Banker</b>	Barclays
<b>Benefits Administration</b>	West Yorkshire Pension Fund

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# Report of the Pensions Committee

## Introduction

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

Members of the Committee as at 31 March 2020 are listed on page 4.

All members of the Committee can exercise voting rights.

## Corporate Governance and Responsible Investing

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

## Investment Performance

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

The twelve month period ended 31 March 2020 saw the value of the Fund fall by £134.2m to £2,227.0m. The overall investment return of -5.8% was behind the Fund's specific benchmark return of -3.9%. Over the last ten years, the Fund's annualised investment performance of 6.5% is slightly behind the benchmark return of 6.7%.

Detail on the global markets over the year can be found in the Investment Background, on page 38.

## Manager Arrangements

In October 2019, the Fund transitioned assets from three active global equity managers (Columbia Threadneedle, Schroders and Morgan Stanley) into the Border to Coast Global Equity Alpha sub-fund. Further assets were transitioned across to Border to Coast in February 2020, moving fixed income assets managed by Blackrock into the Investment Grade Credit sub-fund.



## Pensions Administration

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

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

## Local Pension Board

It is now five years since the introduction of the requirement for a Local Pension Board for the Lincolnshire Pension Fund, as prescribed in the Public Service Pensions Act 2013 and the Local Government Regulations 2013. Its oversight role to ensure that the Fund is meeting all the requirements for administration and governance, as set out in the various regulations and by the Pensions Regulator, has been a welcome addition to the governance structure of the Pension Fund. The annual report of the Board can be found on page 31.

## Asset Pooling

The requirement to pool the Fund's assets with other LGPS Funds came into statute in November 2016. Lincolnshire chose to become part of the Border to Coast Pensions Partnership (Border to Coast), alongside eleven other partner LGPS funds. Progress has continued to ensure that Border to Coast is able to implement the investment strategy of the twelve partner funds, over the long term. The total asset value of the twelve partner funds is in excess of £45bn. The oversight of the asset pool is carried out by a Local Government Joint Committee and by the Administering Authority as shareholders. The objective of Border to Coast is to reduce investment costs, improve performance and increase resilience across the Funds, over the long term. Border to Coast went live in July 2018, with assets from three of the partner funds with internally managed assets. Work continues with Border to Coast in creating the sub-fund range that will be available to the Fund. As mentioned above, Lincolnshire transitioned its first assets across to Border to Coast in autumn 2019.

## Coronavirus Pandemic

The effects of the Coronavirus pandemic on the valuation of some of the investments in the Pension Fund are explained in the notes to the accounts on pX. The business continuity plans of the Lincolnshire Pensions Team and WYPF, as the administrators, were put into place in March and all aspects of managing the Fund continued to be fulfilled.

## Fund Governance and Communication Statements and the Investment Strategy Statement

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

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

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

**Jo Ray, Head of Pensions**

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

Tel: 01522 553656 | email: [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk)

Councillor Eddie Strenziel  
Chairman  
Pensions Committee

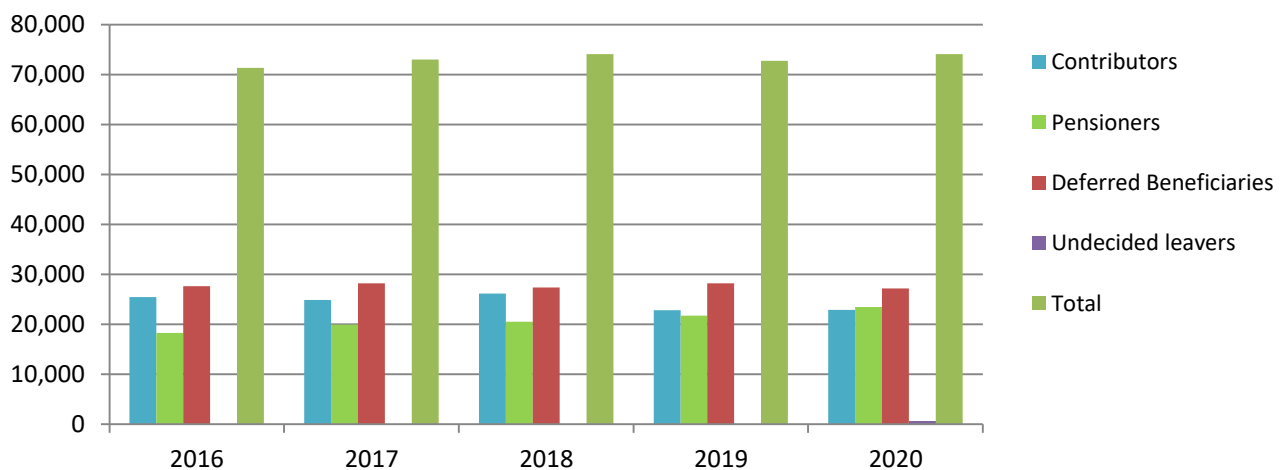


# Management Report of the Administering Authority

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 74,000 scheme members.

## Local Government Pension Scheme Membership

As can be seen from the chart below, the active membership has dropped, much of which is due to data cleansing activity undertaken with employers. The Fund has matured over the last five years, with pensioner and deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 68.3% of the overall membership.



Year ended 31March	2016	2017	2018	2019	2020
Contributors	25,451	24,893	26,153	22,820	22,890
Pensioners	18,281	19,916	20,543	21,715	23,438
Deferred Beneficiaries	27,618	28,182	27,356	28,221	27,201
Undecided Leavers*	-	-	-	-	529
<b>Total</b>	<b>71,350</b>	<b>72,991</b>	<b>74,052</b>	<b>72,756</b>	<b>74,058</b>

\*undecided leavers only recorded at year end from 31 March 2020

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

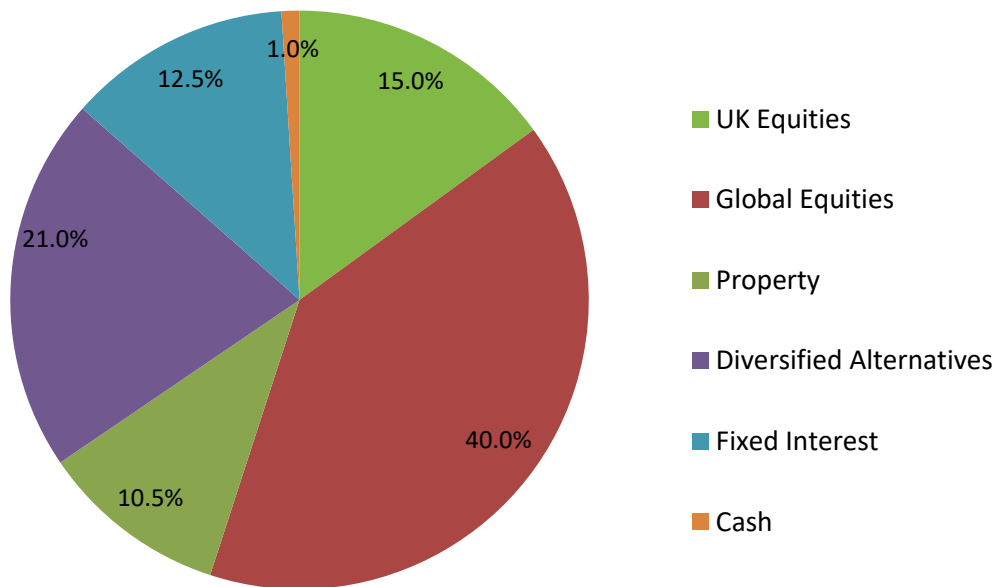
## Investment Policy

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

agreed by the Pensions Committee. The distribution of investments is reported to the Pensions Committee monthly and quarterly.

### Strategic Asset Allocation Benchmark

The asset allocation below reflects the long term assets allocation agreed by the Pensions Committee, however this will be implemented over time as the Fund transitions assets to Border to Coast. In the interim, the actual asset allocation may be quite different to the final strategic allocation. For performance measurement purposes the strategic allocation is amended as assets are moved.



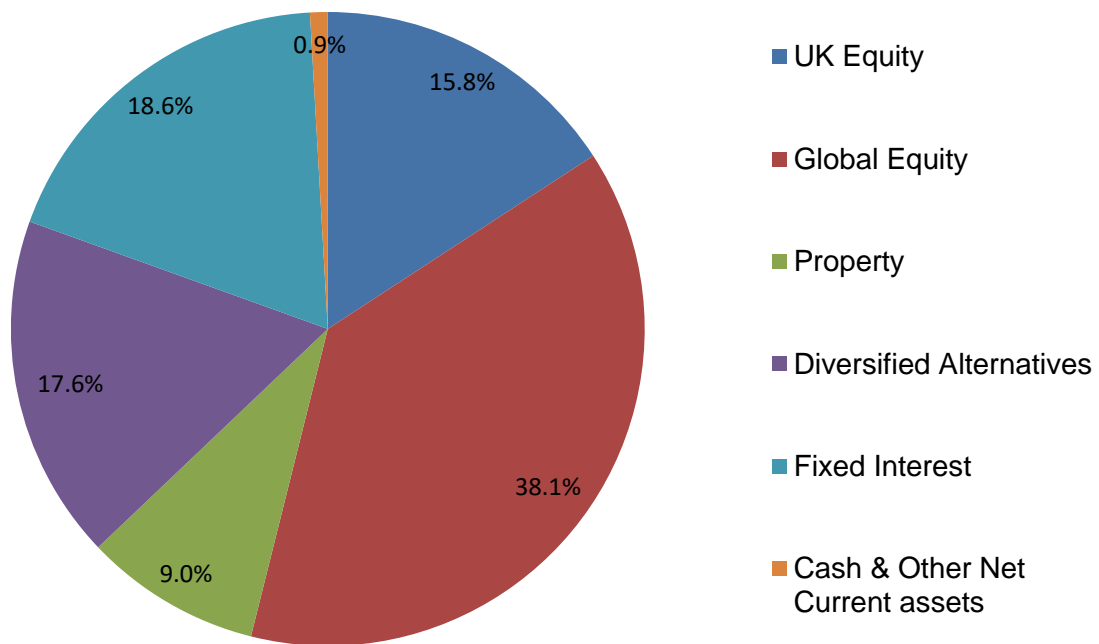
Asset class	Strategic Benchmark 31 March 2020 %	Strategic Benchmark 31 March 2019 %
UK Equities	15.0	20.0
Global Equities	40.0	40.0
<b>Total Equities</b>	<b>55.0</b>	<b>60.0</b>
Property	10.5	9.0
Infrastructure	-	2.5
Diversified Alternatives (incl. Private Equity, Infrastructure, Multi Asset Credit)	21.0	15.0
Fixed Interest	12.5	13.5
Cash	1.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Total Actual Asset Distribution

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

Asset Class	Market Value £'m	31/3/20 %	31/3/19 %
UK Equity	350.1	15.8	18.2
Global Equity	848.0	38.1	44.3
<b>Total Equities</b>	<b>1198.1</b>	<b>53.9</b>	<b>62.5</b>
Property	200.0	9.0	8.6
Diversified Alternatives (incl. Private Equity, Infrastructure, Multi Asset Credit)	392.4	17.6	15.9
Fixed Interest	414.9	18.6	12.0
Cash & Other Net Current Assets	20.7	0.9	1.0
	<b>2,226.1</b>	<b>100.0</b>	<b>100.0</b>

\*excludes Border to Coast share holding valued at £833,334





## Fund Investment Performance

The twelve month period ended 31 March 2020 saw the value of the Fund fall by £134.2m to £2,227.0m. The overall investment return of -5.8% was behind the Fund's specific benchmark return of -3.9%. Over the last ten years, the Fund's annualised investment performance of 6.5% is slightly behind the benchmark return of 6.7%. The biggest impact was the underperformance of the Invesco Global Equities mandate.

Annual investment performance over the previous ten years is set out in the table below. The Fund's ten year annualised return of 6.5% compares to a rise in retail prices of 2.9% and an increase in public sector earnings of 1.7%.

### Investment Performance of the Fund 1 April 2010 to 31 March 2020

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2010/11	7.9	7.8	5.3	2.2
2011/12	1.5	2.4	3.6	1.8
2012/13	12.6	11.3	3.3	1.1
2013/14	6.3	6.2	2.5	1.1
2014/15	12.3	12.4	0.9	(0.9)
2015/16	1.0	1.8	1.6	1.9
2016/17	19.8	19.3	3.1	1.3
2017/18	3.3	3.0	3.3	2.6
2018/19	8.2	8.1	2.4	2.7
2019/20	(5.8)	(3.9)	2.6	3.0
10 years annualised	6.5	6.7	2.9	1.7

## Manager/Asset Class Performance of the Fund

Asset Class	1 Year		3 Years**		5 Years**	
	FM	BM	FM	BM	FM	BM
<b>Equities</b>						
LGIM	(25.1)	(25.1)	(18.3)	(18.5)	(4.1)	(4.2)
Invesco	(7.9)	(5.0)	0.8	2.6	6.8	7.5
Border to Coast Global Equity*	n/a	n/a	n/a	n/a	n/a	n/a
<b>Fixed Interest</b>						
Blackrock	3.7	3.5	3.1	2.8	5.1	5.0
Blackrock (interim)	0.3	0.2	0.9	0.9	n/a	n/a
Border to Coast Investment Grade Credit*	n/a	n/a	n/a	n/a	n/a	n/a
<b>Property/Infrastructure</b>						
Property Unit Trusts	(0.3)	0.0	3.3	4.9	3.9	5.8
Property Other and Infrastructure**	(4.8)	7.0	3.3	7.0	7.0	7.0
<b>Diversified Alternatives</b>						
Morgan Stanley	3.6	5.0	5.1	4.7	3.6	4.6
Legacy Private Equity	8.6	5.0	10.4	4.7	11.4	4.6
Infrastructure**	5.0	6	n/a	n/a	n/a	n/a
<b>Total</b>	<b>(5.8)</b>	<b>(3.9)</b>	<b>1.7</b>	<b>2.3</b>	<b>4.7</b>	<b>5.3</b>

\* Border to Coast Global Equities and Border to Coast Investment Grade Credit were both invested during 2019/20

\*\*Infrastructure was comingled with property returns until 1/4/2019

## Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including both pooled investments and direct holdings in the segregated account, as at 31 March 2020. These account for £1,715.2m and make up 77% of the Fund's investments.

	Market Value £m's	Proportion of Fund %
Legal & General UK Equity Index Fund	350.1	15.7
Border to Coast Global Equity Alpha Fund	345.0	15.5
Morgan Stanley Alternative Investments	323.4	14.5
Border to Coast Investment Grade Credit Fund	180.3	8.1
Blackrock Aquila Life <5 Year Corporate Bond Fund	85.6	3.8
Blackrock Aquila Corporate Bond Fund	75.4	3.4
Aberdeen Standard Property Fund	63.0	2.8
Aviva Property Fund	48.2	2.2
Blackrock Aquila Life >5 Year ILG Fund	44.1	2.0
Blackrock Property Fund	40.1	1.8
Blackrock Aquila Gilts Fund	29.6	1.3
Royal London Asset Management Property Fund	24.2	1.1
Microsoft	19.2	0.9
Apple	18.7	0.8
Innisfree Secondary Fund	16.8	0.8
Standard Life European Property Growth Fund	13.2	0.6
Amazon	11.7	0.5
Infracapital Greenfield Partners	9.6	0.4
Innisfree Secondary Fund 2	8.7	0.4
Innisfree Continuation Fund	8.3	0.4
<b>Total</b>	<b>1,715.2</b>	<b>77.0</b>

## Investment Management Arrangements

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

## Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
Global Equities - (Ex UK)	Invesco	503.0	22.6
<b>Total Segregated Equities</b>			

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

## Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property	Franklin Templeton	1.4	0.1
	Igloo	0.3	0.0
	Aviva	48.2	2.2
	Royal London	24.2	1.1
	Rreef	0.5	0.0
	Blackrock	40.1	1.8
	Aberdeen Standard	76.2	3.4
	<b>Total Property</b>		<b>190.9</b>
Infrastructure	Innisfree	33.7	1.5
	Infracapital	9.6	0.4
	Pantheon	4.5	0.2
	<b>Total Infrastructure</b>	<b>47.8</b>	<b>2.1</b>
Private Equity	Capital Dynamics	4.0	0.2
	Pantheon	10.0	0.5
	Aberdeen Standard	4.0	0.2
	<b>Total Private Equity</b>	<b>18.0</b>	<b>0.9</b>
Fixed Interest	Blackrock	234.6	10.5
	Border to Coast	180.3	8.1
	<b>Total Fixed Interest</b>	<b>414.9</b>	<b>18.6</b>
Alternatives	Morgan Stanley	323.4	14.5
UK Equities	Legal and General	350.1	15.7
Global Equities	Border to Coast	345.0	15.5
<b>Total Pooled Vehicles</b>		<b>1690.1</b>	<b>75.9</b>

## Investment Administration and Custody

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

The Fund's custodian at 31 March 2020 was Northern Trust, with responsibility for safeguarding the segregated assets, in addition to providing investment accounting and performance measurement services.

## Funding

The Lincolnshire Pension Fund's latest triennial valuation was as at 31 March 2019. The results from this are published on the Fund's shared website.

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

	31 March 2016	31 March 2019
Past Service Liabilities	£2,288m	£2,536m
Market Value of Assets	£1,759m	£2,353m
Surplus/(Deficit)	(£529m)	(£183m)
Funding Level	77%	93%

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

## Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Tier 1 Stewardship Code statement, in compliance with the Financial Reporting Council's Stewardship Code. It encourages its external managers and service providers to produce their own codes, and to report their engagement and stewardship activity to the Fund.

The Pensions Committee agree that the adoption of good practice in Corporate Governance will improve the management of companies and thereby increase long term shareholder value. The Fund's Responsible Investment (RI) policy and Corporate Governance and Voting policy can be found on the shared website at [www.wypf.org.uk](http://www.wypf.org.uk). These policies are aligned with those of our asset pool, Border to Coast, who is responsible for implementing them across the assets that they manage for the Fund. In addition to this, the Committee agreed a set of Responsible Investment Beliefs, which can also be found on the shared website. Any investment decisions that the Committee make are made with consideration of these beliefs.

The Fund requests that its segregated managers vote on all direct company holdings, wherever possible. The votes cast by these managers are reported to the Pensions Committee on a quarterly

basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund works closely with Border to Coast and the other partner funds within the asset pool to ensure that they integrate RI into all of their investment activity. Examples of activity undertaken by Border to Coast are shown below, alongside the areas of principle that have been agreed across the partner funds. Further information on the RI work that Border to Coast does can be found on their website at [www.bordertocoast.org.uk](http://www.bordertocoast.org.uk).

Principle	Activity
Integrating ESG	Training sessions for portfolio managers ESG and carbon screens fed into quarterly meetings Managers challenged on stocks held RI reviews and questions in manager searches RI reviews on potential alternative investments
Active Ownership	Actively voting in line with the agreed policies Discussions and challenge to companies held
Disclosure	TCFD (Taskforce on Climate-related Financial disclosure) report
Promoting PRI	Reporting against the PRI (Principles of Responsible Investment) framework ESG included in research procurement
Collaboration	Working with Robeco Collaborative engagement on Tailings Dam Safety Initiative Joined Cyber and Data Security collaboration
Reporting	Improving quarterly stewardship reporting Producing Annual RI and Stewardship report

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 80 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest. Further information on the work of the LAPFF can be found at [www.lapfforum.org](http://www.lapfforum.org). LAPFF engages with companies across a wide range of issues that can broadly be grouped into five engagement themes:

- Environmental and carbon risk;
- Social risk;
- Governance risk;
- Reliable accounts; and
- LGPS and Stewardship.

