

Lincolnshire Pension Fund Business Plan 2020/21



INTRODUCTION

Lincolnshire County Council is the Administering Authority of the Lincolnshire Local Government Pension Scheme (LGPS).

Management of the Pension Fund is delegated to the Pensions Committee acting in the role of 'trustees' of the Pension Fund. The day to day running of the Fund has been delegated to the Executive Director of Resources and the Head of Pensions.

The Pensions Team has responsibility for all aspects of the Fund including governance, investments and accounting, and the oversight of the administration service that is managed in a shared service with West Yorkshire Pension Fund (WYPF).

The Business Plan is an important document which sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.

A report on the management of key risks is also included as part of the Business Plan.

OBJECTIVES

The Fund's overarching objectives are:

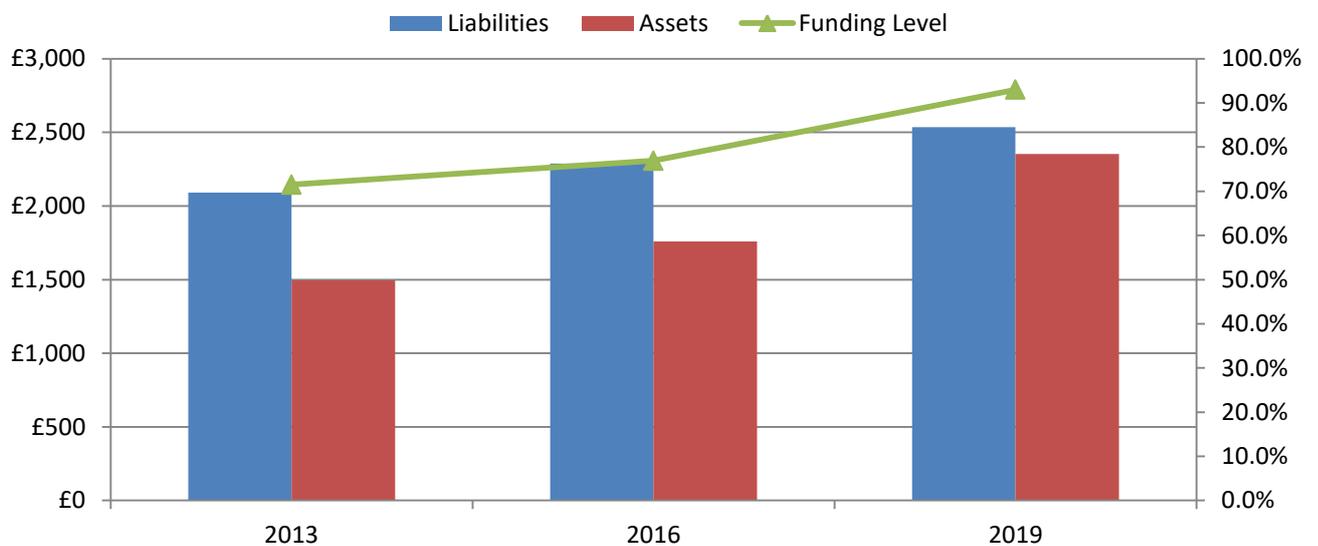
- **Governance:** To act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, well based and undertaken by people who have the appropriate knowledge and expertise;
- **Investments and Funding:** To maximise returns from investments within reasonable risk parameters and with clear investment decisions based on a prudent long term funding priorities, given the preference to keep employer contribution rates reasonably stable where appropriate; and
- **Administration and Communications:** In partnership with WYPF, to deliver an effective and efficient Pensions Administration service to all stakeholders, to ensure that the Fund receives all income due and payments are made to the right people at the right time, and to provide clear, appropriate and timely communication and support to all stakeholders;

PENSION FUND STATISTICS

The Lincolnshire Pension Fund was valued at £2,542.1 million as at the 31 December 2019.

