

# **Lincolnshire Pension Fund Business Plan 2023/24**



## 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 – Resources, the Assistant Director – Finance, 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 arrangement 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:

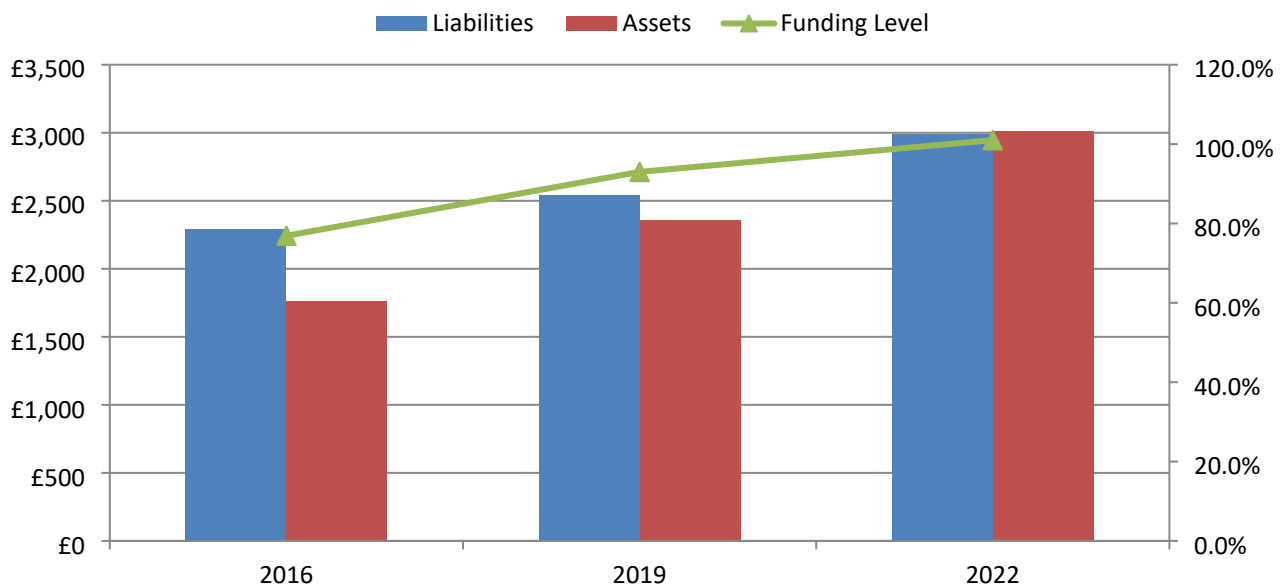
- **Governance:** To act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, well based and undertaken by people who have the appropriate knowledge and expertise;
- **Investments and Funding:** To maximise returns from investments within reasonable risk parameters 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 £2,926.8 million as at the 31 December 2022.

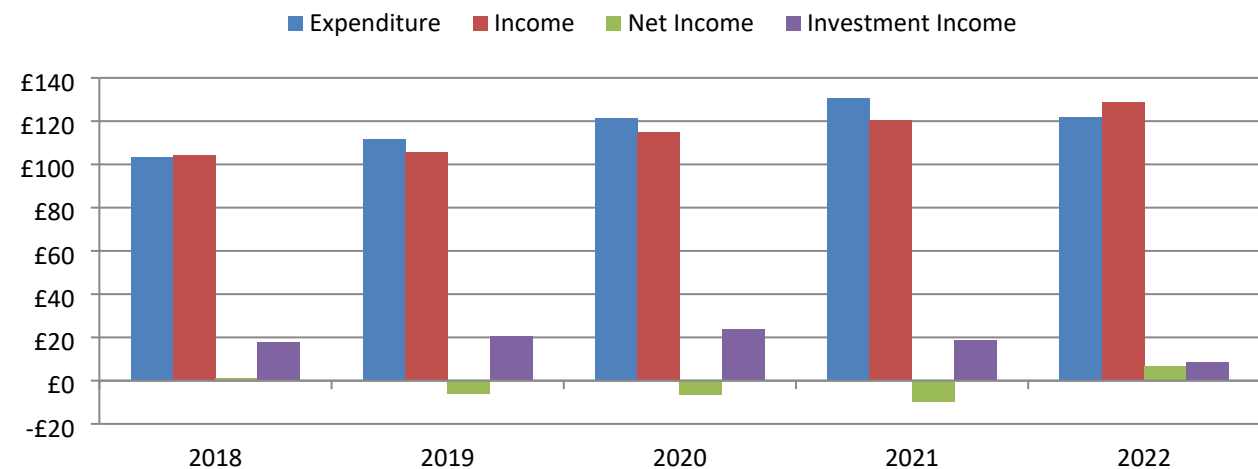
Actuarial valuations are carried out every three years, with the latest being as at 31 March 2022. The valuation provides a value for the liabilities and assets of the Fund and for each employer, to determine the overall funding level and to calculate individual employer contribution rates. The charts below show the funding position across the last three valuation cycles and the cashflow position over the last five years.