## Risk Management

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

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

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

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

Lincolnshire County Council's (LCC) internal audit team regularly undertake audits across different aspects of the Fund's management and administration. The output from these audits is reported to the Council's Audit Committee, and brought to the Pension Board and Committee as appropriate. Internal audits undertaken in 2019/20 covered assurance of the administration service provided by West Yorkshire Pension Fund (WYPF). The Council's audit team reviewed outcomes of the pensions administration audits undertaken by the Bradford Metropolitan District Council, who are responsible for the internal audit function of WYPF. Areas covered and outcomes are shown below:

- New Pensions and Lump Sums – Normal and early retirements = Good
- Transfer in = Good
- Accuracy of contributions recorded on members records = Partially effective



- Information Governance = Good
- Transfer of data = Partially effective

Following their conversations with the WYPF audit provider, LCC can continue to place assurance on the robust nature of the audits completed by Bradford MDC. They were pleased to see that the audits continue to have positive assurance levels to date and that actions are implemented promptly. They note that the audit around the Accuracy of contributions recorded on member records has a lower level of assurance and that this will reflect similar issues with LGPS members. They will liaise with the Bradford MDC team to confirm that management actions are fully implemented within agreed timescales. In addition, time has been allocated in the 2020/21 audit plan to revisit this activity towards the end of that financial year.

They are happy to place reliance on this assurance over Pension Administration and plan to maintain their relationship with Bradford MDC.

Assurance from the service suppliers and fund managers appointed by Lincolnshire Pension Fund is obtained thorough the receipt and monitoring of control reports – e.g. ISAE 3402 (AAF 01/06) or SSAE16/70. For 2019/20 reasonable assurance was obtained from all third party operations.



## Employer Contribution Rates

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	222	12	234
Admitted Body	29	15	44
<b>Total</b>	<b>251</b>	<b>27</b>	<b>278</b>

The employers' contribution rates (including deficit cash or percentage of payroll amounts where applicable) applying in the year ended 31 March 2020, for all employers are set out below, alongside actual cash contributions received from both the employer and the employees for each body.

### Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2020:

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
<b>SCHEDULED BODIES</b>				
<b>County and District Councils</b>				
Lincolnshire County Council	16.4	£6,510	16,978.1	6,582.8
LCC Schools	16.4	7.5%	10,220.6	2,773.8
Boston Borough Council	16.6	£570k	956.0	373.1
East Lindsey District Council	16.6	£789k	1,336.4	514.6
City of Lincoln Council	16.0	£1,743	2,370.2	962.3
North Kesteven District Council	16.3	£779k	1,512.9	607.2
South Holland District Council	16.7	£638k	1,018.8	397.4
South Kesteven District Council	16.5	£1,128k	2,207.9	876.0
West Lindsey District Council	16.2*	£863k	963.7	440.2
<b>Internal Drainage Boards</b>				
Black Sluice	16.8*	£98k	120.2	55.3
Lindsey Marsh	17.5*	£26k	252.4	112.8
North East Lindsey	17.9	£17k	7.6	2.9
South Holland	18.3	£100k & 10.4%	108.8	24.7
Upper Witham	18.4	£58k	68.3	25.2
Welland and Deeping	17.7	£125k	142.3	55.6
Witham First	19.3	£5k & 7.5%	70.3	19.5

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Witham Fourth	18.0	£92k	176.2	66.4
Witham Third	17.3	£39k & 6.7%	152.8	46.3
<b>Parish and Town Councils</b>				
Billinghay PC	19.3	2.3%	4.0	1.2
Bourne TC	19.3*	2.3%	10.2	3.2
Bracebridge Heath PC	19.3	2.3%	9.1	2.4
Cherry Willingham PC	19.3	2.3%	2.1	0.5
Crowland PC	19.3	2.3%	7.5	2.0
Deeping St James PC	19.3	2.3%	7.1	2.0
Gainsborough TC	19.3	2.3%	31.9	9.0
Gedney PC	19.3	2.3%	3.4	0.9
Greetwell PC	19.3	2.3%	0.8	0.2
Heighington PC	19.3	2.3%	1.5	0.4
Horncastle TC	19.3	2.3%	14.6	3.9
Ingoldmells PC	19.3	2.3%	5.2	1.4
Louth TC	19.3	2.3%	13.4	3.8
Mablethorpe & Sutton TC	19.3	2.3%	19.9	6.8
Market Deeping TC	19.3	2.3%	12.6	3.4
Metheringham PC	19.3	2.3%	1.2	0.3
Nettleham PC	19.3	2.3%	6.5	2.0
North Hykeham TC	19.3	2.3%	29.0	7.8
Pinchbeck PC	19.3	2.3%	7.6	2.3
Skegness TC	19.3	2.3%	46.0	13.0
Skellingthorpe PC	19.3	2.3%	9.1	2.4
Sleaford TC	19.3	2.3%	48.4	12.8
Stamford TC	19.3	2.3%	28.3	7.8
Sudbrooke PC	19.3	2.3%	1.5	0.4
Sutton Bridge PC	19.3	2.3%	6.1	1.8
Thorpe on the Hill PC	19.3	2.3%	8.3	2.0
Washingborough PC	19.3	2.3%	10.0	2.8
Welton-by-Lincoln PC	19.3	2.3%	7.3	2.2
Woodhall Spa PC	19.3	2.3%	3.3	0.9
<b>FE Establishments</b>				
Bishop Grosseteste University	20.9*	£84k	857.3	288.9
Boston College	21.5	£78k	752.4	208.0
Grantham College	21.0	£88k	582.4	168.9

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Lincoln College	22.3	£457k	883.3	246.2
Stamford College	20.6	£65	555.9	166.5
<b>Other Scheduled Bodies</b>				
Acorn Free School	16.5		18.3	6.6
BG Lincoln	20.7	£2k	30.8	8.6
Public Sector Partnership Services	21.8		1,018.8	290.6
Police Chief Constable and Police & Crime Commissioner (pooled rates also with G4S)	16.3	£1,265k	146.8	68.4
<b>Academies and Multi Academy Trusts</b>				
Aegir Community Academy	19.0	£35k	127.5	40.9
Alford Queen Elizabeth	19.5*		74.1	24.8
Bassingham Primary Academy	20.8	£8k	34.7	9.5
Beacon Primary	15.9		30.8	11.0
Boston Grammar	18.4	£7k	96.0	31.1
Boston High School	18.6*	£21k	88.9	31.5
Boston John Fielding	17.9	£28k	111.0	36.5
Boston St Mary's RC Primary	18.6	£2k	47.0	14.1
Boston West Academy	19.2		52.9	15.6
Boston Witham Federation	17.7	£57k & 0.5%	708.9	231.5
Bourne Abbey Academies Trust	19.0	£3k	218.6	66.6
Bourne Academy	19.4	£23k	208.4	64.9
Bourne Grammar	19.0	£31k	144.9	47.4
Bourne Keystone Academy Trust	19.5*	£9k	121.5	38.8
Bracebridge Infant and Nursery	18.4		32.8	10.5
Branston CofE Infant School	20.5	£3k	20.9	5.7
Branston Community Academy	19.1		181.5	54.7
Branston Junior Academy	19.2	£12k	21.3	6.2
Browns CofE Academy	21.7	£5k	17.9	4.6
Caistor Grammar Academy	18.7*	£1k	66.5	22.8
Caistor Yarborough	17.9	£9k	76.6	25.1
Carlton Academy	17.6		91.6	31.3
Caythorpe Primary Academy	19.7	£5k	25.2	7.2
Chapel St Leonards Academy	20.2	£6k	56.7	16.6
Cherry Willingham Primary	19.7	£5k	24.3	7.6
David Ross Educational Trust	18.0	£152k	444.6	142.8
Eastfield Infant and Nursery School	19.5	£12k	84.0	24.9

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Edenham CofE Academy	21.3	£8k	14.6	3.8
Ellison Boulters Academy	20.0	£4k	51.0	14.5
Ermine Primary	18.5	£9k	132.0	40.7
Fosse Way Academy	19.0	£10k	106.7	31.0
Frithville Primary	19.1*	£2k	13.0	3.8
Gainsborough Benjamin Adlard	18.6		50.9	15.4
Gainsborough Parish Church	18.5	£13k	66.7	20.5
Giles Academy	17.4	£6k	118.7	38.7
Gipsey Bridge Academy	19.9	£4k	18.4	5.4
Gosberton House Academy	18.6	£23k	103.5	32.5
Grantham Ambergate	18.0	£27k	189.3	66.2
Grantham Greenfields Academy	18.9	£11k	44.2	14.8
Grantham Isaac Newton Primary	19.3	£13k	86.4	25.5
Grantham Kings School	19.9*	£13k	122.9	40.7
Grantham Sandon	18.5	£31k	103.7	32.4
Grantham St Mary's Catholic	20.1	£4k	35.7	9.8
Grantham Walton Girls	19.8	£11k	97.4	28.7
Harrowby CofE Infants	18.6*	£5k	21.8	7.4
Hartsholme Academy	16.1	£5k	79.2	31.7
Heighington Millfield Academy	18.9	£3k	57.8	17.6
Hillcrest EY Academy	16.9	£8k & 0.2%	54.1	17.8
Holbeach Bank Academy	19.8	£1k	19.7	5.6
Holbeach Primary	17.2	£10k	48.9	16.0
Holy Trinity CofE Primary	20.1	£6k	21.6	5.9
Horncastle Banovallum	18.4*	£38k	120.0	40.3
Horncastle Education Trust	17.15*/ 18.4*		23.1	9.5
Horncastle QE Grammar	18.9*	£23k	99.7	33.8
Huntingtower Community Primary	17.9	3.0%	107.1	28.9
Huttoft Primary Academy	18.7		51.1	14.8
Ingoldmells Academy	18.7	£5k	30.8	9.2
John Spendluffe Academy	18.8	£26k	161.1	49.9
Keelby Primary Academy	19.7	£11k	35.7	10.1
Kesteven & Grantham Academy	19.1	£37k	177.4	54.6
Kesteven & Sleaford High	19.0*	£18k	95.7	32.3
Kidgate Primary Academy	17.4	£10k	67.9	22.6

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Kirkby La Thorpe	19.4	£2k	33.0	9.5
Lacey Gardens Junior School	18.5	£11k	87.3	26.6
Lincoln Anglican Academies	16.4		58.3	25.2
Lincoln Castle Academy	19.4	£18k	128.8	41.0
Lincoln Christs Hospital School	19.5	£30k	210.5	63.1
Lincoln Our Lady of Lincoln	18.8*	£2k	43.9	12.9
Lincoln St Hugh's Catholic	19.0*	£8k	61.3	18.2
Lincoln St Peter & St Paul's	19.1*	£16k	90.7	27.5
Lincoln UTC	17.6		46.9	15.9
Lincoln Westgate Primary	18.4	£6k	61.2	19.1
Ling Moor Academy	19.1	£7k	63.9	18.6
Little Gonerby CofE	19.6	£5k	43.2	12.7
Long Bennington CofE	19.7*	£6k	39.3	12.9
Long Sutton Primary School	24.8*	£13k	37.3	9.2
Louth Academy	19.4	£46k	106.7	31.5
Louth King Edward VI Grammar	19.0	£44k	106.7	34.6
Mablethorpe Academy	19.2	£13k	81.6	24.9
Manor Farm Academy	17.4		26.7	8.5
Manor Leas Infant Academy	19.3	£2k	35.4	10.2
Manor Leas Junior Academy	18.9	£6k	32.8	9.8
Market Rasen De Aston	18.8	£3k	174.2	54.8
Morton CofE Academy	20.8	£16k	43.5	11.6
Mount Street Academy	17.6	£11k	97.6	32.1
National CofE Junior	19.2*	£14k	71.5	23.9
Nettleham Infants Academy	19.1*	£7k	31.3	10.2
New York Primary	18.5*	£1k	16.7	5.3
North Kesteven School	18.7*	£65k	150.8	54.6
North Thoresby Primary	18.6		17.4	5.2
Poplar Farm School	17.2		21.2	7.0
Priory Federation of Academies	18.2		1,023.6	329.9
Rauceby CofE	19.6	£6k	29.6	8.6
Redwood Primary	20.5	£4k	39.9	11.3
Ruskington Chestnut Street	19.5	£22k	50.6	14.5
Seathorne Primary, Skegness	24.6	£16k	64.2	15.0
Sir Robert Pattinson Academy	18.8	£22k	190.9	59.9
Sir William Robertson	18.7	£25k	131.3	42.4

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Skegness Academy	18.4	£26k	199.8	65.1
Skegness Infant Academy	18.1	£11k	62.2	19.4
Skegness Junior Academy	18.7	£7k	73.4	21.6
Sleaford Carres Grammar	19.3*	£30k	165.4	60.1
Sleaford Our Lady of Good Counsel	17.9*		26.2	8.1
Sleaford St Georges	19.1		393.4	123.8
Sleaford William Alvey	18.9	£4k	85.2	25.3
Somercotes Academy	18.5	£28k	40.7	12.3
South Witham Community	20.6*	£7k	20.6	6.1
Spalding Academy	19.4	£59k	164.3	50.1
Spalding Grammar	19.6	£27k	131.0	40.8
Spalding Parish Church CofE	24.6	£3.7k	47.3	11.2
Spilsby Primary Academy	18.5	£10k	52.6	16.3
Springwell Lincoln City Academy	18.5	£10k	280.6	90.7
St Bernards Academy Louth	19.0	£59k	154.6	47.7
St Giles Academy	18.2	£29k	97.1	30.4
St John's Primary Academy	18.8	£16k	76.8	23.7
St Lawrence Academy	17.2	£30k	119.2	40.5
St Michaels CofE Primary	19.7	£9k	69.1	19.5
St Nicholas CofE Boston	25.5	£6k	39.1	8.6
St Norberts Catholic Primary	19.1	£1k	35.3	10.2
St Paul Community Primary	16.4	7.5%	10.0	3.3
S Thomas CofE Boston	19.2	£12.6k	83.8	25.6
Stamford Malcolm Sargent	18.5		148.8	46.1
Stamford St Augustines	18.8*	£3k	32.9	9.8
Stamford St Gilberts	18.6	£8k	44.7	13.5
Stamford Welland Academy	20.6		72.5	20.4
Tall Oaks Academy Trust	18.5	£9k	152.8	47.0
The Deepings Academy	19.7		237.4	71.8
The Gainsborough Academy	18.8		135.9	42.1
The Garth School	18.2	£24k	90.7	29.2
The Marton Academy	20.5	£5k	17.9	4.9
The Priory School	18.4	£19k	80.1	25.0
The Priory Pembroke	20.1	£15k	81.9	23.1
Theddlethorpe Primary Academy	21.5	£6k	21.6	5.7
Thomas Cowley Academy	19.0	£28k	141.4	46.2

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Thurlby Community Primary	23.8	£1k	6.2	1.5
Tower Road Academy	19.5	£17k	110.0	32.2
University Academy Holbeach	19.1	£40k	234.0	74.9
University Academy Long Sutton	23.3	£24k	106.8	27.8
Utterby Primary Academy	19.5	£1k	15.1	4.3
Waddington All Saints Primary	19.8	£7k	59.1	17.1
Wainfleet Magdalene Primary	18.5	£16k	59.5	17.8
Warren Wood Specialist	19.5	£34k	90.2	26.3
Washingborough Academy	19.3		59.4	17.6
Welton William Farr CE	19.2	£49k	235.2	70.1
Welton St Mary's CofE	18.8	£1k	45.2	14.4
West Grantham Federation	18.6	£11k	221.4	70.6
Weston St Mary	16.3	£1k	5.6	1.9
Whaplode CofE Academy	19.9	£4k	44.0	12.5
William Lovell Academy	19.9	£29k	62.6	17.8
Willoughby School Bourne	18.2		86.7	27.6
Witham St Hughs Academy	17.6	£4k	54.0	17.8
Woodhall Spa St Andrews	17.8	£5k & 0.5%	50.1	15.4
Woodlands Academy Spilsby	19.9	£34k	48.0	14.1
Wyberton Primary School	19.5	£12k	46.4	13.3
<b>ADMITTED BODIES</b>				
Active Lincolnshire	21.9	£3k	21.3	7.1
Active Nation	26.9	£6k	12.3	2.8
Adults Supporting Adults	29.1*		12.6	2.5
Aspens Services	31.7		6.8	1.3
Caterlink	32.2		13.0	2.2
Compass Contract Services (UK) Ltd	30.2		21.9	4.1
Consultant Services Ltd	28.4		0.3	0.1
Danfo	31.1		12.1	2.3
Easy Clean Contractors (Baston)	37.3		2.5	0.4
Easy Clean Contractors (Linchfield)	30.4		1.5	0.3
Edwards & Blake	25.9	£5k	8.9	2.1
Future Cleaning Services	29.1		5.2	1.0
G4S (for rate see Police pool)			651.6	255.0
Greenwich Leisure Limited	29.0		377.9	95.9
Kier	26.3		194.5	50.1

Employer	Primary Rate	Secondary Rate	Contributions received £k	
	%	(% or £k)	Employer	Employee
Lincoln Arts Trust	25.6*		15.6	4.1
Lincoln BIG	22.3*		8.8	2.5
Lincolnshire Home Independence Agency	23.8	£9k	10.5	3.3
Lincolnshire Housing Partnership	26.2	£115k	92.8	29.8
Magna Vitae Leisure Trust	14.9		247.0	104.5
Making Space	22.0		11.5	3.1
Mellors Catering Services	29.2		18.4	3.9
Nightingale Cleaning Ltd	30.4		1.3	0.2
Outspoken Training	31.5		1.4	0.4
Person Shaped Support	23.9		1.4	0.3
Platform Housing Group	26.0*	£659k	290.4	81.9
Serco	16.4	7.5%	625.6	168.8
Taylor Shaw (Branston)	31.3		11.6	2.1
Vinci	28.8		9.9	2.2

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

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

The timely receipt of contribution payments and data submissions is monitored closely. Late payers (either in paying cash or in submitting data after the Funds deadline of the 19 of the month following payroll, or where the two elements do not agree) are reported quarterly to both the Pensions Committee and the Pension Board.

A policy is in place to fine employers where they are late in three of any six months over a rolling period, to cover additional administrative costs. However the Fund and its administrator work closely with employers to ensure that employers understand their responsibilities and the processes required to meet them. Over the year to 31 March 2020 there were 18 fines raised to employers.





# Asset Pooling

## Introduction

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

- a. Benefits of scale - a minimum asset size of £25bn;
- b. Strong governance and decision making;
- c. Reduced costs and value for money; and
- d. Improved capacity to invest in infrastructure.

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

## Lincolnshire Pension Fund's Solution

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

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

The new entity was created by the partner funds, with experts appointed to ensure the structure would meet the needs of the Funds, the requirements of the Financial Conduct Authority (FCA) and the criteria set by Government.



## Border to Coast Pensions Partnership

Border to Coast Pensions Partnership Ltd (Border to Coast) went live in July 2018 as a fully regulated asset management company, jointly owned by the twelve partner funds' administering authorities, with each Fund having an equal share in the company. Its role is to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions. Border to Coast is based in Leeds and has over 70 employees. This includes a large team to directly manage assets, alongside a team to select external managers. As an FCA regulated company, Border to Coast has to comply with all the requirements that any other asset manager has to, and is subject to company legislation.

## Oversight and Governance

Border to Coast has twelve LGPS partner funds – Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, Northumberland, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire, with assets in excess of £45bn as at March 2020. The Chairs of the Pensions Committees of these funds sit on a Joint Committee, to exercise oversight of the investment performance of the company and report back to, and take feedback from, the various Pensions Committees. In addition there is a scheme member representative that has a non-voting seat on the Joint Committee, who is nominated by the twelve Partner Funds' Local Pension Boards. The Joint Committee represents the Funds as investors in Border to Coast. As Border to Coast is jointly owned by the administering authorities of the Pension Funds, there is also a shareholder role that the authorities provide, and the responsibilities are all set out in a shareholder agreement. Pension Fund Officers provide day-to-day oversight and work closely with Border to Coast to ensure that the company provides the investment vehicles the funds need to implement their investment strategies.