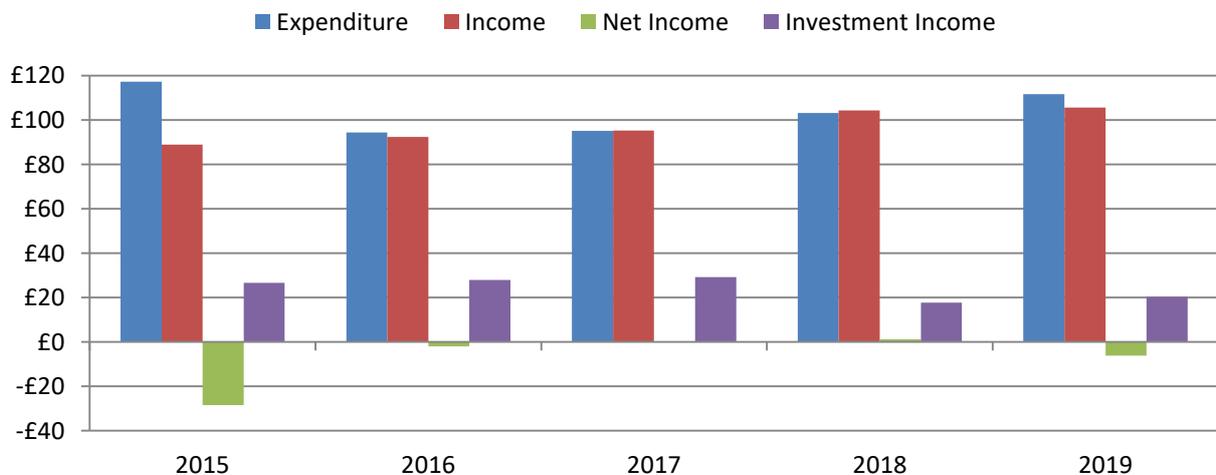
Actuarial valuations are carried out every three years, with the latest being as at 31 March 2019. The valuation provides a value for the liabilities and assets of the Fund and for each employer, to determine the overall funding level and to calculate individual employer contribution rates. The chart below shows the last three valuation cycles.

Progression of funding position:



Axis - Left hand side - £m / Right hand side - Funding Level

Cashflow:

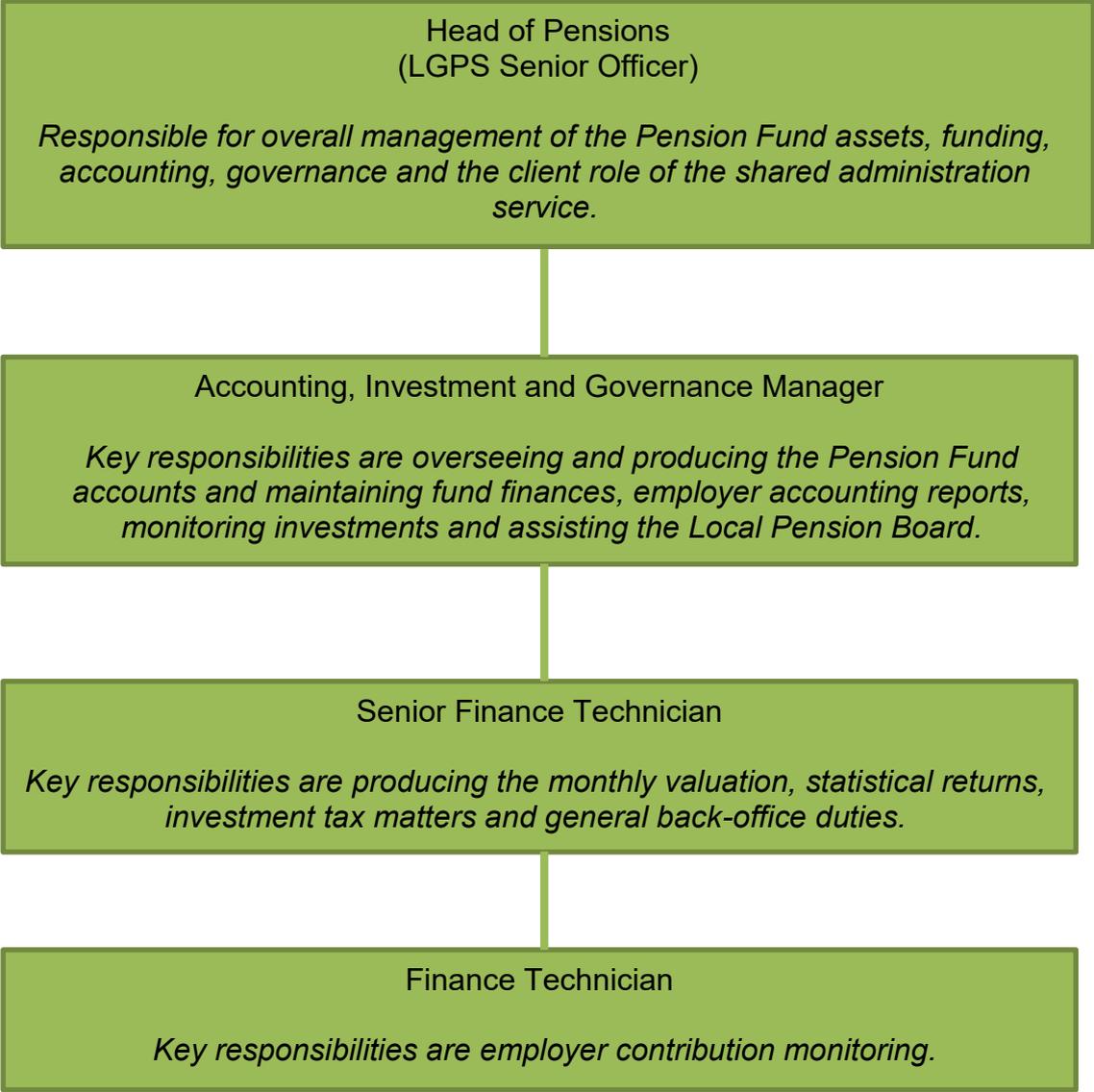


Axis - Left hand side - £m

NB: Expenditure includes all costs of managing the Fund

RESOURCES AND BUDGET

The organisational structure of the Pension Fund team is illustrated below:



The Fund also accesses other services within the Council, such as the expertise of the Treasury Manager who manages the cash the Fund holds and Legal Services who provide advice, in addition to external providers such as the independent investment adviser, the actuary, the investment consultant, the external Investment Managers and any other specialist external advisers as required.

As mentioned previously, the administration function is provided by West Yorkshire Pension Fund in a shared service arrangement, with a number of staff co-located with the Pensions Team in Lincoln.

The estimated costs of operating the Lincolnshire Pension Fund for 2020/21 are shown below. They are split between Administration Costs, Investment Management Expenses and Oversight and Governance Costs.

- **Administration Costs** include the costs of dealing with Fund members and employers in relation to current and future benefits. This service is provided to Lincolnshire Pension Fund via a Share Service with West Yorkshire Pension Fund.
- **Investments Management Expenses** include the cost of Fund Managers, Border to Coast Pension Partnership and the Fund's Custodian.
- **Oversight and Governance Costs** include the cost of the Fund's actuary, external auditor and other advisors, staffing costs for the running of the Fund and the cost of the Local Pensions Board. Actuarial costs incurred by individual employers within the Fund are recharged to that employer.

| | Budget 2020/21 £'000 |
|---|----------------------------|
| <u>Administration Costs</u> | |
| - Charge from Shared Services Administrator | 1,283 |
| - Other | 1 |
| <u>Investment Management Expenses</u> | |
| - Management Fees | 9,172 |
| - Performance Related Fees | 0 |
| - Other Fees * | 942 |
| <u>Oversight and Governance Costs</u> | |
| - Contracted Services | 361 |
| - Recharge of Actuarial Services | -160 |
| - Recharge from Administering Authority | 248 |
| - Other Costs | 41 |
| | 11,888 |

* Other Fees includes: Custody Fees and Transaction Costs.