### Progression of funding position:



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

### Cashflow:

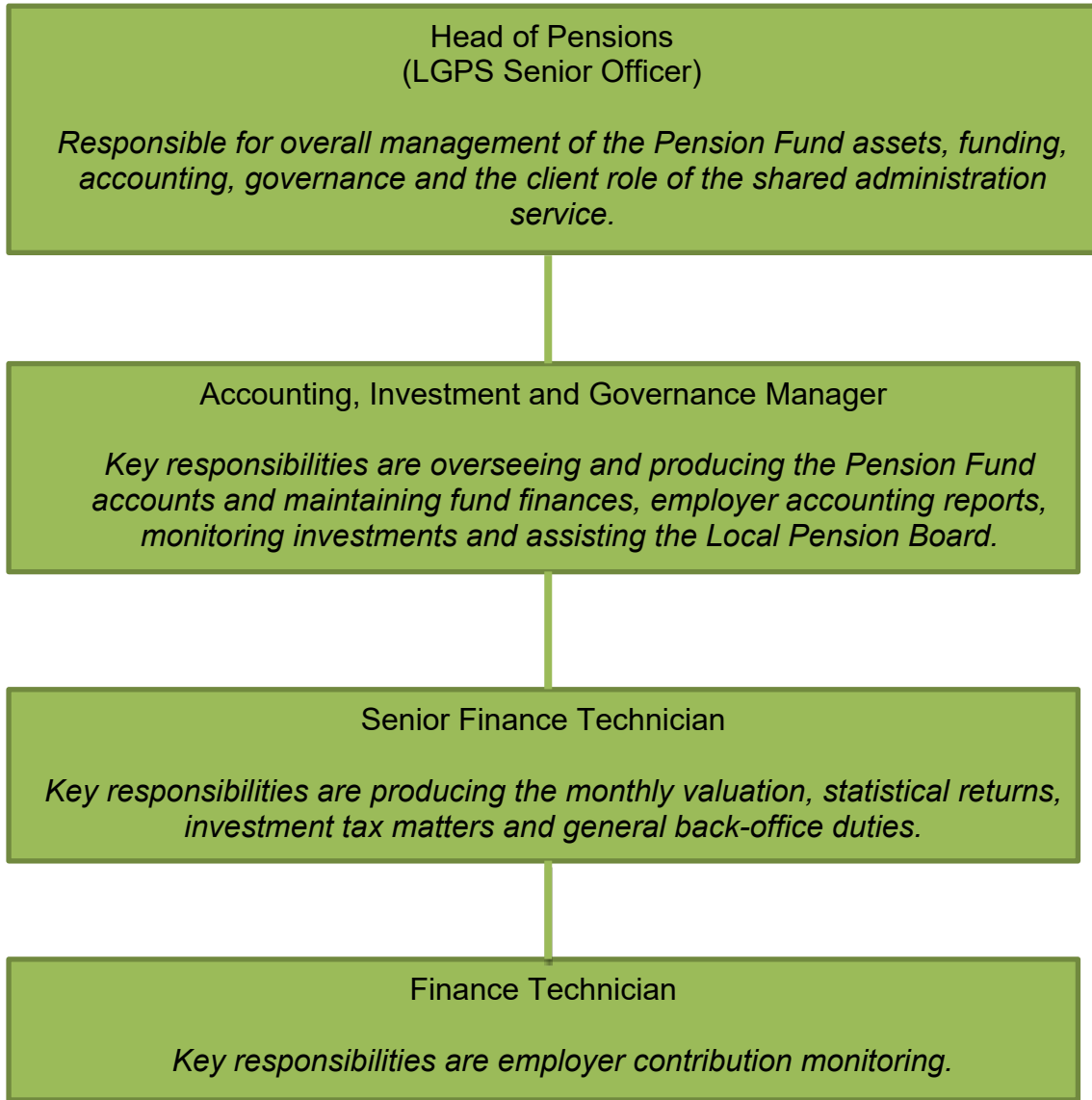


Axis - Left hand side - £m

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 office space provided alongside the Pensions Team in Lincoln.