## Asset Transitions

As at 31 March 2020, the Lincolnshire Fund had transitioned assets into two sub-funds. The first transition took place in October 2019, when approximately £420m was transferred from three global equity managers (Columbia Threadneedle, Morgan Stanley and Schroders) to the Border to Coast Global Equity Alpha sub-fund. In February 2020 the second wave of assets was transitioned, with approximately £190m transferring from a passive bond portfolio managed by Blackrock to the Border to Coast Investment Grade Credit sub-fund. Further transitions are expected in 2020/21 into the UK Equity sub-fund and the Multi Asset Credit sub-fund.

## Border to Coast set-up and running costs

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

	Direct £000's	Indirect £000's	2019/20 Total £000's	Since Inception Cumulative £000's
Recruitment				17.1
Legal				26.6
Procurement				36.2
Other support (e.g. IT)				2.0
Share purchase				833.3
Other working capital				
Staff costs				61.9
Other costs				41.3
<b>Total Set-up Costs</b>				<b>1018.4</b>
Governance		193.7	193.7	364.7
Implementation				239.4
Development		24.2	24.2	24.5
AUM		61.9	61.9	74.1
<b>Total Running Costs</b>		<b>279.8</b>	<b>279.8</b>	<b>702.7</b>
<b>Total Costs to Date</b>				<b>1,721.1</b>

\*where assets have not yet been transitioned, AUM is a notional figure based on asset allocation

The costs identified above have been incurred as a result of creating Border to Coast in order to meet the Governments requirements, in a way suited to the core principles that the Fund and the partner funds agreed at the beginning of the pooling process. As stated above, there have been two transitions into Border to Coast Funds so far, but neither funds have been in place for one year yet (just five months and 1 month). As such, no material savings have been made. It is expected to be able to report on savings once these funds have been running for one year. However it is expected that, over the medium to longer term, investing with Border to Coast will create fee savings through reduced manager turnover and improve net of fee performance.

### Border to Coast contact details:

Border to Coast Pensions Partnership  
5<sup>th</sup> Floor, Toronto Square, Leeds, LS1 2HJ

More information can be found at their website at [www.bordertocoast.org.uk](http://www.bordertocoast.org.uk)



# Annual Report of the LGPS Local Pension Board 2019/2020

## Introduction

I am pleased to present the report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2019/2020.

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

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

## Purpose

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

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

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

## Constitution and Membership

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

- **Independent Chair** (non-voting)  
Roger Buttery
- **2 Employer Representatives** (both voting)  
Councillor Mark Whittington (Lincolnshire County Council)



Kirsty McGauley (Grantham College) – until July 2019  
Gerry Tawton (Boston College) – from July 2019

- **2 Member Representatives** (both voting)

David Vickers

Ian Crowther – until July 2019

Kim Cammack – from July 2019

After serving four years on the Board, Kirsty McGauley and Ian Crowther were replaced with Gerry Tawton and Kim Cammack, respectively.

Three meetings were held within the period – 18 July and 3 October 2019, and 9 January 2020. Unfortunately, the meeting scheduled for the 19 March was cancelled as a result of the coronavirus restrictions. As a result of the short notice, there was insufficient time to make alternative arrangements for a virtual meeting. If the lockdown continues, the Board will look to make alternative arrangements to ensure that quarterly meetings can continue to be held.

All the Board Members have completed the Pension Regulator’s Public Service toolkit. All the Board Members have also attended a variety of externally organised conferences and seminars throughout the year as well as two internal training sessions on “Investment Beliefs and Update on Investment Strategy” and “Border to Coast UK Internal Equity Sub-Funds, Property & Residential Estate”.

## The Work Programme

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

The eleven elements of the Code are:

- a) Reporting duties;
- b) Knowledge and understanding;
- c) Conflicts of interest;
- d) Publishing information about schemes;
- e) Managing risk and internal controls;
- f) Maintaining accurate member data;
- g) Maintaining contributions;
- h) Providing information to members and others;
- i) Internal dispute resolution;
- j) Reporting breaches of the law; and
- k) Scheme advisory board.

A checklist of 99 items covering the above was produced in a traffic lights format. It is pleasing to report that Lincolnshire was largely compliant throughout the year. As at March 2020, there were



95 green and 1 not relevant. There were 3 partially compliant because certain aspects are outside direct control. The Board considered that the compliance to tPR's Code was very good.

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

At each meeting during the year, the BDM was questioned on the data scores as reported to tPR. At the January meeting, the scores were Common data 96.12% and Scheme Specific data 85.69%. The target is 100%, particularly for Common data. The Board continues to monitor WYPF's progress against an agreed data improvement plan including engaging the services of a tracing company in an attempt to track lost members.

The Board also noted that 99.6% of the Annual Benefit Statements had been issued to members by the statutory deadline. This was considered to be an excellent achievement. Although there is a concern over meeting the tPR's targets on data quality, overall, the Board's conclusion was that the administration continues to be sound.

At each meeting, the Board considered a report from the Head of Pensions on any current issues within the fund including investment matters and the employers' monthly submissions and contribution monitoring. As regards the latter, the Pensions Team remain content that the processes in place to monitor contributions are robust and at least as comprehensive as other LGPS Administering Authorities. I wrote to all employers and payroll providers in November 2019 reminding them of their statutory responsibilities for providing information to the Pension Fund as well as paying the contributions by the due date. The Pensions Team revisited its escalation processes to ensure that any issues are addressed at the earliest opportunity. For the vast majority of employers, the payment of contributions and the data submissions are made on a timely basis but there are a few outliers. During the year, there were 44 cases of the late payment of contributions and 143 cases of the late submission of the monthly returns. This is both disappointing and unacceptable but there is a recognition that it is important to work with the employers to attempt to resolve issues before taking further action. Efforts will therefore continue to remind employers/payroll providers of their duties and responsibilities through individual contact either in person, by email or telephone. The Board will keep this issue under close review.

The Board also took a keen interest in progress with the 2019 triennial actuarial valuation, including the assumptions to be used in the process. The Scheme Actuary gave a presentation at the October meeting on progress of the valuation, the initial results for the whole fund, the funding strategy and the next steps.

At the July meeting, consideration was given to the Pension Fund's draft Annual Report & Accounts for 2018/2019 which had been approved by the Pensions Committee on 18 July, 2019. The Board subsequently received a report from Mazars giving their opinion on the Pension Fund Accounts and Annual Report. The External Auditors had not identified any risks with regard to the management override of controls; valuation of unquoted investments for which a market price was not readily available; and key areas of managed judgements. The Board noted that Mazars had identified one unadjusted mis-statement, which was linked to the valuation of private equity and infrastructure

assets at the year end. It transpired that this unadjusted mis-statement occurred every year because of a time-delay in obtaining the data. The Fund’s accounting policy has been updated to address this issue. An unqualified audit opinion was issued on the Pension Fund Statement of Accounts. The Board concluded that the Report and Accounts was an excellent document.

Consideration was given to the Regulator’s “Governance and Administration Risks in Public Service Pension Schemes Engagement Report” which was a deep dive into the administration and governance of ten local government pension scheme funds. The good news is that the Lincolnshire Pension Fund was already delivering the key recommendations to a large extent.

Following her national and European successes last year, it is a pleasure to report that the Head of Pensions received the Outstanding Contribution of the Year Award at the LAPF Investment Awards. This is another excellent achievement for both Jo Ray and the Lincolnshire Pension Fund.

### Conclusion

This is the fifth report of the Board. The Board considers the governance and administration of the Scheme to be sound. Lincolnshire’s compliance to the vast majority of tPR’s Code of Practice is particularly impressive. The Report and Accounts for 2018/2019 was an excellent document and there was an unqualified audit report. The Board will continue to monitor the national initiatives and LGPS pooling arrangements as the proposals unfold.

The Board would like to express its thanks to Jo Ray, Head of Pensions, her Team and the staff of the WYPF for the huge amount of work undertaken during the year. I should also like to record my thanks to both Kirsty McGauley and Ian Crowther for the hard work and support during their four-year term on the Board. Finally, I should like to thank the four Board Members for their considerable input and support during the year.

Roger BATTERY  
Pension Board Chair  
April 2020

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

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

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



# Lincolnshire County Council Pension Fund

## Actuarial Statement for 2019/20

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

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 19 March 2020. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 71% likelihood that the Fund will achieve the funding target over 20 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,353 million, were sufficient to meet 93% of the



liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £183 million.

Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund’s funding policy as set out in its FSS. Contributions have the aim of achieving full funding within an appropriate time horizon and with an appropriate likelihood of success.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### Method

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

#### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.4 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

\* aged 45 at the 2019 valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in volatile market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Prepared by **Gemma Sefton FFA**  
For and on behalf of Hymans Robertson LLP  
19 May 2020

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

# Investment Background

## Returns for Major Markets

The twelve months to 31 March 2020 produced a split of returns asset classes, with equities suffering particularly badly in the last quarter of the year due to the coronavirus pandemic.

Equity market returns were all negative, ranging from -18.5% in the UK to -2.2% in the US.

Bond asset returns were positive, with UK Gilts and Index Linked Gilts returning 9.9% and 2.2% respectively, and UK Corporate Bonds remaining flat.

UK Commercial Property returns were flat over the year.

## Investment Returns to sterling based investors 1 April 2019 to 31 March 2020

Asset Class	Index	Index return to sterling investors %
<b>Equities</b>		
United Kingdom	FTSE All Share	(18.5)
Global Equities	FTSE World	(6.2)
United States	S&P 500	(2.2)
Europe ex UK	FTSE Developed Europe	(7.8)
Japan	TOPIX	(2.5)
Emerging Markets	FTSE Emerging	(13.0)
<b>Fixed Interest</b>		
UK Gilts	FTSE UK Gilts	9.9
UK Index Linked Gilts	FTSE Index-Linked	2.2
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	0.0
UK Commercial Property	IPD Index	0.0
Cash	LIBID Seven Day Rate (compounded)	0.5

## World Equity Markets

Global equity markets reported losses over the twelve months to March 2020 (in GBP terms), with US equities outperforming their European counterparts.

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



## Quarter 2 2019

In the second quarter of 2019, global stock markets ended in positive territory. While markets performed well in April and June, the month of May recorded a negative performance. Continued fears of a trade war between the US and China weighed on markets mid-quarter as the US threatened increased tariffs and accused China of backpedaling. In June, international markets rose steadily, soothed by an improving outlook for global economic growth, the prospect of resolving US-Sino trade relations and a more accommodative monetary policy.

## Quarter 3 2019

Continuing its bull run, equity markets started slightly positive into the second half of 2019. While markets posted gains in July they tumbled significantly in August. September saw a recovery that was able to offset the losses. Fears of trade war were still in place, however, stocks benefitted from an accommodative central bank policy which saw the restart of the quantitative easing (QE) in Europe and further rates cuts by the US Federal Reserve.

## Quarter 4 2019

Finally, equity markets finished off the calendar year in positive territory amid receding fears of a global recession. The optimistic environment helped ease concerns that global economic growth was losing momentum. This trend continued, as policies from central banks remained supportive and investors expected that low interest rates would be in place for longer. Finally, with an agreement of the phase one trade deal and an emphatic victory for the UK's Conservative Party, global equity markets saw a positive December and ended the year of 2019 with substantial gains.

## Quarter 1 2020

After the long bull run, equity markets experienced a sell-off at the start of 2020 where global stocks ended in slightly negative territory during the first month of the year. Even though the new year began with strong market performance, due to positive macro-economic data, this positive news was dampened by the outbreak of a deadly virus in China, the coronavirus. China imposed lockdowns on different cities and regions around the source of the disease with possible effects on the global supply chain. In the UK, Brexit finally happened but still many questions around the future relationship between the UK and Europe remained open. The transition phase in order to get a proper deal between the two parties would last a minimum of one full year. Stocks worldwide kept falling in the following months due to the fact that the spread of the coronavirus was now also accelerating outside of China. Therefore all equity market sectors saw a decline with the worst hit being the most cyclical parts of the market. Sentiment got increasingly worse and market participants flocked towards perceived 'safe haven' assets. Core government bonds and commodities such as gold were the main beneficiaries against this backdrop, with government bond yields across several countries reaching new lows and gold surging to near all-time highs. Central banks reacted to the outbreak and said that they would consider policy measurements to respond to a possible economic slowdown.

These developments finally peaked in March where global equity markets marked one of the worst months in history, as the human and economic cost of the Covid-19 pandemic mounted. In addition to the market uncertainty, oil prices sunk to historical low levels as the OPEC and Russia could not agree on the amount of supply.



Central banks around the world delivered on their statements and took aggressive action to support local markets, as well as the global economy as a whole, as world-wide recessionary fears grew. The US Federal Reserve (Fed) slashed interest rates close to zero while the Senate passed a US\$2 trillion coronavirus aid bill. Separately, in an emergency meeting, the European Central Bank (ECB) announced €750bn in asset purchases under a new emergency program.

## Fixed Interest

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

### Q2 2019

Amid continuing trade tensions and economic growth worries, government bonds benefited from supportive comments from global central banks. US Treasuries rallied strongly as markets priced-in up to three Fed interest rate cuts over the next year. The ECB was increasingly expected to cut interest rates too. It had indicated it would also initiate a new asset-buying programme. This helped regional government bonds. German bunds performed well over the period. The 10-year yield plummeted to a new negative record-low (prices climbed). Meanwhile, UK government bonds rose, partly on the back of increased fears of a 'no-deal' Brexit.

Global corporate bonds continued to rally in the second quarter. While credit spreads tightened modestly, the more important driver was a sharp reduction in Treasury yields. In particular, the 10-year US Treasury yield fell by more than 0.4% to 2%, in line with priced in US interest rates cuts in the next 12 months. On the trade front, President Trump's unexpected decision to increase China import tariffs again in early May hurt sentiment. However, in the final few days of June, the US and China announced a new 'truce' in the trade war at the G20 summit.

### Q3 2019

Global government bond indices posted gains over the quarter. In August, prices in the 'core' markets of the US, Germany and the UK moved sharply higher. This was in reaction to a variety of concerns. Chief among them was the threat of global recession and anxiety over the escalation of the US-China trade dispute. Politics also played a part, including turmoil in Italy and the on-going Brexit saga in the UK. During September, US Treasuries reversed direction, delivering their worst monthly performance in a year. The catalyst was a reassessment by the Fed of its outlook for interest rates. While there was a 0.25 percentage point cut mid-month, in the accompanying statement the Fed said it anticipated no further rate cuts in 2019.

Global corporate bonds continued to rally in the third quarter, driven by a sharp reduction in US Treasury yields (prices rose). In particular, the 10-year yield fell by a further 0.33% to 1.67%. This was a substantial 1.4% lower than a year earlier and reflected growing economic concerns. As a result, corporate bonds were seen as a more attractive investment than Treasuries. It was a similar story in Europe, where increasingly negative German bund yields were the main positive driver of European corporate bond returns.



## Q4 2019

Global government bond yields rose, and prices fell. In October, an increase in UK gilt yields reflected heightened expectations that the country would avoid a no-deal Brexit. During November, the main influence on markets was the prospect of a thaw in the trade war between the US and China. Government bond prices continued to fall in December. As investors became more optimistic about the world's economic prospects, they moved into riskier assets that were expected to deliver better returns. As a result, they shunned defensive assets such as government bonds.

Global corporate bonds were up for the quarter, thanks to a number of factors. US and Eurozone manufacturing business surveys picked up a little over the period, albeit remaining weak. Additionally, overall US employment held up well, with 200,000 jobs added in November. On the political front, a 'phase one' US-China trade deal was positive for sentiment, as was the Conservative Party's emphatic UK election victory. These were all good for risk assets such as corporate bonds.

## Q1 2020

Global government bond yields fell sharply, and prices rose. This was caused primarily by the coronavirus outbreak, and fears over the resultant potential damage to global economic growth. As a consequence, investors sold equities and other risk assets, instead electing to channel their money into the perceived safety of global government bonds. Central banks across the world cut interest rates and initiated stimulus programmes to mitigate the economic effects of Covid-19, and yields moved to historic lows in major government bond markets.

Like most other risk assets, global corporate bonds had a torrid time in the first quarter. While returns were still positive for most of the first two months, performance became markedly more negative from late-February onwards. This reflected the growing realisation of the hugely damaging economic consequences of the escalating coronavirus pandemic. By the end of March, analysts expected most leading global economies would experience very sharp recessions in 2020. With default risks on global bonds jumping, March saw a huge widening in corporate bond spreads. This led to one of the worst monthly performances on record, which severely impacted quarterly returns.

## UK Commercial Property

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

### Q2 2019

It was a fairly subdued quarter for UK commercial real estate. While total returns remained positive, the market has slowed as real estate transactions have been relatively weaker. Heightened macroeconomic uncertainty and no clear Brexit solution created a state of inertia in the market. Given these challenges, investors had been trying to de-risk their commercial real estate allocations. Industrials remained the best-performing sector, although returns slowed here too. As at the end of May, returns from industrials in the South East had more than halved from a year ago.



### Q3 2019

Total returns at an 'all property' level remained positive, but UK commercial real estate weakened further this quarter. While a summer lull was not abnormal, transaction volumes were particularly low. The weaker deal flow continued into September. Prolonged macroeconomic and political uncertainty was stifling market activity and affecting investor sentiment. A wide spread of returns at the sector level persisted, with retail in negative territory and industrials significantly outperforming – especially in the South East.

### Q4 2019

The UK commercial real estate market remained on a similar trajectory for most of the year. The annual All Property total return for 2019 was significantly lower than that recorded in 2018. Investors were reducing risk in their real estate portfolios in response to weaker economic growth forecasts and lower future returns. There was still a strong appetite for long lease agreements secured against strong covenants and prime assets, as investors sought stable income streams. However, there was more caution over secondary assets with vacancy, capital expenditure requirements, development risk, tenant turnover or other looming risk events.

### Q1 2020

It was a slow start to the year for UK property, with transaction volumes quickly losing steam following the outcome of the December 2019 general election. According to the MSCI Monthly Index, total returns in January and February were 0.3%. That said, the performance figures were yet to reflect the significant impact of the Covid-19 pandemic and the economic disruption from containment measures put in place by the government. Lending against real estate assets was slowing dramatically and the issuance of new debt was grinding to a halt.



## Administration of Benefits

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

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

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

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

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

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



## Key Service Performance Indicators and Direction of Travel

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken	Travel
AVC in-house	375	10	367	85	97.9	1.3	↑
Age 55 Increase	9	20	7	85	77.8	18.6	↔
Change of address	1,279	5	1,244	85	97.3	0.7	↑
Change of bank details	361	5	313	85	86.7	2.8	↓
Death grant nomination received	3,869	20	3,829	85	99.0	3.8	↑
DWP request for information	65	10	61	85	93.4	4.1	↓
Death grant set up	109	5	106	85	97.3	1.1	↑
Death in retirement	575	5	539	85	93.8	2.3	↑
Death in service	20	5	17	85	85	2.3	↓
Death in deferment	42	5	39	85	92.9	5.3	↑
Deferred benefits into payment – actual	1,781	5	1,486	90	83.4	3.2	↓
Deferred benefits into payment – quote	2,095	35	2,029	85	96.9	6.7	↑
Deferred benefits set up on leaving	4,243	10	3,918	85	92.3	8.8	↓
Divorce quote	206	20	202	85	98.1	4.2	↑
Divorce settlement – pension sharing order implemented	5	80	5	100	10	0.4	↔
Estimates for deferred benefits into payment	48	10	41	90	85.4	6.4	↑
General Payroll Changes	525	5	509	85	97.0	1.6	↑
Initial letter death in service	20	5	20	85	100	1	↔
Initial letter death in retirement	575	5	570	85	99.1	1.3	↑
Initial letter death in deferred	42	5	40	85	95.2	2.4	↑
Life certificate received	2	10	1	85	50	10	↓
Monthly posting	3,469	10	3,344	95	96.4	1.8	↑
NI adjustment at state pension age	33	20	32	85	97.0	13.8	↓
Pension estimate	618	10	520	75	84.1	6.5	↓
Refund payment	1,002	10	985	95	98.3	1.0	↑
Refund quote	1,282	35	1,237	85	96.5	5.1	↑

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken	Travel
Retirement actual	663	3	613	90	92.5	1.0	↓
Spouse – set up new pension	287	5	262	85	91.3	4.4	↑
Spouse potential	38	20	37	85	97.4	6.1	↑
Transfer in payment received	190	35	182	85	95.8	11.5	↑
Transfer in quote	236	35	234	85	99.2	2.9	↓
Transfer out payment	99	35	92	85	92.9	11.4	↑
Transfer out quote	487	20	431	85	88.5	10.7	↑

As can be seen from the table above, overall performance has generally met or exceeded targets (green direction of travel arrow). Those areas that have a red direction of travel arrow are where the performance target has not been met, however in two of those cases the performance has improved or remained the same (Estimates for deferred benefits into payment and Age 55 Increase).