The Pension Fund's Annual Report and Accounts provide more detail on all costs incurred during each year and reported at the July Committee meeting.

KEY TASKS 2020/21

The plan below highlights the key tasks of the Pension Scheme, linked to the objectives of the Fund. Much of the work will cross more than one objective stream.

| Subject | Context | 2020/21 Action | Objective stream |
|---|---|---|--|
| Pensions Committee and Board meetings | The responsibility for the Pension Fund is delegated to the Pensions Committee, with the Pension Board providing an oversight role on the administration and governance of the Fund. | Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and /or Board. | Governance Investments and Funding Administration and Communications |
| Asset Pooling with Border to Coast | Border to Coast Pensions Partnership has been created to meet the Government's investment reform criteria. In accordance with regulations and statutory guidance, assets should transition to the management of Border to Coast as appropriate vehicles become available. | Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. | Governance Investments and Funding |
| Administration Service (including employer data quality) | A good performing administration service is key to our stakeholders and for ensuring the quality of information held is appropriate for calculating benefits and liabilities. | Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information. | Governance Administration and Communications |
| Annual Report and Accounting | The Fund is required to produce an Annual Report and Accounts document and ensure the financial statements are accepted as a true and fair view by auditors. | A detailed project plan has been put in place, built on experience from previous years and updated for new requirements. On-going engagement with the external auditors to ensure all requirements can be met in a timely | Governance |

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| | | manner. | |
| Responsible Investment (RI) | There is continued focus on how LGPS Funds can best address and manage RI issues such as environmental, social and governance matter (ESG). | Continued information and training for the Committee and Board to understand RI. Working closely with external managers and Border to Coast to ensure that it is embedded across all investment decisions. | Governance Investments and Funding |
| Actuarial Services Tender | The contract with the Fund's Actuary expires in October 2020. The national framework for actuarial services is being refreshed and will be available to call off in the summer. | Participate in the national framework refresh and call off the new framework once completed. Recommend an actuarial appointment to the Committee. | Governance Investments and Funding |
| Work by the Scheme Advisory Board (SAB) | The SAB have a number of projects underway to improve the management /governance of LGPS Funds. | Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality. | Administration and Communications |
| Employer Accounting | Employers within the Fund require pensions accounting information at various times of the year, for inclusion in their statutory accounts. | Work with employers, the Actuary and WYPF to ensure employers understand their choices, accurate and timely data is sent to the Actuary and accounting reports are received and understood by employers. | Investments and Funding Administration and Communications |

KEY RISKS

The table below highlights the key risks that face the Pension Fund, and the mitigating actions being taken to minimise, where possible, those risks. A more detailed risk register is brought to the Committee in full in July.

| Risk Theme | Key Action |
|--|---|
| Governance | |
| Statutory governance requirements not met. | Governance and Compliance statement and statutory policies reviewed annually. Monthly reporting to the Committee and Board. On-going training with Committee and Board. |
| Failure to ensure that the Committee's knowledge and understanding of pensions related activities is robust and meets all statutory requirements. | Annual Training policy and plan approved. Induction and ad-hoc training provided. Semi-annual training for Committee. |
| The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance. | Continued strong involvement in the work of Border to Coast at officer and at Pensions Committee Chairman level. |
| Failure to ensure that the Pension Board is effective in carrying out its role. | Induction and on-going training and work plan agreed. Semi-annual training for Board members. Regular assessment of Board effectiveness. |
| Investments and Funding | |
| Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy | Prudent assumptions adopted by the Fund Actuary. Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Regularly review investment performance and funding levels. |
| Performance of the Fund's assets and managers not in line with expected returns. | Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Clear Investment Management Agreements in place. Regularly review investment performance and funding levels. Consideration of Environmental, Social and Governance issues on the |