The estimated costs of operating the Lincolnshire Pension Fund for 2023/24 are shown below, and profiled over the four quarters. 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 through a shared service with West Yorkshire Pension Fund.
- **Investments Management Expenses** include the cost of Fund Managers and the Fund's Custodian.
- **Oversight and Governance Costs** include the cost of the Fund's actuary, investment consultant, external auditor and other advisors. Actuarial costs incurred by individual employers within the Fund are recharged to that employer. In addition, it includes staffing and accommodation costs associated with running the Fund, costs associated with the Local Pensions Board and governance costs at Border to Coast Pensions Partnership.

	<b>Profiled Budgets</b>				
	<b>Budget</b>	Budget	Budget	Budget	Budget
	<b>2023/24</b>	Q1	Q2	Q3	Q4
	£'000	£'000	£'000	£'000	£'000
<u>Administration Costs</u>					
- Charge from Shared Services Administrator	1,430	0	1,430	1,430	1,430
- Other (*1)	1	0.25	0.50	0.75	1
<u>Investment Management Expenses</u>					
- Management Fees	10,200	500	1,000	1,500	10,200
- Performance Related Fees	1,500	0	0	0	1,500
- Other Fees (*2)	840	30	60	90	840
<u>Oversight and Governance Costs</u>					
- Contracted Services	349	50	50	400	349
- Recharge of Actuarial Services	-102	-15	-15	-80	-102
- Recharge from Administering Authority	295	65	130	195	295
- Border to Coast Governance Costs	320	315	315	315	320
- Other Costs (*3)	21	8	8	8	21
	<b>14,854</b>	<b>953</b>	<b>2,979</b>	<b>3,859</b>	<b>14,854</b>

(\*1) Other Administration Costs include cost of document storage and income from employer fines.

(\*2) Other Fees include Custody Fees and Transaction Costs.

(\*3) Other Costs in Oversight and Governance include such costs as the Pension Board, conferences and travel.

The staffing and structure review undertaken in 2021/22 identified a requirement for a new position in the team, which was approved by the Executive Director of Resources. The recruitment was not successful in 2022/23, and following changes to the new post, it is hoped to recruit in 2023/24. The successful appointment to this new post will have budget implications on the recharge from the administering authority.

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

## KEY TASKS 2023/24

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	2022/23 Review	2023/24 Actions	Objective stream
<b>Pensions Committee and Board meetings</b>	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.	All Pension Committee and Board meetings held as expected. Committee and Board agendas were reviewed, and the structure of the meetings changed for 23/24 to make them more fit for purpose.	Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and /or Board. Induction and training for any new Committee or Board members to be arranged at the earliest opportunity.	Governance  Investments and Funding  Administration and Communications
<b>Asset Pooling with Border to Coast</b>	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.	Oversight meetings held at officer, S151 and Joint Committee levels. Continued development on the property funds.	Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. Expected investment into Overseas Property sub-fund (Q2/3) and further development of the UK property.	Governance  Investments and Funding

<p><b>Alternative Investments</b></p>	<p>The alternative investments are currently managed in a discretionary mandate by Morgan Stanley. Border to Coast offer a number of alternative funds covering private equity, private credit and infrastructure. A decision needs to be made on whether this should transition to Border to Coast.</p>	<p>Decision made on the alternative investments to retain Morgan Stanley for the medium term.</p>	<p>n/a</p>	<p>Investments and Funding</p>
<p><b>Administration Service (including employer data quality)</b></p>	<p>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.</p>	<p>Strong KPI figures generally throughout the year and positive customer survey responses, as reported to Committee and Board each quarter. Work undertaken to look at the options for the administration service as the shared service arrangement comes to the end of its term in March 2024, with a recommendation brought to the March 2023 Committee.</p>	<p>Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information. Working with WYPF to improve and clearly document the governance structure of the shared service. Undertake the required actions to meet the recommendation taken to the March Pensions Committee on the administration provider.</p>	<p>Governance Administration and Communications</p>