The only two areas where performance has worsened from last year and targets have not been met are shown below, and neither has provided the Fund with any cause for concern:

- Estimates for deferred benefits into payment – This has improved from last year's performance of only 64% and now stands at 85%. Whilst it is still slightly behind the target of 90% the improvement over the year is considerable.
- Life certificate received – there were only two received in the year and one was over the target, causing the performance to drop to 50% from 88% last year when a larger number were received.

### Industry standard performance indicators

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

Industry Standard Performance Indicators	Target days	Achieved %	National average %
Letter detailing transfer in quote	10	99.7	83.8
Letter detailing transfer out quote	10	77.6	84.4
Process and pay refund	5	97.8	94.1
Letter notifying estimate of retirement benefit	10	84.0	79.3
Letter notifying actual retirement benefit	5	92.8	87.0

Industry Standard Performance Indicators	Target days	Achieved %	National average %
Process and pay lump sum retirement grant	5	98.9	89.0
Letter acknowledging death of a member	5	95.7	87.8
Letter notifying amount of dependants benefit	5	96.9	84.8
Calculate and notify deferred benefit	10	90.2	75.3

## New Pensions Paid

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

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

New pensions paid	2019/20 Member numbers
<b>Active Status</b>	
Normal	239
Early	380
Late	85
Ill health	28
Redundancy	28
<b>Total active</b>	<b>760</b>
<b>Deferred status</b>	
Normal	513
Early	1,136
Late	15
Ill health	10
<b>Total deferred</b>	<b>1,674</b>

## Pension Overpayments

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

Overpayments	2019/20 £'000
Annual payroll	80,400
Overpayments value	48
Overpayments written off	2
Overpayments recovered	40

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

Analysis of overpayments	2019/20 Number of payments
Pensions paid during period	297,587
Cases overpaid	43
Cases written off	8
Cases recovered	33

## Fraud Prevention – National Fraud Initiative

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

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

Pensioners, beneficiaries and deferred members	No. of records sent	No. and percentage of mismatches	Over payments identified	Possible frauds	Mismatches carried forward at 31 March
2019/20	277,293	3,845 1.4%	17	2	10
2018/19	260,387	3,339 1.3%	3	2	2
2017/18	229,994	518 0.2%	35	2	10
2016/17	224,122	1,425 0.6%	5	4	5
2015/16	219,313	868 0.4%	61	3	10

## Value for money - Cost per member

The latest published data (2018/19) for all LGPS funds administration costs shows that LPF pensions administration cost per member is £14.12, the 4th lowest cost amongst 88 LGPS funds and well below the national average of £20.28

In 2018/19 LPF had a below average total cost per members (administration, investment and oversight & governance) at £137.91, the national average for LGPS in 2018/19 is £222.27.

Cost per member 2018/19	Position	Lincolnshire Pension Fund	LGPS Lowest	LGPS Highest	LGPS Average
Administration	4 <sup>th</sup>	£14.12	£1.61	£60.98	£22.28
Investment	19 <sup>th</sup>	£118.02	£16.53	£566.69	£189.59
Oversight and governance	20 <sup>th</sup>	£5.77	£0.00	£42.19	£10.39
<b>Total Cost per member</b>	<b>13<sup>th</sup></b>	<b>£137.91</b>	<b>£34.46</b>	<b>£634.93</b>	<b>£222.27</b>

The 2019/20 annual cost of administering the Lincolnshire Pension Fund per member is £16.88, investment management cost per member is £137.78, oversight and governance cost per member £7.83 and the total management cost per member is £162.49. These figures compare favourably with the average cost for authorities in the MHCLG – SF3 results for 2018/19 as shown in the table above.

## Staffing

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

Shared service staff full time equivalent (FTE)	2016/17	2017/18	2018/19	2019/20
Service Centre	54.7	58.1	59.5	54.8
Payroll	16.6	19.0	17.6	16.1
ICT	12.6	13.7	14.4	15.4
Finance	14.0	16.0	14.5	12.0
Business support	26.0	27.4	28.8	28.4
Technical	4.5	3.9	4.9	4.9
<b>Total</b>	<b>128.4</b>	<b>138.1</b>	<b>139.7</b>	<b>131.6</b>



## Key activities undertaken during the year

### Employer workshops

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

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

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

### Workshop on 'Planning for a positive retirement'

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

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

### Pension Increase

Each year, LPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred members benefits are also increased by CPI. For the 2019/20 year an increase of 2.4% was applied on 8 April 2019.

### Pension administration and cost

As in previous years, the workload for pension administrators continued to increase and member numbers continue to rise across the shared service with WYPF.

The shared service delivery continues to be underpinned by its accreditation to the International Organisation for Standardisation - ISO 9001:2000. The quality management systems ensure that the shared service is committed to providing the best possible service to customers, and will continue to ensure that it delivers best value to all stakeholders. The latest published data for all LGPS funds

administration costs shows that LPF pensions administration cost per member is £14.12, this is the 4<sup>th</sup> lowest cost amongst 88 LGPS funds and well below national average of £22.28

### Accreditation

The shared service partnership achieved accreditation for ISO27001 Information Security Management System Certification (ISMS). This accreditation is particularly important to the shared service and highlights the continued commitment to information security and provides assurance to all partners that their data and reputation is protected.

### Communications

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

All annual pension benefit statements for active and deferred members were produced on time giving members information on their benefits accrued to date and what their potential benefits will be at retirement age, as well as other useful information. Positive feedback was received from members with the new inclusion of information on pensions payable at ages 55, 60, 65 and state pension age, which included any reduction for early payment.

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

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

### MyPension

With the shared services 'MyPension' service (accessible on the shared website) members can view their pension record and statements, update personal details, tell us they've moved house and more. Members are being encouraged to sign up as the service moves to more online communications.

### Data quality

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

Current data quality figures for LPF are shown below:

Common data field	Data score %
Forename	100
Surname	100

Membership status	99.9
Date of birth	100
NI number	99.9
Address	96.1
Postcode	99.9

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

### Disaster recovery and risk management monitoring

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

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

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

### Customer satisfaction

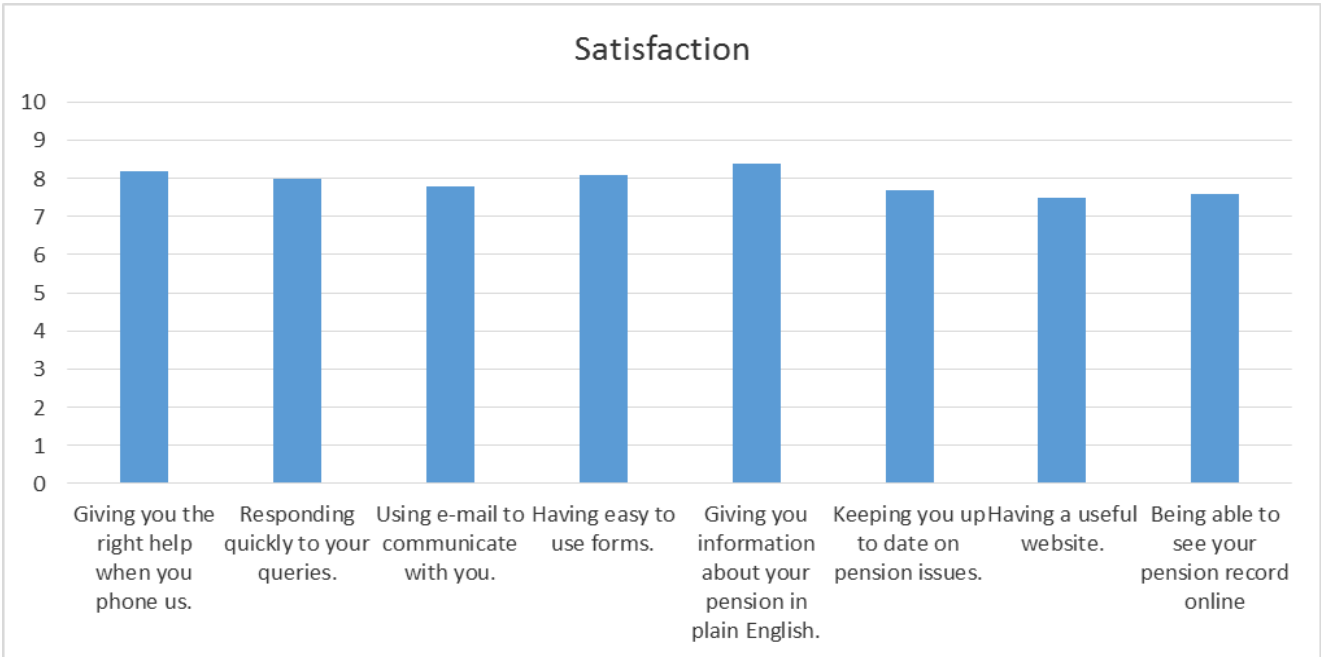
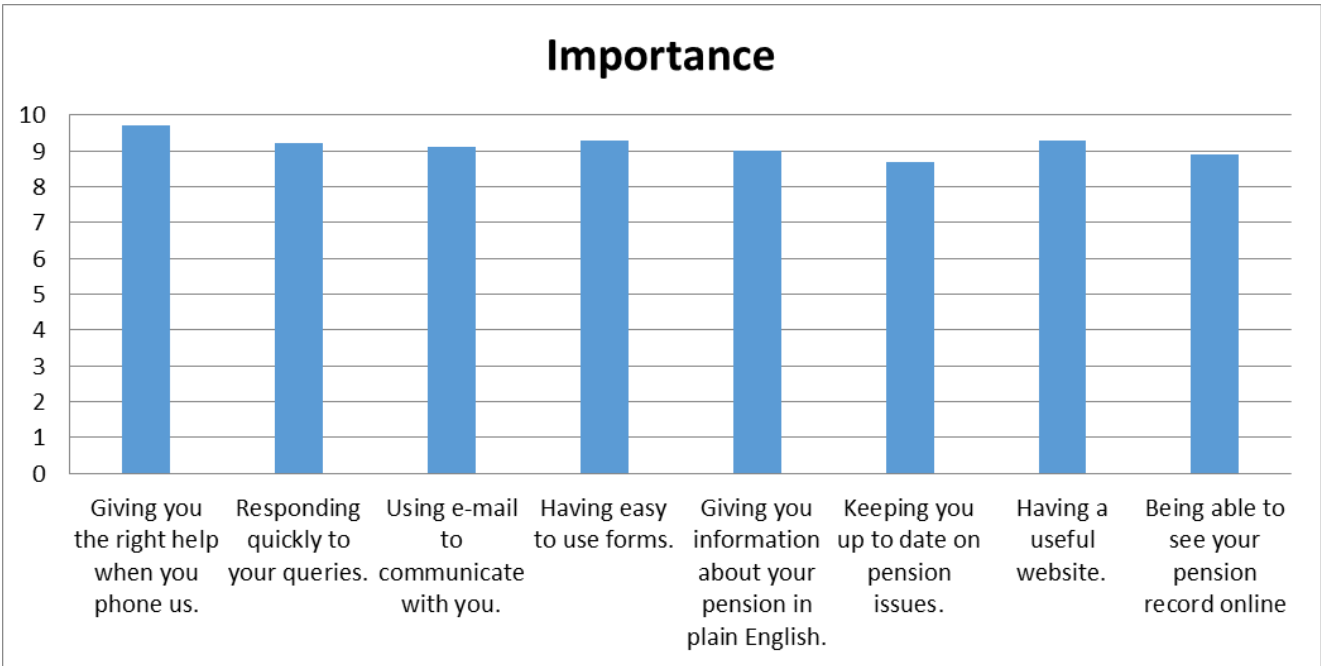
Customer surveys are regularly sent to a sample of scheme members that have contacted the service centre or been involved in an event (e.g. retirement). In addition, the website has an online form for completion to obtain feedback.

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



April – June 2019	July - Sept 2019	Oct - Dec 2019	Jan - March 2020
83.5%	87.9%	84.5%	78.7%

The charts below show how members rate the importance of and satisfaction with the various services described below:



## Summary of LGPS Contributions and Benefits

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

### Membership from 1 April 2014

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

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

### Contributions

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

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



## Benefits

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

## Annual Pensions

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

## Lump Sum Payments

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

## Ill Health Retirement

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

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

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

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

## Death-benefits

Death in service attracts a tax free lump sum of three times final pensionable pay. An annual pension is payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and co-habiting partners pensions are based on post 5 April 1988 membership only. If a member dies within ten years of their retirement (or up to age 75), a



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

## Supplementary Pensions

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

## Membership from 1 April 2008 to 31 March 2014

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

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

## Contributions

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

## Benefits

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

## Annual Pensions

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



## Lump Sum Payments

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

## Ill Health Retirement

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

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

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

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

## Death-benefits

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

## Supplementary Pensions

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



## Membership up to 31 March 2008

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

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

### Contributions

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

### Benefits

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

### Annual Pensions

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

### Lump Sum Payments

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

### Ill Health Retirement

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

### Death-benefits

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

## Supplementary Pensions

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

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

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



# Pension Fund Knowledge and Skills Policy and Report

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

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

The Executive Director - Resources is the delegated officer responsible for ensuring that policies and strategies are implemented.

## Activity in 2019/20

A full training plan was taken to Pensions Committee in July 2019 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

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



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

Date	Subject matter	KSF area(s)
<b>13 June 2019</b>		
Reports	External Manager Presentations	4,5
<b>18 July 2019</b>		
Reports	Independent Advisor Market Update	4,5
	Pension Board Report	1
	Fund Update	1,3,4
	Pensions Administration Report	1
	Employer Monthly Submissions Report	1
	Investment Management Report	4,5
	Annual Property and Infrastructure Report	1,4
	Risk Register Annual Review	1
	Internal Audit Report	2
	Annual Training Plan and Policy	1,4,5
	Draft Annual Report and Accounts	1,2
	2019 Valuation Assumptions	1,6
<b>3 September 2019</b>		
Training	Investment and Responsible Investment Beliefs	1,4,5
<b>3 October 2019</b>		
Reports	Independent Advisor Market Update	4,5
	Pension Board Report	1
	Fund Update	1,3,4
	Pensions Administration Report	1
	Employer Monthly Submissions Report	1
	Investment Management Report	4,5
	Performance Measurement Annual Report	4
	Pension Fund External Audit Report	2
	Investment Beliefs Report	1,4,5
	2019 Valuation Update	1,6
	Draft Funding Strategy Statement	1,6
<b>10/11 October 2019</b>		
Training	Border to Coast Annual Conference	1,3,4,5
<b>12 December 2019</b>		
Reports	External Manager Presentation	4,5

Date	Subject matter	KSF area(s)
9 January 2020		
Reports	Independent Advisor Market Update	4,5
	Pension Board Report	1
	Fund Update	1,3,4
	Pensions Administration Report	1
	Employer Monthly Submissions Report	1
	Investment Management Report	4,5
	Border to Coast RI and Corporate Governance Voting Policies	1,4
	Manager Presentation	4,5
13 February 2020		
Training	Investments – UK Equity and Property	4,5
19 March 2020		
Reports	Independent Advisor Market Update	4,5
	Pension Board Report	1
	Fund Update	1,3,4
	Pensions Administration Report	1
	Employer Monthly Submissions Report	1
	Investment Management Report	4,5
	Funding Strategy Statement and Valuation Report	1,6
	Fund Policies Review	1,4
	Annual Accounting Policies Review	2
LPF Business Plan 20/21	1	

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

## Committee Meeting Attendance 2019/20

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

	June 19	July 19	Sep 19	Oct 19	Dec 19	Jan 20	Feb 20	Mar 20*
Cllr E W Strenziel (Chairman)	✓	✓	✓	✓	✓	✓	✓	
Cllr P E Coupland (Vice Chairman)		✓	✓	✓	✓	✓	✓	
Cllr B Adams	✓	✓	✓	✓	✓	✓	✓	
Cllr R D Butroid	✓	✓			✓	✓		✓
Cllr P Key	✓	✓	✓		✓			
Cllr C Perraton-Williams	✓	✓		✓	✓	✓		✓
Cllr S Rawlins	✓				✓			✓
Cllr Dr M E Thompson	✓	✓		✓	✓	✓	✓	
Cllr J Summers (to Oct '19)		✓	✓		n/a	n/a	n/a	n/a
Cllr R Waller (from Oct '19)	n/a	n/a	n/a	n/a	✓	✓	✓	
J Grant (to Jul '19)				n/a	n/a	n/a	n/a	n/a
S Larter (from Oct '19)	n/a	n/a	n/a	✓	✓		✓	✓
A Antcliff	✓	✓	✓	✓	✓	✓	✓	
<b>Total Attendance</b>	<b>8</b>	<b>9</b>	<b>6</b>	<b>7</b>	<b>11</b>	<b>8</b>	<b>7</b>	<b>4</b>

\*March 2020 Committee was held with limited attendance due to the corona virus pandemic.

All members of the Pensions Committee have full voting rights.

# Lincolnshire Pension Fund 2019/20

## Pension Fund Account – For the Year Ended 31 March 2020

	See note	2018/19 £000	2019/20 £000
<b>Contributions and Benefits</b>			
Contributions Receivable	6	(98,278)	(104,258)
Transfers In from other Pension Funds	7	(7,312)	(10,629)
		<b>(105,590)</b>	<b>(114,887)</b>
Benefits Payable	8	92,904	99,326
Payments To and On Account of Leavers	9	7,803	9,920
		<b>100,707</b>	<b>109,246</b>
<b>Net (additions)/withdrawals from dealings with Fund Members</b>		<b>(4,883)</b>	<b>(5,641)</b>
Management Expenses	10	11,018	12,033
<b>Net (additions)/withdrawals including Management Expenses</b>		<b>6,135</b>	<b>6,392</b>
<b>Returns on Investments</b>			
Investment Income	11	(20,403)	(23,692)
Change in Value of Investments	12a	(178,619)	133,375
(Profit)/Loss on Forward Foreign Exchange	13	21,050	18,145
<b>Net Returns on Investments</b>		<b>(177,972)</b>	<b>127,828</b>
Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(171,837)	134,220
Opening Net Assets of the Fund		(2,189,357)	(2,361,194)
<b>Closing Net Assets of the Fund</b>		<b>(2,361,194)</b>	<b>(2,226,974)</b>

## Net Asset Statement as at 31 March 2020

	See note	2018/19 £000	2019/20 £000
Long Term Investments	12	833	833
<b>Total Long Term Investments</b>		<b>833</b>	<b>833</b>
Investment Assets	12	2,344,965	2,209,739
Investment Liabilities	12	(1,277)	(145)
<b>Total Net Current Investments</b>		<b>2,343,688</b>	<b>2,209,593</b>
<b>Total Net Investments</b>		<b>2,344,521</b>	<b>2,210,426</b>
Current Assets	20	19,802	20,418
Current Liabilities	21	(3,129)	(3,870)
<b>Net Assets of the Fund Available to Fund Benefits at the end of the Reporting Period</b>		<b>2,361,194</b>	<b>2,226,974</b>

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



# Notes to the Pension Fund Account

## Note 1. Description of the Pension Fund

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

### General

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

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

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

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

### Membership

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

Organisations participating in the Fund include:

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

There are 251 contributing employer organisations in the Fund including the County Council and just over 73,500 members, as detailed below (information reported based on March processed data):

	31 March 2019	31 March 2020
<b>Number of Employers with Active Members</b>	<b>234</b>	<b>251</b>
<b>Number of Employees in the Fund</b>		
Lincolnshire County Council	9,879	9,175
Other Employers	12,941	13,715
<b>Total Active Members</b>	<b>22,820</b>	<b>22,890</b>
<b>Number of Pensioners</b>		
Lincolnshire County Council	14,398	15,444
Other Employers	7,317	7,994
<b>Total Pensioner Members</b>	<b>21,715</b>	<b>23,438</b>
<b>Number of Deferred Pensioners</b>		
Lincolnshire County Council	19,753	18,668
Other Employers	8,468	8,533
<b>Total Deferred Pensioners</b>	<b>28,221</b>	<b>27,201</b>

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. Rates paid by employers during 2019/20 were determined at the 2016 Valuation, or when a new employer joins the scheme. Rates paid during 2019/20 ranged from 14.9% to 33.0% of pensionable pay. In addition, the majority of employers are paying secondary deficit contributions as cash payments.