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| | performance of the portfolio. |
| Transition of assets to Border to Coast into inappropriate vehicles. | Monitor, maintain and review the Investment Strategy Statement. Regular strategy reviews to monitor and review the transition timetable and expectations. Continued close working with Border to Coast to develop investment vehicles. |
| Failure to meet requirements as a responsible investor - across all ESG risks (including climate change and a move to a low carbon economy). | Regular discussion and reporting from managers and Border to Coast. Stewardship Code, RI Beliefs and appropriate RI policies in place and approved by Committee. Training and education of RI matters. |
| Political environment (locally or nationally) impact on investment opportunities, markets and legislative requirements. | Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses. Regular training and communications with the Committee. |
| Administration and Communication | |
| Inability to deliver the administration service in accordance with the agreement. | Administration report and performance indicators reported quarterly and presented to Committee. Bi-monthly meetings with WYPF. Regular audits by both LCC and WYPF. Complaint reporting and reviews Customer surveys undertaken. |
| Poor quality data resulting in error and misstatement. | Develop and implement a Data Improvement Plan. Maintain robust accounting records. |
| Cyber security breach resulting in personal data being accessed fraudulently. | Strong IT environment for administration system and web-based Portals. |
| Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations or reducing covenant strength. | Clear Admission Agreements in place. Guidance published and reviewed relating to the Scheme requirements. Proactive engagement with employers. |
| Employer breaches – data, contributions etc. | Administration strategy with Employers. Employer training and assistance offered. Monthly contribution monitoring. |
| People | |
| Loss of key staff and loss of knowledge and skills. | Diversified staff / team and succession plans in place. Building on Border to Coast and partner fund relationships. |

FORWARD PLAN – 2020/2021 COMMITTEE AND BOARD MEETINGS

Below are the planned reports as known at the time of writing – additional reports may be added.

| Date | Topics |
|--------------------------------------|--|
| June 2020 Committee papers | External Manager Presentations Border to Coast Invesco Asset Management Morgan Stanley Alternatives |
| Jul 2020 Committee papers | Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report Annual Property Report Actuarial Methodology and Approaches Risk Register Annual Review Annual Training Report Annual Report and Accounts |
| Jul 2020 Board papers | Fund Update Pensions Administration Update TPR Data Scoring Employer Contributions Monitoring Cyber Security Report Risk Register Annual Review Actuarial Methodology and Approaches Annual Report and Accounts Training Needs Workplan |
| Sep 2020 Training | To be agreed |
| Oct 2020 Committee papers | Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report |

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| | <p>Annual Fund Performance Report Actuarial Appointment Report Audit Governance Report</p> |
| <p>Oct 2020 Board papers</p> | <p>Fund Update Pensions Administration Update TPR Data Scoring Employer Contributions Monitoring Actuarial Appointment Report Audit Governance Report Meeting of the Border to Coast Pension Board Chairs Training Needs Workplan</p> |
| <p>Dec 2020 Committee papers</p> | <p>External Manager Presentations Border to Coast</p> |
| <p>Jan 2021 Committee papers</p> | <p>Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report B2C RI policy and voting guidelines update and LPF alignment</p> |
| <p>Jan 2021 Board papers</p> | <p>Fund Update Pensions Administration Update TPR Data Scoring Employer Contributions Monitoring Meeting of the Border to Coast Pension Board Chairs Training Needs Workplan</p> |
| <p>Feb 2021 Training</p> | <p>To be agreed</p> |
| <p>Mar 2021 Committee papers</p> | <p>Independent Advisor Market Update Local Board Update Fund Update Pensions Administration Update Employer Contributions Monitoring Investment Management Report</p> |

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| | <p>Annual Policies Review Review and Approval of Accounting Policies Business Plan and Budget Review</p> |
| <p>Mar 2021 Board papers</p> | <p>Fund Update Pensions Administration Update TPR Data Scoring Employer Contributions Monitoring Annual Policies Review Review of Accounting Policies Business Plan and Budget Review Training Needs Workplan</p> |