<p><b>Annual Report and Accounting</b></p>	<p>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.</p>	<p>Delayed receipt of external audit opinion due to an issue with the Council's accounts meant Pension Fund accounts were published by 1 December without the opinion, but with an unqualified opinion was expected. The accounts opinion has yet to be received.</p>	<p>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 manner. Arrange contact with the new external auditors ahead of the move from Mazars to KPMG.</p>	<p>Governance</p>
<p><b>Responsible Investment (RI)</b></p>	<p>There is continued focus on how LGPS Funds can best address and manage RI issues such as environmental, social and governance matter (ESG).</p>	<p>The Committee received regular updates and information on RI activity undertaken by managers. The Stewardship Code submission was made to the FRC in October 2022 for the financial year to 31 March 2022 and was successful. Work continued with external managers and Border to Coast to ensure that RI is embedded across all investment decisions.</p>	<p>Continued information and training for the Committee to understand RI. Working with external managers and Border to Coast to ensure that it is embedded across all investment decisions. Ensure the investment strategy reflects the RI beliefs. Consider and develop climate change policy and any net zero target. Respond to the requirements from the Climate Reporting consultation once the guidelines are published.</p>	<p>Governance Investments and Funding</p>

<p><b>Work by the Scheme Advisory Board (SAB)</b></p>	<p>The SAB have a number of projects underway to improve the management /governance of LGPS Funds.</p>	<p>Unfortunately the Good Governance project has still been delayed. The Fund responded to any requests from SAB throughout the year.</p>	<p>Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality. Undertake a high-level governance review in Summer/Autumn 2023 to identify potential gaps against the Good Governance requirements.</p>	<p>Administration and Communications  Governance</p>
<p><b>Employer Accounting</b></p>	<p>Employers within the Fund require pensions accounting information at various times of the year, for inclusion in their statutory accounts.</p>	<p>All employers received appropriate accounting reports as required.</p>	<p>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.</p>	<p>Investments and Funding  Administration and Communications</p>
<p><b>Staffing and Structure Review</b></p>	<p>The workloads and requirements of the team have expanded considerably over the last few years, therefore a review of the current staffing and structure is required to ensure it is fit for purpose.</p>	<p>Following the workload review in 2022, a new post was agreed for a Principal Investment, Accounting and Governance Officer. Unfortunately, the recruitment to this post was unsuccessful, so a career grade post has been identified to grow someone into the role.</p>	<p>To successfully recruit to the new career grade post for Principal Investment, Accounting and Governance Officer and integrate them into the team.</p>	<p>Governance  Investments and Funding  Administration and Communications</p>

<b>Triennial Valuation</b>	<p>The three yearly valuation of the Pension Fund's assets and liabilities is as of 31 March 2022. This will set the employer rates for the three years from to 1 April 2024.</p>	<p>The Triennial Valuation process went as planned, with good quality data submitted on time, and employers receiving and accepting their new contribution rates – all employers returned signed declarations. The updated Funding Strategy Statement was taken to the March Pensions Committee, following consultation with employers.</p>	<p>n/a</p>	<p>Governance  Investments and Funding  Administration and Communications</p>
<b>Independent Advisor Review</b>	<p>The Committee's independent advisor is standing down as of 30 April 2023.</p>	<p>n/a</p>	<p>The Committee will review their requirements for independent advice, having considered the Good Governance Review, and appropriate action will be taken to meet those needs.</p>	<p>Governance  Investments and Funding</p>
<b>Custodian Tender</b>	<p>The current contract with the Fund's custodian, Northern Trust, expires on 31 March 2024.</p>	<p>n/a</p>	<p>Officers will undertake a call-off from the National Framework for Custody Services and recommend an appointment at the December Pensions Committee.</p>	<p>Governance  Investments and Funding</p>

## 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 October.

Risk Theme	Key Action
<b>Governance</b>	
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. Minimum of twice-yearly training for Committee. LGPS On-Line Learning Academy to be completed by all members.
Governance of asset pooling - management of relationship with Border to Coast.	Continued strong involvement in the work of Border to Coast at officer and at Pensions Committee Chairman level. Governance review undertaken in 22/23.
<b>Investments and Funding</b>	
Required returns not met due to poor strategic allocation and assets not enough to meet liabilities.	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 and report to Committee.
Poor long term investment performance or non-compliance from managers.	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 and report to Committee. Consideration of Environmental, Social and Governance issues on the performance of the portfolio.
Asset pooling - transition of assets from existing mandates to Border to Coast.	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.