## Benefits

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

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre April 2008	Service post April 2008
<b>Pension</b>	Each year is worth 1/80 x final pensionable salary	Each year is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3/80 x salary In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.



There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits. For more details, please refer to the shared pensions website at [www.wypf.org.uk](http://www.wypf.org.uk).

## Note 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations. The Pension Fund has opted to disclose this information in note 18.

The accounts have been prepared on a going concern basis.

The accounting policies set out below (at Note 3) have been applied consistently to all periods presented within these financial statements.

### Accounting standards that have been issued but have not yet been adopted

On an annual basis the Code of Practice requires the Pension Fund to consider the impact of accounting standards that have been issued but have not yet been adopted and disclose information relating to the impact of these standards. For 2020/21 there are a number of new accounting standards:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- Amendments to IAS 19 Employee Benefits: Plan Amendments, Curtailment or Settlement

It is not thought that any of these standards will have a significant impact on the Pension Fund Accounts for 2020/21



## Note 3. Significant Accounting Policies

### Fund account - revenue recognition

#### a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.

Additional employers' contributions, for example in respect of early retirements, are accounted for in the year the event arose.

Any amount due in year but unpaid will be classed as a current financial asset.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund and are calculated in accordance with the LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

#### c) Investment Income

##### i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

##### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.





## Fund account - expense items

### d) Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the headings shown below. All items of expenditure are charged to the fund on an accruals basis.

#### i) Administrative expenses

All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### ii) Oversight and Governance

All staff costs associated with the governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### iii) Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with Invesco Asset Management (for Global Equities – ex UK) and Morgan Stanley Investment Management Ltd. (for Alternative Investments) that an element of their fee will be performance related.

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.



Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

## Net assets statement

### g) Financial assets

All investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund and are classified as FVPL.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

Private equity, property and infrastructure valuations are based on valuations provided by managers at the year-end date. If valuations at the yearend are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as FVOCI rather than FVPL as the investment is a strategic investment and not held for trading.

### h) Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2020 are shown in Note 28.

### i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

### j) Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.



### **k) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

### **l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 18).

### **m) Additional voluntary contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

### **n) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 25 and 26).



## Note 4. Critical Judgements in Applying Accounting Policies

### Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

### Investment in Border to Coast Pension Partnership

The valuation of the Fund's investment in Border to Coast Pensions Partnership has been assessed using the criteria set out in IFRS9 Financial Instruments. The key factors considered include:

- There is currently no market for these investments and no identical or similar market to compare them to. Therefore it is not possible to use a 'quoted price'.
- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund).

There is insufficient evidence to estimate the fair value at any measure other than cost, therefore fair value is cost.

### Covid-19 Impact

The impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such some of the Pension Fund's holdings as at 31 March 2020 are difficult to value according to preferred accounting policy.

- Pooled property unit trusts. Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.
- Unquoted assets (including alternatives and private equity holdings). The fair value of these investments is unavoidably subjective in normal circumstances and Covid-19 disruptions may increase this. The valuations are based on forward-looking estimates and judgements involving

many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

The Fund accounts are currently prepared using valuation information available at 31 March 2020 provided by investment managers and validated by the Fund's Custodian. These valuations are mainly based on audited accounts from earlier periods (e.g. 31 December 2019) rolled forward for cashflows, as is allowable by the Code. Due to the coronavirus pandemic the 31 March actual valuations may be materially different to the rolled forward valuations currently reported in the accounts. When these valuations are received the Fund will consider their materiality both individually and collectively and revise the accounts to reflect these valuations if necessary.

## Note 5. Assumptions Made About the Future and Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: <ol style="list-style-type: none"> <li>1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £359m.</li> <li>2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £28m.</li> <li>3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £320m.</li> <li>4) a one-year increase in assumed life expectancy would increase the liability by approximately £151m.</li> </ol>

Item	Uncertainties	Effect if actual results differ from assumptions
Unquoted Assets (including Alternatives and Private Equity) (Note 14)	<p>Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines (2012). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Private Equity valuations within the Pension Fund accounts are all based on the reported information held by the Council on 31 March each year.</p>	The total private equity investments in the Fund are £23m. There is a risk that these may be over or understated in the accounts by £5.5m.
Pooled Property Unit Trusts	<p>Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards.</p> <p>Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.</p>	The total pooled property unit trusts invested in by the Fund are valued at £175.602m. If these assets were over or under-stated in the accounts by 1% this would affect the value by £1.6m.

## Note 6. Contributions Receivable

Contributions receivable are analysed below:

	2018-19 £000	2019-20 £000
<b>Employers</b>		
Normal	58,966	60,186
Deficit Recovery Funding	17,138	21,412
Additional – Augmentation	1,632	892
<b>Members</b>		
Normal	20,466	21,684
Additional Years	76	84
<b>Total Contributions Receivable</b>	<b>98,278</b>	<b>104,258</b>

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

	2018-19 £000	2019-20 £000
Lincolnshire County Council	40,061	43,539
Scheduled Bodies	53,239	56,339
Admission Bodies	4,978	4,380
<b>Total Contributions Receivable</b>	<b>98,278</b>	<b>104,258</b>

## Note 7. Transfers In From Other Pension Funds

	2018-19 £000	2019-20 £000
Individual Transfers from Other Schemes	7,312	10,629
Group Transfers from Other Schemes	-	-
<b>Total Transfers In from Other Pension Funds</b>	<b>7,312</b>	<b>10,629</b>

There were no material outstanding transfers due to the Pension Fund as at 31 March 2020.

## Note 8. Benefits Payable

	2018-19 £000	2019-20 £000
Pensions	73,016	78,073
Commutations and Lump Sum Retirement Benefits	17,791	18,870
Lump Sum Death Benefits	2,097	2,383
<b>Total Benefits Payable</b>	<b>92,904</b>	<b>99,326</b>

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

	2018-19 £000	2019-20 £000
Lincolnshire County Council	49,350	52,290
Scheduled Bodies	39,423	42,340
Admission Bodies	4,131	4,696
<b>Total Benefits Payable</b>	<b>92,904</b>	<b>99,326</b>

## Note 9. Payments To and On Account of Leavers

	2018-19 £000	2019-20 £000
Individual Transfers to Other Schemes	6,990	9,580
Group Transfers from Other Schemes	419	-
Refunds to Members Leaving Service	394	340
<b>Total Payments To and On Account of Leavers</b>	<b>7,803</b>	<b>9,920</b>

There were no material outstanding transfers due from the Pension Fund as at 31 March 2020.

## Note 10. Management Expenses

	2018-19	2019-20
	£000	£000
Administrative Costs	1,128	1,250
Investment Management Expenses	9,429	10,203
Oversight and Governance Costs	461	580
<b>Total Management Expenses</b>	<b>11,018</b>	<b>12,033</b>

The External Audit fee for the year was £0.019m (£0.019m in 2018/19).

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

	2018-19	2019-20
	£000	£000
Transaction Costs	738	1,583
Management Fees	7,999	6,804
Performance Related Fees	609	1,641
Custody Fees	83	175
<b>Total Investment Management Expenses</b>	<b>9,429</b>	<b>10,203</b>

## Note 11. Investment Income

	2018-19	2019-20
	£000	£000
Equities	18,192	19,323
Pooled Investments		
Property	1,629	2,563
Infrastructure	18	-
Alternatives	3	1,535
Cash Deposits	97	192
Stock Lending	464	79
<b>Total Investment Income</b>	<b>20,403</b>	<b>23,692</b>



## Note 12. Investments

	2018-19 £000	2019-20 £000
<b>Long Term Investments</b>		
Unquoted Equity Holding in Border to Coast Pensions Partnership	833	833
<b>Total Long Term Investment</b>	<b>833</b>	<b>833</b>
	2018-19 £000	2019-20 £000
<b>Investment Assets</b>		
Equities	818,260	495,761
Pooled Investments		
Property	194,973	190,977
Infrastructure	44,437	47,736
Private Equity	22,962	18,026
Bonds	283,158	414,941
Equities	649,490	695,082
Alternatives	290,056	311,218
Cash Deposits	36,413	23,939
Investment Income Due	5,216	3,723
Amounts Receivable from Sales	-	-
Open Forward Foreign Exchange (FX)	-	8,335
<b>Total Investment Assets</b>	<b>2,344,965</b>	<b>2,209,738</b>
<b>Investment Liabilities</b>		
Open Forward Foreign Exchange (FX)	(1,276)	-
Investment Income Payable	(1)	(18)
Amounts Payable for Purchases	-	(127)
<b>Total Investment Liabilities</b>	<b>(1,277)</b>	<b>(145)</b>
<b>Total Net Investment Assets</b>	<b>2,343,688</b>	<b>2,209,593</b>

## Note 12A. Reconciliation of Movements in Investments

2019/20	Market Value 31 March 2019	Purchases and derivative payments	Sales and derivative receipts	Change in market value during the year	Market Value 31 March 2020
	£000	£000	£000	£000	£000
Equities	818,260	380,719	(784,022)	80,804	495,761
Pooled Investments					
Property	194,973	1,124	(3,441)	(1,679)	190,977
Infrastructure	44,437	2,848	(3,346)	3,797	47,736
Private Equity	22,962	356	(7,469)	2,177	18,026
Bonds	283,158	331,502	(197,591)	(2,128)	414,941
Equities	649,490	429,663	(138,595)	(245,476)	695,082
Alternatives	290,056	103,443	(111,411)	29,130	311,218
	<b>2,303,336</b>	<b>1,249,655</b>	<b>(1,245,875)</b>	<b>(133,375)</b>	<b>2,173,741</b>
Cash Deposits	36,413				23,939
Other Investment Balances:					
Open Forward FX	(1,276)				8,335
Amounts Receivable for Sales	-				-
Investment Income Due	5,215				3,705
Amounts Payable for Purchases	-				(127)
<b>Net investment assets</b>	<b>2,343,688</b>				<b>2,209,593</b>

2018/19	Market Value 31 March 2018	Purchases and derivative payments	Sales and derivative receipts	Change in market value during the year	Market Value 31 March 2019
	£000	£000	£000	£000	£000
Equities	751,286	350,985	(335,249)	51,238	818,260
Pooled Investments					
Property	194,461	42	(4,989)	5,459	194,973
Infrastructure	35,420	6,835	(3,294)	5,476	44,437
Private Equity	29,345	423	(13,271)	6,465	22,962
Bonds	264,097	12,317	(2,317)	9,061	283,158
Equities	582,508	-	(1,832)	68,814	649,490
Alternatives	268,167	78,966	(89,183)	32,106	290,056
	<b>2,125,284</b>	<b>449,568</b>	<b>(450,135)</b>	<b>178,619</b>	<b>2,303,336</b>
Cash Deposits	38,746				36,413
Other Investment Balances:					
Open Forward FX	50				(1,276)
Amounts Receivable for Sales	1,409				-
Investment Income Due	4,410				5,215
Amounts Payable for Purchases	(2,016)				-
<b>Net investment assets</b>	<b>2,167,883</b>				<b>2,343,688</b>

## Note 12B. Analysis of Investments

2019/20	UK £000	Overseas £000	Total £000
<b>Quoted</b>			
Equities	0	495,761	495,761
<u>Pooled Investments</u>			
Property – UK Commercial Unit Trust	175,602	-	175,602
Bonds	414,941	-	414,941
Equities	695,082	-	695,082
<b>Quoted as at 31 March 2020</b>	<b>1,285,362</b>	<b>495,761</b>	<b>1,781,386</b>
<b>Unquoted</b>			
<u>Pooled Investments</u>			
Property	796	14,579	15,375
Infrastructure	43,283	4,453	47,736
Private Equity	-	18,026	18,026
Alternatives	311,218	-	311,218
<b>Unquoted as at 31 March 2020</b>	<b>355,297</b>	<b>37,058</b>	<b>392,355</b>
Cash and Equivalents			23,939
Other Investment Balances - Assets			12,058
Other Investment Balances - Liabilities			(145)
<b>Total as at 31 March 2020</b>			<b>2,209,593</b>

2018/19	UK £000	Overseas £000	Total £000
<b>Quoted</b>			
Equities	15,462	802,798	818,260
<u>Pooled Investments</u>			
Property – UK Commercial Unit Trust	178,634	-	178,634
Bonds	283,158	-	283,158
Equities	649,490	-	649,490
<b>Quoted as at 31 March 2019</b>	<b>1,126,744</b>	<b>802,798</b>	<b>1,929,542</b>
<b>Unquoted</b>			
<u>Pooled Investments</u>			
Property	1,547	14,792	16,339
Infrastructure	40,458	3,979	44,437
Private Equity	-	22,962	22,962
Alternatives	290,056	-	290,056
<b>Unquoted as at 31 March 2019</b>	<b>332,061</b>	<b>41,733</b>	<b>373,794</b>
Cash and Equivalents			36,413
Other Investment Balances - Assets			5,216
Other Investment Balances - Liabilities			(1,277)
<b>Total as at 31 March 2019</b>			<b>2,343,688</b>

## Note 12C. Investments Analysed by Fund Manager

Fund Manager	31 March 2019		31 March 2020	
	£'000	%	£'000	%
<b>Externally Managed</b>				
Border to Coast (Global Equity Alpha)	-	-	344,976	15.5
Border to Coast (Investment Grade Credit)	-	-	180,327	8.2
Invesco	545,516	23.2	503,027	22.8
Schroders	136,451	5.8	-	-
Columbia Threadneedle	149,422	6.4	-	-
Morgan Stanley (Global Brands)	219,728	9.4	-	-
Morgan Stanley (Alternatives)	303,948	13.0	323,374	14.6
Morgan Stanley (Private Equity)	24,679	1.1	19,223	0.9
Blackrock	283,157	12.1	234,613	10.6
Legal & General	429,762	18.3	350,106	15.8
<b>Internally Managed</b>				
Property	202,956	8.7	199,975	9.1
Infrastructure	44,686	1.9	49,776	2.3
UK Equity	344	-	1	-
Unallocated Cash	3,039	0.1	4,195	0.2
<b>Total</b>	<b>2,343,688</b>	<b>100.0</b>	<b>2,209,593</b>	<b>100.0</b>

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The investments that fall into this category are as follows:

Investment	31 March 2019		31 March 2020	
	£000	%	£000	%
Legal & General UK Equity Fund	429,762	18.2	350,106	15.7
Border to Coast (Global Equity Alpha)	-	-	344,976	15.5
Morgan Stanley Alternative Investments	290,056	12.3	311,218	14.0
Morgan Stanley Global Brands	219,728	9.3	-	-
Border to Coast (Investment Grade Credit)	-	-	180,327	8.1
Blackrock 1-5yr Corporate Bond Fund	139,253	5.9	149,016	6.7

## Note 12D. Stock Lending

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, Northern Trust. The total amount of stock on loan at the year-end was £18.934m (£0.001m at 31 March 2019) and this value is included in the net assets statement to reflect the Fund's continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £20.722m (£0.001m at 31 March 2019), which represented 109.4% of the value of securities on loan.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. Income received from stock lending activities, before costs, was £0.079m for the year ending 31 March 2020 (£0.464m at 31

March 2019) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

## Note 13. Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets.

### Open forward Currency Contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	None					
Over one month	GBP	291,727	USD	351,292	8,798	-
	GBP	7,828	CAD	13,365	260	-
	GBP	955	AUD	1,925	6	-
	GBP	17,026	EUR	18,605	536	-
	EUR	5,230	GBP	4,831	-	(196)
	USD	18,941	GBP	16,323	-	(1,068)
<b>Total</b>					<b>9,600</b>	<b>(1,264)</b>
<b>Net Forward Currency Contracts at 31 March 2019</b>						<b>8,336</b>
<b>Prior Year Comparative</b>						
						6
<b>Net Forward Currency Contracts at 31 March 2018</b>						<b>(1,276)</b>

### Profit (Loss) of Forward Currency Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of normal trading of the Fund's managers who manage multi-currency portfolios. For 2019/20 this was a loss of £18.145m (£21.050m loss in 2018/19).

## Note 14. Fair Value – Basis of Valuation

All investment assets are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted Equities and Alternatives	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors and investment managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Private Equity	24%	18,026	22,352	13,700
Alternatives	10%	311,218	342,340	280,096

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of +/-24% for Private Equity and +/-10% for Alternatives is caused by how this profitability is measured since different methods (listed in the first table of Note 14 above) produce different price results.

## Note 14A. Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1	Level 2	Level 3	Total
Observable Fair Value	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,609,168	239,042	337,589	2,185,799
Financial liabilities at fair value through profit and loss	-	(130)	(15)	(145)
Financial assets at fair value through other comprehensive income and expenditure	-	-	833	833
<b>Net Investment Assets</b>	<b>1,609,168</b>	<b>238,912</b>	<b>338,407</b>	<b>2,186,487</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs Level 3	Total
Values at 31 March 2019	Level 1	Level 2		
Observable Fair Value	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,755,869	239,658	313,024	2,308,551
Financial liabilities at fair value through profit and loss	-	-	(1,276)	(1,276)
<b>Net Investment Assets</b>	<b>1,755,869</b>	<b>239,658</b>	<b>311,748</b>	<b>2,307,275</b>

The holding in Border to Coast Pensions Partnership of £0.833m was carried at cost at 31 March 2019.

## 14B Reconciliation of Fair Value Measurements within Level 3

Period 2019/20								
	Market value at 31 March 2019	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	22,962	-	-	356	(7,469)	(3,909)	6,086	18,026
Alternatives	288,786	-	-	103,443	(111,411)	37,115	1,615	319,548
Investment in Border to Coast Pensions Partnership	833	-	-	-	-	-	-	833
<b>Total</b>	<b>311,748</b>	<b>-</b>	<b>-</b>	<b>103,799</b>	<b>(118,880)</b>	<b>33,206</b>	<b>7,701</b>	<b>337,574</b>

Period 2018/19								
	Market value at 31 March 2018	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	29,345	-	-	423	(13,271)	(5,350)	11,815	22,962
Alternatives	268,167	-	-	78,966	(89,183)	52,093	(21,257)	288,786
<b>Total</b>	<b>311,748</b>	<b>-</b>	<b>-</b>	<b>103,799</b>	<b>(118,880)</b>	<b>33,206</b>	<b>7,701</b>	<b>337,574</b>

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and change in market values line of the Fund account.



## Note 15. Financial Instruments

### Note 15A. Classification of Financial Instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2020				
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
<b>Financial Assets</b>				
Unquoted Equity Holding in Border to Coast Pensions Partnership	-	-	-	833
Equities	495,761		-	-
Pooled Investments				-
Property	190,977		-	-
Infrastructure	47,736		-	-
Private Equity	18,026		-	-
Bonds	414,941		-	-
Equities	695,082		-	-
Alternatives	311,218		-	-
Cash		37,010	-	-
Other Investment Balances	12,058		-	-
Debtors		7,347	-	-
	<b>2,185,799</b>	<b>44,357</b>	<b>-</b>	<b>833</b>
<b>Financial Liabilities</b>				
Other Investment Balances	(145)	-	-	-
Creditors	-	-	(3,870)	-
	<b>(145)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand Total</b>	<b>2,185,654</b>	<b>44,357</b>	<b>-</b>	<b>833</b>

31 March 2019				
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
<b>Financial Assets</b>				
Unquoted Equity Holding in Border to Coast Pensions Partnership				833
Equities	818,260			
Pooled investments				
Property	194,973			
Infrastructure	44,437			
Private Equity	22,962			
Bonds	283,158			
Equities Alternatives	649,490			
Cash		47,123		
Other Investment Balances	5,215			
Debtors		9,092		
	<b>2,308,551</b>	<b>56,215</b>	<b>-</b>	<b>833</b>
<b>Financial Liabilities</b>				
Other Investment Balances	(1,276)			
Creditors			(3,129)	
	<b>(1,276)</b>	<b>-</b>	<b>(3,129)</b>	<b>-</b>
<b>Grand Total</b>	<b>2,307,275</b>	<b>56,215</b>	<b>(3,129)</b>	<b>833</b>

## 15B Net Gains and Losses on Financial Instruments

	2018/19	2019/20
	£000	£000
<b>Financial Assets</b>		
Fair Value through Profit and Loss	178,619	(133,375)
<b>Total</b>	<b>178,619</b>	<b>(133,375)</b>

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



## Note 16. Nature and Extent of Risks Arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

#### a) Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

#### Other Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument.

The Fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

## Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for 2019/20; assuming that all other variables, in particular foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movements (+/-)
UK Equities	30.0%
Overseas Equities	33.0%
UK Bonds	16.0%
Property	19.0%
Infrastructure	17.0%
Private Equity	24.0%
Alternatives	10.0%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31 March 2020 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	695,082	30.0%	903,607	486,557
Overseas Equities	495,761	33.0%	659,362	332,160
UK Bonds	414,941	16.0%	481,332	348,550
Property	190,977	19.0%	227,263	154,691
Infrastructure	47,736	17.0%	55,851	39,621
Private Equity	18,026	24.0%	22,352	13,700
Alternatives	311,218	10.0%	342,340	280,096
<b>Total</b>	<b>2,173,741</b>		<b>2,692,107</b>	<b>1,655,375</b>

Asset Type	Value at 31 March 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	664,952	13%	751,396	578,508
Overseas Equities	802,798	13%	907,162	698,434
UK Bonds	283,158	5%	297,316	269,000
Property	194,973	15%	224,219	165,727
Infrastructure	44,437	17%	51,991	36,883
Private Equity	22,962	24%	28,473	17,451
Alternatives	290,056	10%	319,062	261,050
<b>Total</b>	<b>2,303,336</b>		<b>2,579,619</b>	<b>2,027,053</b>

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

### Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Assets Exposed to Interest Rate Risk	Value at 31 March 2020	Percentage Movement on 1% change in interest Rates	Value on Increase	Value on Decrease
	£000		£000	£000
Cash and cash equivalents	23,939	-	23,939	23,939
Cash balances	13,071	-	13,071	13,071
Bonds	414,941	4,149	419,090	410,792
<b>Total</b>	<b>451,951</b>	<b>4,149</b>	<b>456,100</b>	<b>447,802</b>

Assets Exposed to Interest Rate Risk	Value at 31 March 2019	Percentage Movement on 1% change in interest Rates	Value on Increase	Value on Decrease
	£000		£000	£000
Cash and cash equivalents	36,413	-	36,413	36,413
Cash balances	10,710	-	10,710	10,710
Bonds	283,158	2,832	285,990	280,326
<b>Total</b>	<b>330,281</b>	<b>2,832</b>	<b>333,113</b>	<b>327,449</b>

Income Exposed to Interest Rate Risk	Value at 31 March 2020	Percentage Movement on 1% change in interest Rates	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash deposits, cash and cash equivalents	192	2	194	190
Bonds	-	-	-	-
<b>Total</b>	<b>192</b>	<b>2</b>	<b>194</b>	<b>190</b>

Income Exposed to Interest Rate Risk	Value at 31 March 2019	Percentage Movement on 1% change in Interest Rates	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash deposits, cash and cash equivalents	97	1	98	96
Bonds	-	-	-	-
<b>Total</b>	<b>97</b>	<b>-</b>	<b>98</b>	<b>96</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

Following analysis of historical data and in consultation with an investment manager, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%, as measured by one standard deviation (8% in 2018/19). An 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net asset available to pay benefits as follows:

Assets Exposed to Currency Risk	Value at 31 March 2020	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Equities	495,761	49,576	545,337	446,185
<b>Pooled Investments:</b>				
Overseas Property	14,579	1,458	16,037	13,121
Overseas Infrastructure	4,453	445	4,898	4,008
Overseas Private Equity	18,026	1,803	19,829	16,223
<b>Total</b>	<b>532,819</b>	<b>53,282</b>	<b>586,101</b>	<b>479,537</b>

Assets Exposed to Currency Risk	Value at 31 March 2019	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Equities	802,798	64,224	867,022	738,574
<b>Pooled Investments:</b>				
Overseas Property	14,792	1,183	15,975	13,609
Overseas Infrastructure	3,979	318	4,297	3,661
Overseas Private Equity	22,962	1,837	24,799	21,125
<b>Total</b>	<b>844,531</b>	<b>67,562</b>	<b>912,093</b>	<b>776,969</b>



## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund is additionally exposed to credit risk through securities lending and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, Northern Trust, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, Northern Trust provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

The Pension Fund's bank account is held at Barclays, which holds an 'A' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices.

## c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2020, these assets totalled £1,605.784m (£1,750.908m as at 31 March 2019), with a further £37.010m held in cash (£47.123m as at 31 March 2019). Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

## Note 17. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation which applies to the 2019/20 accounts took place as at 31<sup>st</sup> March 2016. The details set out in the note below relate to the valuation. The next valuation took place on 31<sup>st</sup> March 2019 and relates to accounting period from 01 April 2020.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- 2) to ensure that employer contribution rates are as stable as possible;
- 3) to minimise the long-term cost of the scheme by recognising the link between assets and adopting an investment strategy that balances risk and return;
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where reasonable to do so; and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates, where possible. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer’s funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 76.9% funded (71.5% at the March 2013 valuation). This corresponded to a deficit of £529m (2013 valuation: £597m) at that time.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£000)		
	2017/18	2018/19	2019/20
1 April 2017-31 March 2020 17.4%	18,004	20,539	23,222

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.



Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report on the Fund's website.

The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. The calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The principal assumptions were as follows:

### Financial Assumptions

Future Assumed Returns at 2016	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property & Infrastructure	3.8
Cash	2.5

Other Financial Assumptions	31 March 2013 % p.a.	31 March 2016 % p.a.
Discount rate	4.6	4.0
Price inflation (RPI)	3.3	3.2
Pay increases*	3.8	2.6
Pension increases	2.5	2.1
Revaluation of deferred pension	2.5	2.1
Revaluation of accrued CARE pension	2.5	2.1
Expenses	0.4	0.5

\*An allowance is also made for promotional pay increases

### Demographic Assumptions

The baseline longevity assumptions are a bespoke set specifically tailored to fit the membership profile of the Fund. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% per year. The assumed life expectancy from age 65 is as follows:

	31 March 2013	31 March 2016
<b>Male</b>		
Current Pensioners	22.2 years	22.1 years
Future Pensioners	24.5 years	24.1 years

Female			
	Current Pensioners	24.4 years	24.4 years
	Future Pensioners	26.8 years	26.6 years

### Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

### 50:50 option

It is assumed that 2% of active members (evenly distributed across age, service length and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

## Note 18. Actuarial Present Value of Promised Retirement Benefit

Below is the note provided by the Fund's Actuary, Hymans Robertson; to provide the Actuarial present value of the promised retirement benefits as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2020 for IAS 19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

### Pension Fund Accounts Reporting Requirement

#### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Lincolnshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

#### Present value of promised retirement benefits

Year ended	31 March 2020	31 March 2019
Active members (£m)	1,368	1,793
Deferred members (£m)	704	843
Pensioners (£m)	1,268	1,131
<b>Total (£m)</b>	<b>3,340</b>	<b>3,780</b>

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

#### Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £339m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £118m.

#### Financial assumptions

Year ended (% p.a.)	31 March 2020	31 March 2019
Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

#### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 years	26.6 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

#### Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

#### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	299
0.5% p.a. increase in the Salary Increase Rate	1%	31
0.5% p.a. decrease in the Real Discount Rate	10%	332

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

#### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared on 18 May 2020 by:

Anne Cranston AFA

For and on behalf of Hymans Robertson LLP

## Note 19. Current Assets

	31 March 2019 £000	31 March 20 £000
<b>Short Term Debtors</b>		
Contributions due - Employers	5,238	4,782
Contributions due - Employees	1,375	1,431
Sundry Debtors	2,479	1,078
<b>Total Short Term Debtors</b>	<b>9,092</b>	<b>7,291</b>
Cash Balances	10,710	13,071
<b>Cash Balances</b>	<b>10,710</b>	<b>13,071</b>
<b>Total Current Assets</b>	<b>19,802</b>	<b>20,362</b>

## Note 20. Current Liabilities

	31 March 2019 £000	31 March 20 £000
<b>Creditors</b>		
Contributions – paid in advance	(34)	(122)
Sundry Debtors	(3,095)	(3,748)
<b>Total</b>	<b>(3,129)</b>	<b>(3,870)</b>

## Note 21. Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £8.077m (£8.683m in 2018/19). Member contributions of £0.909m (£0.998m in 2018/19) were received by the Prudential in the year to 31 March and £1.782m (£1.700m in 2018/19) was paid out to members.



The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

## Note 22. Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. During the reporting period, the Council incurred costs of £0.231m in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £34.135m to the Fund in 2019/20. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £13.016m and interest of £0.127m was earned over the year.

Each member of the Pension Fund Committee is required to declare their interests at each meeting and also is asked to sign an annual declaration disclosing any related party transactions. Three Committee members: Cllr P Key, A Antcliff (Employee Representative) and S Larter (Small Scheduled Bodies Representative) were contributing members of the Pension Fund during 2019/20. Cllr R Waller's daughter (District Council Representative) was also a contributing member of the scheme during 2019//20. S Larter (Small Scheduled Bodies Representative) is also a deferred member of the scheme.

## Note 23. Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of the Accounts and Audit (England) Regulations 2015) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The Fund does not employ any staff directly. Lincolnshire County Council employs the staff involved in providing the duties as Administering Authority for the Fund (the pensions administration service is provided by West Yorkshire Pension Fund in partnership with the Lincolnshire Pension Fund). Disclosure of the remuneration awarded to key management personnel is included in the officers' remuneration disclosure in the notes to the Lincolnshire County Council Statement of Accounts for 2019/20 (at note 34), which is available on the Council's website at [www.lincolnshire.gov.uk/finances](http://www.lincolnshire.gov.uk/finances).



## Note 24. Contingent Liabilities and Contractual Commitments

At 31 March 2020 the fund had outstanding capital commitments (investments) to nineteen investment vehicles, amounting to £35.035m. These commitments relate to outstanding call payments due on unquoted limited partnerships making investments in private equity, property or infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over the lifetime of the funds.

## Note 25. Contingent Assets

Seven admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

No such defaults have occurred in 2019/20 (or 2018/19)

## Note 26. Impairment Losses

The Fund has no recognised impairment losses.

## Note 27. Exchange Rates Applied

The exchange rates used at 31 March 2020 per £1 sterling were:

Australian Dollar	2.0259
Canadian Dollar	1.7649
Swiss Franc	1.1997
Danish Krone	8.4327
Euro	1.1301
Hong Kong Dollar	9.6107
New Israeli Shekel	4.3863
Japanese Yen	133.8588
Norwegian Krone	13.0207
Swedish Krona	12.2851
Singapore Dollar	1.7655
US Dollar	1.2400

## Glossary of Terms

**Actuary** – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund’s financial position, known as the Actuarial Valuation.

**Admitted Body** – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

**Alternatives** – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure and property, and financial assets such as private equity and derivatives.

**Asset Allocation** – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

**Asset Pooling** – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: ‘significantly reducing costs whilst maintaining investment performance’.

**Auto Enrolment** – UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria, and repeat this process every three years to re-enrol any employees that have opted out of the pension scheme.

**Bonds** – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

**Career Average Revalued Earnings (CARE) Scheme** – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

**CIPFA** – Chartered Institute of Public Finance & Accountancy.

**Consumer Price Index (CPI)** – The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

**Counterparty** – The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to complete. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

**Custodian** – Organisation which is responsible for the safekeeping of assets, income collection and settlement of trades for a portfolio, independent from the asset management function.

**Defined Benefit** – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes are defined benefit schemes.

**Derivative** – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

**Diversification** – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

**Equities** – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

**Fiduciary Duty** – A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

**Final Salary** – One type of defined benefit pension scheme where employee benefits are based on the person's final salary when they retire. The LGPS Scheme has moved from this to a CARE (career average revalued earnings) scheme in 2014.

**Funding Level** – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

**IFRS** – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

**Infrastructure** – The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

**Investment Strategy** – The investor's long-term distribution of assets across various asset classes taking into consideration their objectives, their attitude to risk and timescale.

**Liabilities** – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pensions benefits and payments that are due to be paid when someone retires.

**Market Value** – The price at which an investment can be bought or sold at a given date.

**Pooled Investment Fund** – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

**Portfolio** – Block of assets generally managed under a single mandate.





**Private Equity** – Shares in unquoted companies. Usually high risk, high return in nature.

**Return** – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

**Risk** – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

**Scheduled Body** – Public sector employers or designating bodies that have an automatic right and requirement to be an employer within the LGPS.

**Settlement** – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

**Stock Lending** – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

**Target** – Managers are set a target for investment performance, such as 1% above benchmark per year over three year rolling periods.

**Triennial Actuarial Valuation** – Every three years the actuary formally reviews the assets and liabilities of the Lincolnshire Fund and produces a report on the Fund's financial position.

# Audit Opinion

To follow



## Additional Information Available

Additional information regarding the Pension Fund and the scheme is available by going to the shared service website [www.wypf.org.uk](http://www.wypf.org.uk)

The following documents are included in this report, and can also be found by selecting Policy Statements on the home page, and then Lincolnshire Policies, on the WYPF shared website.

### Funding Strategy Statement

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

### Investment Strategy Statement

This document describes the key issues that govern the investment of the Pension Fund, including the approach to risk, the approach to pooling and the approach to environmental, social and governance (ESG) factors.

### Communications Policy

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that individuals and employers receive accurate and timely information about their pension arrangements.

### Governance Compliance Statement

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Ministry of Housing, Communities and Local Government.

### Pensions Administration Strategy

This document details how the Pension Fund is administered within the shared service. It outlines the processes and procedures to allow the Funds and employers to work together in a cost-effective way to administer the LGPS, whilst maintaining an excellent level of service to members.

# Lincolnshire Pension Fund

Funding Strategy Statement

March 2020

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Funding Strategy Statement

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## Introduction

### 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 March 2020, and for the setting of employer contribution rates calculated following the March 2019 Valuation.

### 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](#).

### 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](#))

#### **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.

#### **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.

#### **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 [Section 5](#) we outline Section 13 reporting requirements.

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](mailto:jo.ray@lincolnshire.gov.uk) or on telephone number 01522 553656.



## Basic Funding issues

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

### 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.

### 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.

### 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).

### 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](#).

### 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.

#### **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](#).

#### **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.

Uncertainty over the McCloud remedy impact makes it impossible to calculate an 'exact' loading so the Fund's preferred approach is to increase the likelihood of achieving the funding target over a particular time horizon by

5%. This will allow for an additional element of prudence and should mitigate the impact of any changes to benefits following the conclusion to the McCloud case. However, 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.

**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.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund 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.

## Calculating contributions for individual Employers

### 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.

### 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.

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 <a href="#">Appendix E</a> )				Ongoing participation basis, but may move to “gilts exit basis” - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )	Ongoing, assumes long – term Fund participation (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )							
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	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 – <a href="#">Note (d)</a>	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	Covered by	Preferred approach: contributions kept at Primary rate. However, reductions					Preferred approach:	Preferred

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies*	Designating Bodies	
surplus	stabilisation arrangement	may be permitted by the Administering Authority						contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority to reduce the surplus over the remaining contract term	approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority
Likelihood of achieving target – <a href="#">Note (e)</a>	70%	80%	80%	80%	80%	80%	To be set on an employer by employer basis depending upon strength of covenant	75%	
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None	None	None	
Review of rates – <a href="#">Note (f)</a>	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	n/a	n/a	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>	n/a	



Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers	Transferee Admission Bodies*	Designating Bodies
employer							
<b>Cessation of participation: exit debt/credit payable</b>	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (j)</a> .				Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .	Participation is 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.	Can be ceased subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see <a href="#">Note (j)</a> and <a href="#">3.4</a> for small scheduled bodies pool.

\* 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. If two MAT's merge during the inter-valuation period, the merged MAT will pay the higher certified rates for the individual MAT's.

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. Please note, the level of surplus would be determined by the Administering Authority in accordance with the Regulations.

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, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body’s employer contributions, any representations (such as risk sharing agreements or guarantees) and any other relevant factors.

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 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.

### 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:

- 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) and they have chosen to pool.

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
  - Priory Federation of Academies
  - Tall Oaks Academy Trust
  - West Grantham Federation.
  - CIT Academies



- Horncastle Education Trust

Where an academy or school joins an existing MAT with a pooled rate, it will be given the primary rate of the MAT, subject to breaching any materiality level in membership increase. If the membership increase is considered to be material, the Fund has the discretion to require an interim valuation of the expanded MAT to be calculated. Any secondary rate attributable to the academy or school will be required to be paid in addition to any existing secondary rate of the MAT. The Fund has the discretion to negate the need for an increase to the secondary rate if the MAT is considered to be sufficiently in surplus at the last valuation.

### Small Scheduled Bodies Pool

In addition to the pools mentioned above, there is a small scheduled body pool made up of the Town and Parish Council's within the Fund. Given that these generally have very few members, this is 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.

All employers within this pool will have the same contribution rate and individual employer assets and liabilities will not be tracked. The member experience across the pool will be shared.

It should also be noted that, if an employer, who is in the Small Scheduled Body Pool, is considering ceasing from the Fund, the leaving employer's required exit credit/debit to the Fund will be calculated on the ongoing funding position of the pool at the date of the leaving employer's cessation date.

### 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.

### 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.

### **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).

### **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 employer's total outlay (pension contribution plus insurance premium) 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.

### **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.

### **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.

## Funding strategy and links to investment strategy

### **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.

### **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.

### **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.

### **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.

## Statutory reporting and comparison to other LGPS Funds

### 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.

### 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.

### 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 November 2019 for comment;
- b) Comments were requested by 20 December, and answers provided;
- c) There was an Employers Forum on 4 March 2020 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 19 March 2020, 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](http://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](http://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.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>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-</p>

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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>
Effect of possible asset underperformance as a result of climate change	The Fund has a responsible investment policy and works with external managers to minimise the investment risk through stock selection and engagement.