<p>Failure to meet requirements as a responsible investor - across all ESG risks (including climate change and a move to a low carbon economy).</p>	<p>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.</p>
<p>Cashflow issues so not enough income to meet pension payments due, as a result of:</p> <ul style="list-style-type: none"> <li>• increasing pension payments due to inflation</li> <li>• reduction in active members and therefore contributions</li> <li>• increase in retirements and therefore pensioners</li> <li>• reduction in employers' secondary contributions due to higher funding levels</li> </ul>	<p>Cashflow monitoring and consideration of income producing investments as part of strategic asset allocation review. Working with Border to Coast to identify income options in investment vehicles.</p>
<p><b>Administration and Communication</b></p>	
<p>The administrator does not perform its functions in accordance with the agreement, including:</p> <ul style="list-style-type: none"> <li>• contribution collection and allocation</li> <li>• benefit calculation and payment</li> <li>• GMP reconciliation and rectification</li> <li>• meeting TPR requirements</li> </ul>	<p>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. Shared service policies.</p>
<p>Cyber security breach resulting in personal data being accessed fraudulently.</p>	<p>Strong IT environment for administration system and web-based Portals. Council policies and training. Reporting to Committee and Board.</p>
<p>Increased risk of employers exiting as a result of:</p> <ul style="list-style-type: none"> <li>• reducing employer covenant strength</li> <li>• unaffordability of scheme</li> <li>• reducing membership</li> </ul> <p>Leading to:</p> <ul style="list-style-type: none"> <li>• costly cessation surplus payments</li> <li>• deficit payments not meeting actual long-term liabilities</li> <li>• insolvency of employers</li> </ul>	<p>Clear Admission Agreements in place. Guidance published and reviewed relating to the Scheme requirements. Proactive engagement with employers. Pass-through and Exit Credit policies in place. Covenant and contribution monitoring.</p>
<p>Fraud risk not managed.</p>	<p>Internal and external audits. Monthly reporting. Clear reconciliation procedures. Regular National Fraud Initiative reporting.</p>

Changes in legislation not implemented correctly, currently McCloud and Pensions Dashboard.	Regular meetings and reporting with WYPF. Membership of professional networks. Pension Board oversight.
<b>People</b>	
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 – 2023/2024 COMMITTEE AND BOARD MEETINGS

A review of the reporting structure was undertaken in 2022/23. The outcome was to split the Committee meetings between Investments and RI, and Administration and Governance, to allow more to time focus on the subjects and introduce training at each meeting. Below are the planned reports as known at the time of writing – additional reports may be added.

Date	Topics
<b>Jun 2023</b> Investment and RI Meeting Committee papers	<i>Meeting to be held at Border to Coast's Offices – Leeds</i> Stewardship Update Report Market Update Report Investment Management Report Manager Presentation – Border to Coast FI Funds Training from Border to Coast
<b>Jul 2023</b> Administration and Governance Meeting Committee papers	Local Board Report Fund Update Report Pensions Administration Update Draft Annual Report and Accounts Annual Training Plan and Policy Review Training - Annual Report and Accounts
<b>Jul 2023</b> Board papers	New Board Members Fund Update Report Pensions Administration Update Data Scores Report Draft Annual Report and Accounts Training Paper Work Plan

<p><b>Sep 2023</b> Investment and RI Meeting Committee papers</p>	<p>Stewardship Update Report Market Update Report Annual Property and Infrastructure Report Investment Management Report Manager Presentation – Morgan Stanley Training</p>
<p><b>Oct 2023</b> Administration and Governance Meeting Committee papers</p>	<p>Local Board Report Fund Update Report Pensions Administration Update Risk Register Review Annual Performance Report Annual External Audit Update Training</p>
<p><b>Oct 2023</b> Board papers</p>	<p>Fund Update Report Pensions Administration Update Temporary Bank Accounts Report Risk Register Review Training Paper Work Plan</p>
<p><b>Dec 2023</b> Investment and RI Meeting Committee papers</p>	<p>Stewardship Update Report Market Update Report Border to Coast RI and Voting Policies Investment Management Report Custodian Contract Tender Manager Presentation – Border to Coast Equity Funds Training</p>
<p><b>Jan 2024</b> Administration and Governance Meeting Committee papers</p>	<p>Local Board Report Fund Update Report Pensions Administration Update Annual Employer Monitoring Report Training</p>
<p><b>Jan 2024</b> Board papers</p>	<p>Fund Update Report Pensions Administration Update Data Scores Report Training Paper Work Plan</p>

<p><b>Mar 2024</b> Administration and Governance Meeting Committee papers</p>	<p>Local Board Report Fund Update Report Pensions Admin Update Policies Review Annual Report and Accounts Business plan and budget setting Training - LGPS Governance</p>
<p><b>Mar 2024</b> Board papers</p>	<p>Fund Update Report Pensions Admin Update Temporary Bank Accounts Policies Review Annual Report and Accounts Policies Business plan and budget Setting Training Paper Work Plan</p>
<p><b>Apr 2024</b> Investment and RI Meeting Committee papers</p>	<p>Stewardship Update Report Market Update Report Investment Management Report Manager Presentation – Property/Infrastructure Funds Training</p>