**C3 Demographic risks**

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate</p>

Risk	Summary of Control Mechanisms
	<p>contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

**C4 Regulatory risks**

Risk	Summary of Control Mechanisms
<p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>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.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
<p>Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a>).</p>	<p>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.</p>
<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

**C5 Governance risks**

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

Risk	Summary of Control Mechanisms
	<p>guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

## 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?

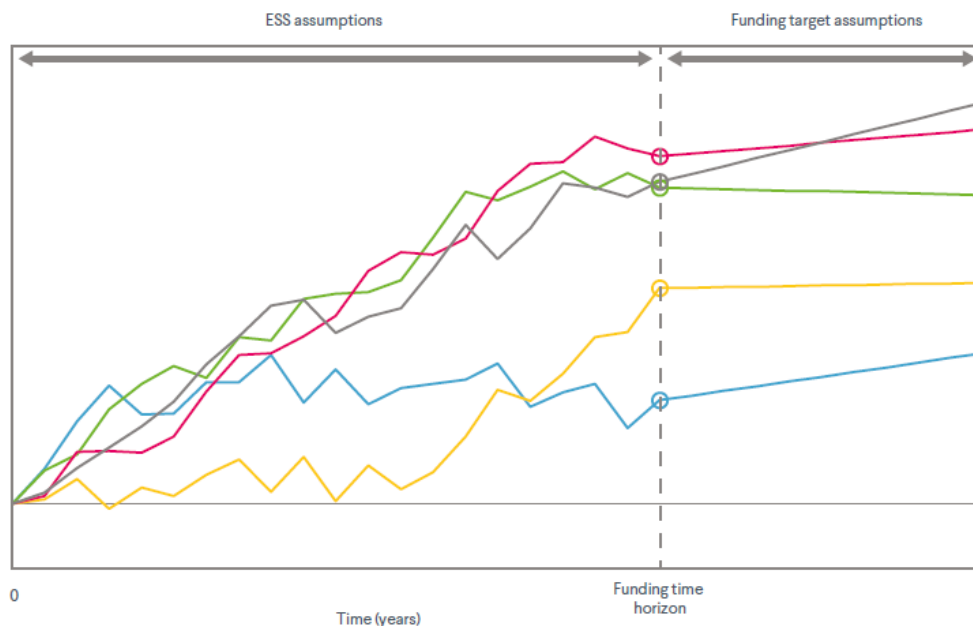
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield	
	Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)				
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%
	<b>Volatility (Disp) (1 yr)</b>	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
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer’s funding target (at the end of its time horizon)</b>	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

<b>Funding basis</b>	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.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	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 <a href="#">2.3</a> ).
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	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.

<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	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.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . 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.
<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.

# Investment Strategy Statement

## INVESTMENT STRATEGY STATEMENT

### INTRODUCTION

The Lincolnshire Pension Fund (“the Fund”), which is administered by Lincolnshire County Council (“the Administering Authority”), is required to maintain an Investment Strategy Statement (“ISS”) in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee (“the Committee”). The ISS has been agreed by the Committee having taken advice from the Investment Consultant and Pension Fund Manager.

The ISS, which was last approved by the Committee on 21 March 2019, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements (“FSS”) in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS, which was last approved by the Pensions Committee on 19<sup>th</sup> July 2018, complies with these Regulations.

### INVESTMENT STRATEGY

The primary objective of the Lincolnshire Pension Fund is to provide pension benefits for members on their retirement and/or benefits on death, whether before or after retirement, and for their dependents.

The Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

#### Investment Beliefs

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

**Belief 1:**

**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.**

It is recognised that investment risk is needed in the Fund to generate the required returns, however this needs to be considered on an on-going basis to ensure it is appropriate (i.e. not too high or too low) given the Fund's objectives

**Belief 2:**

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

As the Fund moves closer to full funding (i.e. 100% assets to meet liabilities on an appropriately prudent assumption of investment return) then it is expected that the level of risk will be adjusted accordingly.

**Belief 3:**

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

The Committee accepts that by "locking away" funds for longer periods of time, the Fund should expect to be compensated for the lack of liquidity in the form of higher expected returns. However it is understood that this is not suitable for all the assets in the Fund. The Fund's investments should be diversified by combining assets with different risk, return and liquidity characteristics, whilst maintaining realistic expectations about the potential for sources of return to become correlated under market stress. The Committee believes an appropriate portion of the Fund should be invested in non-core asset classes, i.e. alternative assets, to provide diversification and reduce overall volatility of returns.

**Belief 4:**

**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.**

The Committee believes that active managers can add a return premium over investment markets, over the longer term, but accept that this has a cost. Therefore this is balanced with allocations to passive management to produce market returns at a very low cost.

**Belief 5:**

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

The Committee believes that it should act as a responsible owner across all of its investments and that ESG issues and considerations have a financial impact on the long term performance of the Fund. The Fund works with managers and other organisations to understand the potential impact of the risks and opportunities relating to ESG matters.

**Belief 6:**

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

The cost of accessing different asset classes and different management styles must be understood to ensure that the Fund is obtaining value for money, however the expected net return is the most important consideration when assessing investment opportunities and monitoring investment performance. The Fund expects its managers to have signed up to the Cost Transparency Code, and it also participates in fee benchmarking to assess the fees being paid relative to other pension schemes.

**Investment of money in a wide variety of investments**

It is the Pensions Committee’s policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund’s strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market risk and the nature of the Fund’s liabilities.

Asset class	Strategic allocation	Range	Maximum
Equity Assets	60%	+/- 6%	66%
UK equities	20%	+/- 2%	22%
Global equities	40%	+/- 5.5%	45.5%
Diversifying Growth Assets	26.5%	+/- 4.5%	31%
Alternatives	15%	+/- 1.5%	16.5%



Property	9%	+/- 1.5%	10.5%
Infrastructure	2.5%	+/- 1.5%	4%
Protection Assets	13.5%	+/- 2%	15.5%
Fixed Income	13.5%	+/- 1.5%	15%
Cash	0%	+/- 0.5%	0.5%

The asset allocation below reflects the changes approved by the Committee however these will be implemented as the Fund transitions its assets to Border to Coast.

Asset class	Strategic allocation	Range	Maximum
Equity Assets	55%*	+/- 7%	62%
UK equities	15%*	+/- 2%	17%
Global equities	40%	+/- 5%	45%
Diversifying Growth Assets	31.5%*	+/- 4.5%	36%
Diversified Alternatives (incl. infrastructure and multi asset credit)	21%*	+/- 3%	24%
Property	10.5%	+/- 1.5%	12%
Protection Assets	13.5%	+/- 2%	15.5%
Fixed Income	12.5%	+/- 1.5%	14%
Cash	1%	+/- 0.5%	1.5%

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee reviews the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
<b>Equities</b>	
UK Equities	FTSE All Share
Global Equities (ex UK)	MSCI World ex UK Index
Global Equities	MSCI All Countries World Index
<b>Bonds</b>	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Corporate Bonds	iBoxx £ Non-Gilts Index
All Stocks UK Gilt Index Fund	FTSE UK Gilts Index-Linked All Stocks Index
Corporate Bonds up to 5 Years	iBoxx Sterling Non-Gilts 1-5 Year Index
<b>Property</b>	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
<b>Alternatives</b>	LIBOR 3 Months + 4%

### The suitability of particular investments and types of investments

The actuarial valuation, at 31 March 2019, was prepared on the basis of an expected investment return of 4% p.a., based on a 71% likelihood of that return being achieved over the next 20 years, and assuming inflation (CPI) to be 2.3%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a. above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of overall fund performance.

### The approach to risk

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
<b>Market</b>	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis.  The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
<b>Performance</b>	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis.  Investment Mangers present to the Committee on an annual basis.
<b>Valuation</b>	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
<b>Liquidity</b>	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
<b>Interest rate</b>	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging where appropriate.
<b>Foreign exchange</b>	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
<b>Demographic</b>	Changes, such as increased longevity or ill-health retirement, will increase the	Demographic assumptions are conservative, regularly monitored, and reviewed on a



	value of the Fund’s liabilities.	triennial basis.
<b>Regulatory</b>	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund’s liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
<b>Governance</b>	The administering authority is unaware of changes to the Fund’s membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

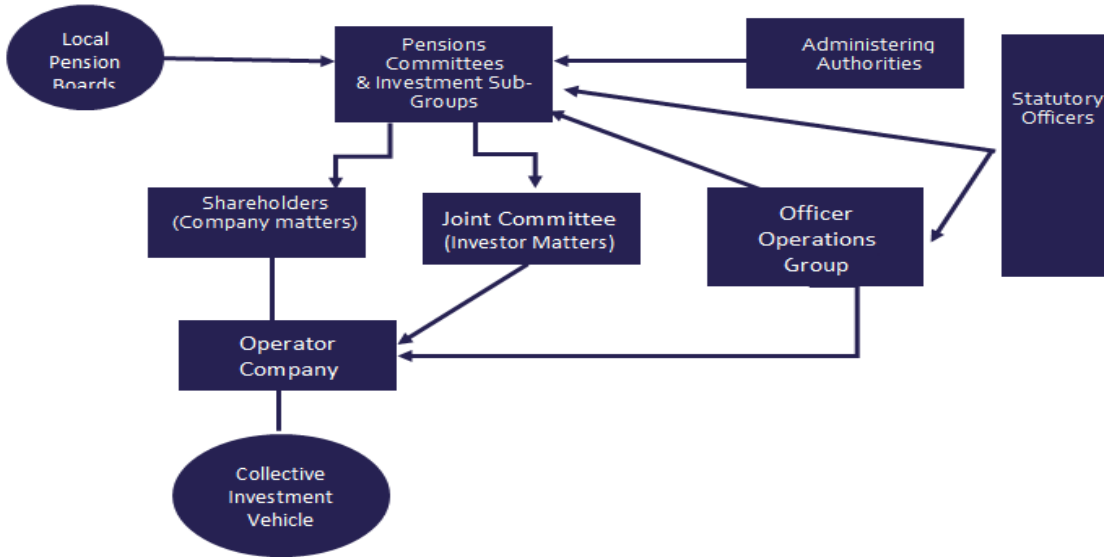
**Approach to pooling investments**

In order to satisfy the requirements of the “Local Government Pension Scheme: Investment Reform and Guidance” issued by the Department for Communities and Local Government (“DCLG”) in November 2015, the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border to Coast). Border to Coast is a FCA-regulated Operator and Alternative Investment Fund Manager (“AIFM”).

Border to Coast is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The governance structure of Border to Coast is as follows:



The Fund will hold Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.
- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to Border to Coast.

A significant proportion of the Fund’s investments will be made through Border to Coast. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include legacy unquoted investments such as limited partnerships. Whilst these assets may not to be transferred, once these investments mature the proceeds will be reinvested into Border to Coast sub-funds. At the current time it is estimated that c. 70% of the Fund’s assets will be invested in Border to Coast subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

**Approach to environmental, social and corporate governance (ESG) factors**

The Fund considers itself to be a responsible investor and take ESG matters very seriously and monitors investment managers' approach to ESG.



## Responsible Investment Beliefs

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

### Belief 1:

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

The Committee believes that companies that have well developed ESG policies will generally provide better long term performance than those companies that have not considered ESG factors in their business.

### Belief 2:

**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.**

Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails.

### Belief 3:

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

The Committee believes that climate change risk and the transition to a low carbon economy should be factored into asset allocation decisions and also investment decisions by managers to reduce the long term financial risk, but also to take advantage of the opportunities that may be available.

### Belief 4:

**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 main objective of the Pension Fund is to ensure that it is able to pay benefits to its members as and when they fall due. Therefore financial considerations will be at the forefront of any investment or asset allocation decisions.

**Belief 5:**

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

The Committee believes that the consideration of ESG factors when making investment decisions should not be an add-on but should be embedded into the whole investment selection process. Any active managers appointed by the Fund will be expected to evidence this.

**Belief 6:**

**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.**

The Committee believes that the Fund has a stronger voice when working with others, be it Border to Coast Pensions Partnership, Local Authority Pension Fund Forum (LAPFF) or any other organisations. The Fund will work with them and the investment managers to ensure that it understands the ESG risks and how best to address them.

It is considered that the Pensions Committee represents the views of the Fund membership and, in addition, the views of the Local Pension Board are taken into account as part of their review of this document.

**The exercise of rights attaching to investments (including voting rights)**

The Fund has published its Responsible Investment Policy and Voting Guidelines on the shared website at [www.wypf.org.uk](http://www.wypf.org.uk).

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long term value for shareholders. The Fund believes that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors, the Fund expects the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this the Fund has summarised its compliance with the UK Stewardship code (and principles relating to good stewardship below.

**Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, and has a Responsible Investment Policy that is aligned with our asset pool, Border to Coast. This can be found on the Pension Fund's shared website at [http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements\\_Lincoln\\_Index.aspx](http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx). It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

In practice the Fund applies the Code in two ways; through arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group for Local Authority Pension Funds. Through these channels, LPF seeks to improve long term share performance through investment in better governed companies, therefore improving the funding level of the LPF and reducing the cost to stakeholders in the Local Government Pension Scheme.

As part of the manager appointment process, the Fund selects managers who show how their stewardship responsibilities are built in as an integral part of their investment process. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by LAPFF and an officer regularly attends the LAPFF meetings. The Fund also attends the LAPFF Annual Conference to ensure a full understanding and input into the work programme of LAPFF.

Voting is carried out at by the external fund managers, who are expected to vote in line with best practice. Managers report detail of voting undertaken quarterly to officers, and the Fund reports quarterly to the Pensions Committee in summary on all voting activity undertaken.

**Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

The Fund expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee and the Pension Board review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all members are required to sign an annual declaration form in line with the published policy. The policy can be found on the shared LPF website at [www.wypf.org.uk](http://www.wypf.org.uk). In addition, Committee members are required to make declarations of interest prior to committee meetings which are documented in the minutes of each meeting and available on the Council's website at [www.lincolnshire.gov.uk](http://www.lincolnshire.gov.uk).

### **Principle 3 - Institutional investors should monitor their investee companies.**

As investors we own a portion of the companies we invest in. With working through our external managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for managing our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity and impact can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through LAPFF are received by the Pensions Committee on a quarterly basis.

Resources do not currently allow for a dedicated role to monitor investee companies at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

### **Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.**

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. We review each manager's policy on engagement and escalation prior to appointment and we review their engagement activity during regular review meetings with them, and support it when required. Escalation routes across our managers involve meetings with company management, meetings with Non-Executive Directors, collaborating with other institutional shareholders, submitting resolutions at general meetings and in the most extreme instances divestment of shares. The outcome of any engagement is reported to the Fund through the normal reporting routine.

On occasion, the Fund may itself choose to escalate activity through its participation in the Local Authority Pension Fund Forum. The areas where escalation might occur would be aligned with the LAPFF work programme. Fund involvement would be by either co-signing a shareholder resolution or publically supporting a shareholder resolution. This would happen following a request from LAPFF explaining the engagement activity taken so far and the reasons why a shareholder resolution is required. The Fund had an agreed process for this internally which requires a paper taken to our Pensions Committee (time allowing) or through delegation to the Council's Executive Director of Finance and Public Protection in consultation with the Chair and Vice Chair of the Pensions Committee to agree. Examples of escalation activity from LAPFF that the Fund has supported are shown below:

- Supporting the Human Rights Capital shareholder resolution at Sports Direct
- Part of the 'Aiming for A' investor coalition – successfully co-filing at BP, Shell, Anglo American, Rio Tinto and Glencore on strategic resilience resolutions
- Supported shareholder resolutions at National Express on workplace rights

The Fund monitors and participates in shareholder litigation through its contracts with IPS (Institutional Protection Services) and US law firm Labaton Sucharow. In addition, supplementary monitoring is provided by BLBG.

**Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.**

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings. This plan sets out the engagement areas for activity for the coming year. Lincolnshire Pensions Team Accounting, Investment and Governance Manager Claire Machej is the named representative responsible for attending these meetings and actively participates in any discussions and setting of the work programme. She raises any concerns that the Fund may have and feeds back to the Pensions Committee on a quarterly basis.

The asset pooling arrangements with Border to Coast currently being implemented will enable additional collaborative working.

The contact for any potential collective action with the Fund is the Pension Fund Manager, Jo Ray, at [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

Responsibility for the exercise of voting rights is delegated to the Fund’s appointed asset managers. The Fund has a Corporate Governance Voting Guidelines and Voting Guidelines policy that can be found on the Pension Fund's shared website at [http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements\\_Lincoln\\_Index.aspx](http://www.wypf.org.uk/Member/Publications/PolicyStatements/Lincolnshire/PolicyStatements_Lincoln_Index.aspx). This is aligned to the Border to Coast policy.

The quarterly reports presented to the Pensions Committee include high level voting activity and are available on the Council’s website, alongside all committee reports.

The Fund participates in stock lending through its Custodian. Stock is not recalled ahead of company meetings to allow voting on the holdings participating in the stock lending programme, due to the restricted resources within the internal team.

**Principle 7 - Institutional investors should report periodically on their stewardship and**

### **voting activities.**

The Fund reports quarterly to the Pensions Committee on stewardship activity through a specific section on voting undertaken each quarter, in the Fund Update. This includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website.

Data to produce these reports is taken from the Fund's external managers, and from reports produced by LAPFF.

### **Compliance and monitoring**

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate or amendments are required.



# Communication Policy Statement

## COMMUNICATION POLICY STATEMENT

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with over 240 employers and over 75,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Ministry of Housing, Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

- a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with:
  - members;
  - representatives of members;
  - prospective members; and
  - employing authorities.
  
- b) In particular, the statement must set out the Fund's policy on:
  - i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
  - ii. the format, frequency and method of distributing such information or publicity; and
  - iii. the promotion of the Scheme to prospective members and their employing authorities.

The day-to-day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by West Yorkshire Pension Fund (WYPF), in a shared service arrangement. Communication material is produced by WYPF in collaboration with the Pensions Team in Lincolnshire. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with WYPF.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website ([www.wypf.org.uk](http://www.wypf.org.uk)).

WYPF provide a dedicated enquiry phone numbers and emails for both scheme members and employers for pension related enquiries. For scheme members it is 01274 434999 and [pensions@wypf.org.uk](mailto:pensions@wypf.org.uk), and for employers it is 01274 434900 and [wypf.pfr@wypf.org.uk](mailto:wypf.pfr@wypf.org.uk).

The appropriately qualified staff from the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund’s objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

### Communications events - Scheme Members

Communication	Format	Frequency	Method of Distribution
LGPS active members (including representatives of retired members)	Newsletter	2 per year	Mail
	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Annual benefit statement	1 per year	Mail
	Roadshows	Quarterly	Face to face
	Mid-Life course	Monthly under trial	Face to face
	Pre-retirement course	Monthly	Face to face
LGPS deferred members (including representatives of deferred members)	www.wypf.org.uk	Constant	Web
	Contact Centre - Bradford	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Newsletter	1 per year	Mail
LGPS pensioner members (including representatives of retired members)	www.wypf.org.uk	Constant	Web
	Contact centre - Bradford	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail
	County Offices,	8.00 to 5.00	Face to face



Lincoln	Monday to Friday	
Pension advice slips	As and when net pension varies by 25p or more	Mail
P60	1 per year	Mail
Social media	Constant	Web
Newsletter	1 per year	Mail

### Communications events - Employers

Communication	Format	Frequency	Method of Distribution
Employers	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	Ad hoc training	As and when required	Face to face
	Update sessions	2 per year	Meeting
	Annual meeting	1 per year	Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Social media	Constant	Web
	Workshops	5 per year	Face to face
	Introduction to Pensions	Bi-monthly	Face to face
	Training webinars	Constant	Web
Online training video	Constant	Web	

# Governance Policy and Compliance Statement

Lincolnshire County Council, as administering authority (and Scheme Manager) for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

## **GOVERNANCE POLICY STATEMENT**

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director of Finance and Public Protection. The Public Service Pensions Act (2013) required all administering authorities to introduce a local Pension Board to assist the Scheme Manager.

### **Pensions Committee**

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- Drawing upon appropriate professional advice, to set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, and approval of the Investment Strategy Statement.
- To review the performance of Border to Coast Pensions Partnership Limited and its sub-funds, legacy fund managers and associated professional service providers.



- To approve the annual Report and Statement of accounts of the fund.
- To consider any other matters relevant to the operation and management of the fund.
- As necessary and appropriate issue instructions to the Council's representative as shareholder of Border to Coast Pensions Partnership Limited on matters affecting the exercise of the Council's rights as shareholder in the company.
- To respond to any relevant consultations impacting upon the benefit provisions of the Local Government Pension Scheme.

In fulfilling its functions the Committee shall have regard to the advice of the Lincolnshire Local Pension Board established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and shall receive and consider recommendations from the Border to Coast Pensions Partnership Joint Committee.

The Pensions Committee has four regular meetings, two manager monitoring meetings and two training meetings each year. In addition, one or more special meetings may be held to appoint new investment managers or other professional advisers.

The Pensions Committee's regular quarterly meetings are open to the public and agendas, reports and minutes are made available through the County Council's website. An annual report on the management of the fund is provided to all scheme employers with an abbreviated version distributed to scheme members.

### **Executive Director - Resources**

The Executive Director - Resources is responsible for the day-to-day administration of the benefits and assets of the pension scheme, specifically to:

- authorise payment of statutory pensions and allowances,
- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and
- agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

### **Lincolnshire Pension Board**



The Lincolnshire Pension Board will ensure the Scheme Manager effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board will also ensure that it complies with the knowledge and understanding requirements in the Pensions Regulator's Code of Practice.

In addition to the local structure, the Lincolnshire Pension Board is accountable to the Pensions Regulator and the National Scheme Advisory Board.

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti-fraud and corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

The role of the Lincolnshire Pension Board is set out below:

- Assist Lincolnshire County Council as Scheme Manager;
- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- In such other matters as the scheme regulations may specify.

The terms of reference for the Board are available on the Funds shared website with WYPF at [www.wypf.org.uk](http://www.wypf.org.uk).

The Lincolnshire Pension Board consists of five members:

- two employer representatives (to represent all employers within the Scheme)
- two scheme members representatives (to represent all members of the Scheme (active, deferred and pensioner))
- an independent member (to act as Chairman)

The employer and scheme member representatives can vote. The Independent Chairman cannot vote.

The Lincolnshire Pension Board has a minimum of four meetings each year. In addition, Board members must attend regular training events.

The Lincolnshire Pension Board meetings are open to the public and agendas, reports and minutes are made available through the Fund's shared website with WYPF at [www.wypf.org.uk](http://www.wypf.org.uk). An annual report on the work of the Board is included in the Fund's annual report, which is published on the Council's website and provided



to all scheme employers with an abbreviated version distributed to scheme members.

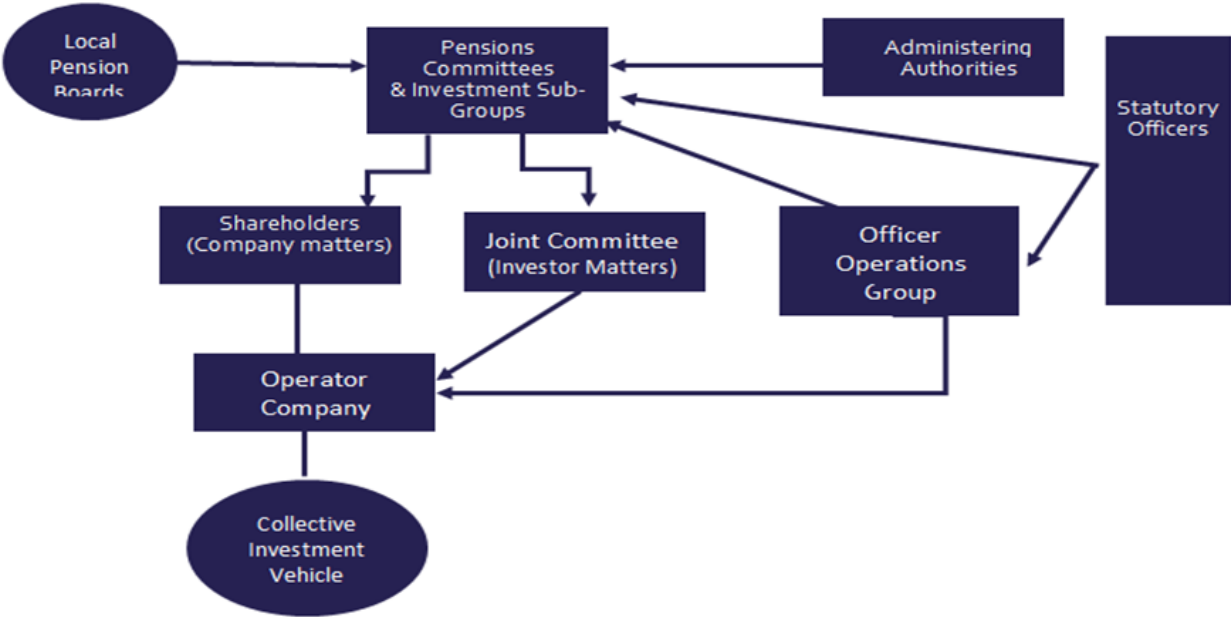
Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Code of Practice as published by the Pensions Regulator.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Head of Pensions (email: [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk) or telephone 01522 553656).

**Asset Pooling Governance**

In response to the change in regulations, LGPS Funds have to pool the investment of their assets. Lincolnshire Pension Fund is a Partner Fund in the Border to Coast Pensions Partnership Limited (Border to Coast), one of the eight asset pools created.

The diagram below shows the governance structure for Border to Coast.



The Fund will hold Border to Coast to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast (LCC S151 Officer).
- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast (Pensions Committee Chairman).
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group (Head of Pensions).

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to Border to Coast.

## GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
<b>A - Structure</b>	<b>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</b>	Yes	See terms of reference for the Pensions Committee in the Policy Statement above.
	<b>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</b>	Partial	The Council has not, to date, seen the need to establish a secondary committee/panel. It will, however, keep this aspect under review and does establish working groups from the Committee to deal with specific issues. Pensioner and deferred beneficiaries are not presently represented directly on the Committee – see B a. below.
	<b>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</b>	Not Relevant	As discussed above, no such forum has been established as yet.
	<b>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</b>	Not Relevant	As discussed above, no such forum has been established as yet.

<p><b>B - Representation</b></p>	<p><b>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-</b></p> <ul style="list-style-type: none"> <li>• <b>Employing authorities (including non-scheme employers, e.g. admitted bodies);</b></li> <li>• <b>Scheme members (including deferred and pensioner scheme members),</b></li> <li>• <b>Where appropriate, Independent professional observers, and</b></li> <li>• <b>Expert advisors (on an ad hoc basis)</b></li> </ul>	<p>Partial</p>	<p>The Committee has 11 members, all with voting rights, of which 8 are County Council Councillors. Other members include one representing other local authorities (district councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee. Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.</p>
	<p><b>b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</b></p>	<p>Yes</p>	<p>All members of the Committee have full voting rights and equal access to information, training, etc.</p>
<p><b>C – Selection and Role of Lay Members</b></p>	<p><b>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</b></p>	<p>Yes</p>	<p>Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered</p>

			on set dates.
	<b>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</b>	Yes	The declaration of member's interests is a standard item on the agenda of the Pensions Committee.
<b>D - Voting</b>	<b>a. That the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</b>	Yes	Full voting rights are given to all members of the Committee.
<b>E - Training/Facility Time/Expenses</b>	<b>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</b>	Yes	See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.
	<b>b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</b>	Yes	All members are treated equally in every respect.

	<b>c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</b>	Yes	The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.
<b>F – Meetings - Frequency</b>	<b>a. That an administering authority’s main committee meet at least quarterly.</b>	Yes	See Compliance Policy Statement above.
	<b>b. That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</b>	Not Relevant	As discussed above, no such forum has been established as yet.
	<b>c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</b>	Not Relevant	Three added members exist and have equal rights with all mainstream members in all respects.
<b>G – Access</b>	<b>a. That, subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to</b>	Yes	All members are treated equally in every respect.

	<b>committee papers, documents and advice that falls to be considered at meetings of the main committee.</b>		
<b>H – Scope</b>	<b>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</b>	Partial	The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance arrangements of the Council. A report on the administration of the scheme is taken to each quarterly committee meeting. At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.
<b>I - Publicity</b>	<b>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</b>	<b>Yes</b>	The County Council publishes the many governance documents and communicates regularly with employers and scheme members.

# Pensions Administration Strategy



## Contents

1. Regulatory framework and purpose
2. Review of the strategy
3. Liaison and communication
4. Employer duties and responsibilities
5. Payments and charges
6. Administering authority duties and responsibilities
7. Unsatisfactory performance
8. Appendices
  - a. Authorised contacts form
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  - c. Charging levels

## 1. Regulatory framework and purpose

### The Regulations

This strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

In line with these regulations Lincolnshire Pension Fund (LPF), West Yorkshire Pension Fund (WYPF) and Hounslow Pension Fund (HPF) employers have been consulted on the strategy, and a copy has been sent to the secretary of state.

### Purpose

This strategy covers all three Funds within the shared service, being Lincolnshire Pension Fund West Yorkshire Pension Fund and Hounslow Pension Fund, administered under a collaboration agreement. Within this document the shared service administration (based in Bradford with a satellite office in Lincoln), will be referred to as ‘the administrator’.

This strategy outlines the processes and procedures to allow LPF, WYPF, HPF and employers to work together in a cost- effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

## 2. Review of the strategy

This strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy or on a triennial basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers and a copy of the updated strategy will be sent to the secretary of state.

The administrator will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with the administrator at any time and may make suggestions for improvement to the strategy.

## 3. Liaison and communication

### Authorised contacts for employers

Each employer will nominate a contact to administer the three main areas of the LGPS:

- a strategic contact for valuation, scheme consultation, discretionary statements and IDRPs;
- an administration contact for the day-to-day administration of the scheme, completing forms and responding to queries; and

- a finance contact for completion and submission of monthly postings and co-ordination of exception reports.

If they wish, employers may also nominate additional contacts by completing an authorised user list. If a third-party organisation provides service for the employer they too can be added as an authorised contact.

All contacts will receive a login name and password that allows them to access the Civica employer portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a **Main contact registration** form and **Authorised user list** form, and sign the administrator’s user agreement for the secure administration facility.

The three main contacts are responsible for ensuring that contacts are maintained by notifying the administrator when one leaves and registering new contacts where necessary.

### Liaison and communication with employers

The administrator will provide the following contact information for employers and their members:

- a named Pension Fund Representative for regulatory or administration queries, training, advice and guidance;
- a named Finance Business Partner to assist with the monthly returns process; and
- a dedicated contact centre for member queries.

In addition to this, the administrator takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Face-to-face/telephone/e-mail
Website	Constant	Web
Fact card	1 per year	Mail
Fact sheets	Constant	Web
Employer guide	Constant	Web/electronic document
<i>Ad hoc</i> training	As and when required	Face-to-face
Update sessions	2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
<i>Pension Matters</i> and <i>round-up</i>	12 per year and as and when required	Wordpress blog and e-mail
Social media	Constant	Web
<i>Ad hoc</i> meetings	As and when required	Face-to-face
Workshops	10 per year	Face-to-face
Bite size workshops	2 per month on a trial basis	Cloud hosted live webinar

## 4. Employer duties and responsibilities

When carrying out their functions, employers must have regard to the current version of this strategy.

### Events for notification

Event	Preferred method of notification	Other methods	Target	Acceptable performance
<b>Monthly postings (submitted via secure portal)</b>	Approved spreadsheet	None	19 <sup>th</sup> day of the month following the month in which contributions were deducted.	100% compliance of returns received in target
<b>New starters</b>	Monthly return	None	Notified via the monthly return, the administrator will process the data within 2 weeks following monthly return submission.	90% compliance or better
<b>Change of hours, name, payroll number or job title</b>	Monthly return (exception report)	Web form	Notified via monthly returns, the administrator will process the data within 2 weeks following monthly return submission. For exception report output from the monthly return, change data response must be provided to the administrator within 2 weeks of receipt of the exception report. If the employer is not using monthly return, then information is due within 6 weeks of change event.	90% compliance or better
<b>50/50 &amp; main scheme elections</b>	Monthly return	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission.	90% compliance or better
<b>Service breaks/absence</b>	Web form	None	Within 6 weeks of the date of the absence commencing.	90% compliance or better

<b>Under 3 months opt-outs</b>	Monthly return	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission.	90% compliance or better
<b>Leavers</b>	Monthly return Web form Exception reports	None	Notified by the employer via monthly return, the administrator will process the data within 2 weeks following monthly data submission, else within 6 weeks of leaving. For exception reports leaver forms must be provided within 2 months of receipt of the exception report.	90% compliance or better
<b>Retirement notifications</b>	Web form	None	10 days before the member is due to retire unless the reason for retirement is ill health or redundancy.	90% compliance or better
<b>Death in service notification</b>	Web form	None	Within 3 days of the date of notification.	100% compliance

### Responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions. Organisations with third-party providers **cannot** delegate responsibility for this even if day- to-day tasks are carried out by that provider.

The administrator is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer.

In the event of the administrator being fined by The Pensions Regulator, this fine will be passed on to the relevant employer where that employer’s actions or inaction caused the fine.

### **Discretionary powers**

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy to employees in respect of the key discretions as required by the regulations.

### **Member contribution bands**

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

### **Internal dispute resolution procedure (IDRP)**

Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

## **5. Payments and charges**

### **Payments by employing authorities**

Employing authorities will make all payments required under the LGPS regulations, and any related legislations, promptly to LPF and /or its Additional voluntary contribution (AVC) provider (Prudential) as appropriate. If any fees, such as actuarial or legal fees, are incurred by LPF in relation to employer-specific work, they will be recharged to the employer requiring/requesting this work.

### **Paying contributions**

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission. The latest date contributions can be paid is the 19th day of the month following the month in which the deductions were made. The monthly posting submission should be uploaded to the administrator by the same deadline and the data should reconcile to the payment made.

Where the 19th falls on a weekend or bank holiday, the due date becomes the last working day prior to the 19th.

### **AVC deductions**

Employers will pay AVCs to the relevant provider within one week of them being deducted.

### **Late payment**

The employer may be reported to The Pensions Regulator where contributions are received late, in accordance with the regulator's code of practice. If a matching monthly posting

submission is not provided with a contribution payment by the deadline this will also be recorded as a late payment, because the fund will not be able to correctly allocate the payment received.

### **Payment method**

Contributions (but not AVC's) should be paid to the administrator by BACS payment direct to the LPF bank account.

### **Early retirement and augmentation costs**

Employers should pay the full early retirement cost (pension strain) and any augmentation costs in one instalment

### **Interest on late payment**

In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.

### **Employer contributions**

Employers' contributions rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

### **Actuarial valuation**

An actuarial valuation of the fund is undertaken every three years by the fund actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and secondary payment, if appropriate, for each employer for the subsequent three years.

### **Administration charges**

The cost of running the administrator is charged directly to the fund; the actuary takes these costs into account in assessing employers' contribution rates.

### **Administering authority duties and responsibilities**

When carrying out their functions the administrator will have regard to the current version of the strategy.

## **6. Scheme administration**

The administrator will ensure that workshops and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events:

- Employer annual meeting;
- Pre-retirement courses;

- New starters induction courses;
- Complete guide to administration workshops;
- Your responsibilities workshops;
- Monthly contributions workshops;
- Ill Health retirement workshops;
- Pensionable pay workshop; and
- Bite size training webinars.

## Responsibilities

The administrator will ensure the following functions are carried out:

- Provide a helpdesk facility for enquiries, available during normal office hours, providing a single point of access for information relating to the scheme;
- Create a member record for all new starters admitted to the scheme;
- Collect and reconcile employer and employee contributions;
- Maintain and update members' records for any changes received by the administrator;
- At each actuarial valuation, the administrator will forward the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that they can determine the assets and liabilities for each employer;
- Support LPF to communicate the results of the actuarial valuation of the fund to each employer;
- Provide every active, deferred and pension credit member with a benefit statement each year;
- Provide estimate of retirement benefits on request by the employer;
- Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits; and
- Comply with HMRC legislation.

## Decisions

The administrator will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

## Discretionary powers

The administrator will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

## Internal dispute resolution procedure (IDRP)

The administrator will deal with employer appeals at stage two of the IDRP.

The administrator will nominate an adjudicator to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision the administrator has made or is responsible for making.



## Fund performance levels

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member records created	10	85%
2. Update personal records	10	85%
3. Posting monthly contributions to member records	10	95%
4. Calculate and action incoming transfer values	35	85%
5. Deferred benefits – payment of lump sums	3	90%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions – payment	5	90%
9. Pay transfers out on receipt of acceptance	35	85%
10. Provide estimate of retirement benefits	10	75%
11. Retirement benefits – payment of lump sum	3	90%
12. Retirement benefits – recalculations of pension/lump sum	10	85%
13. Calculation and payment of death benefits on receipt of all necessary information	5	90%
14. Make death grant payment to the member's nomination (provided all relevant information is received)	1 month	100%
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members by		31 May
17. Annual benefit statements issued to active members by		31 August
18. Make payment of pensions on the due date		100%
19. Issue P60's to pensioners within statutory deadlines		100%
20. Provide information on request in respect of pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%
23. Implement changes in pensioner circumstances for the next available pensioner payroll		100%

## 7. Unsatisfactory performance

### Measuring performance

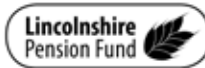
Both employer and administrator targets will be measured on a quarterly basis using the Civica document management system. Employers will be notified of their performance level each quarter.

Administrator performance levels will be published on a monthly basis to the shared service pension funds and fire authorities.. Overall employer and administrator performance will be published by LPF in the Report and Accounts.

**Unsatisfactory performance**

Where an employer materially fails to operate in accordance with the standards described in this strategy, and this leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

## Appendix A – Main contact registration and authorised user list



### Main contact registration form

<b>Employer name and location code</b>
<b>Employer address</b>

**Important:** please read the guidance note on **Managing your WYPF contacts** before you complete this form.

#### Strategic contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

#### Administration contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

#### Finance contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

#### Contact at third-party payroll provider (if applicable and not listed above)

Name	Company name and address
Job title	
Phone	Specimen signature
Email	

<b>Date signatures valid from</b>	<b>Signed (by current authorised signatory)</b>
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## Appendix B – Schedule of charges

Performance areas	Reason for charge	Basis of charge
Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III), minimum half day charge of £110 + VAT + cost of recovery actions (court and legal fees). Any part or all of this charge may be waived at head of service discretion.
Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th).	Due by 19th month – late receipt of funds, plus cost of additional time spent chasing payment.	Number of days late interest charged at base rate plus 1%. Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 a day. This may be waived at head of service discretion.
Monthly return due anytime but latest by 19th month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months.	Due by 19th month, any additional work caused by late receipt of information incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 a day. This may be waived at head of service discretion.
Change in member detail	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to the administrator within 2 weeks of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Early leavers information	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission, else within 6 weeks of date of	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a

	leaving. For exception reports leaver forms provided to the administrator within two months of receipt of the exception report.	day. This may be waived at head of service discretion.
Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
Death in membership	Due within 3 working days of the notification – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III) at £220 + VAT a day. This may be waived at head of service discretion.
AVC deducted from pay to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th).	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in admin charge (at pension officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers.	Costs of additional work resulting from employer's failure to notify the administrator of change in authorised officers list.	Failure to comply by employer, causing additional work for the administrator will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
Security breach on system re	Recharge employers any fines	Actual amount fine imposed +

data protection.	imposed on us in this event.	admin charge (admin charge will be based on managerial input at level III) at £220 + VAT a day. This charge may be waived at head of service discretion.
Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable.	1st request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made. This charge is for each member's record folder reference.
Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order.	The charge is £250 + VAT for this work.
Miscellaneous items: • Benefit recalculation • Member file search and record prints • Supplementary information requests	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + VAT will be levied. Where the member has more than one known record, the charge is for each record.

## Appendix C – Charging Levels

Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made.

Charge levels	I	II	III
Daily charge	£96	£136	£220
Half day charge	£48	£68	£110

Level I – work at Pensions Officer level

Level II – work at Senior Pensions Officer level

Level III – work at Pensions Manager level





# Agenda Item 14

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of the Local Government Act 1972.

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# Agenda Item 15

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