

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

Report to:	Pensions Committee
Date:	13 July 2023
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 March 2023 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard and Code of Practice
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Internal Audit – Pensions Administration
7. Custodian Tender
8. Pensions Team Structure
9. Conference and Training Attendance

Recommendation(s):

That the Committee:

- 1) consider and discuss the report and agree whether any action or additional information is required; and
- 2) approve the additional post to the Pensions team.

Background

1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund's invested assets increased by £98.8m (+3.4%) to £3,025.6m on 31 March 2023.

Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 31 March. At an asset class level, property is below its tolerance level. Funds being committed to the Border to Coast

Global Property Fund will help rebalance this underweight. Cash is overweight, as this is being used to fund expected drawdowns in property and infrastructure investments.

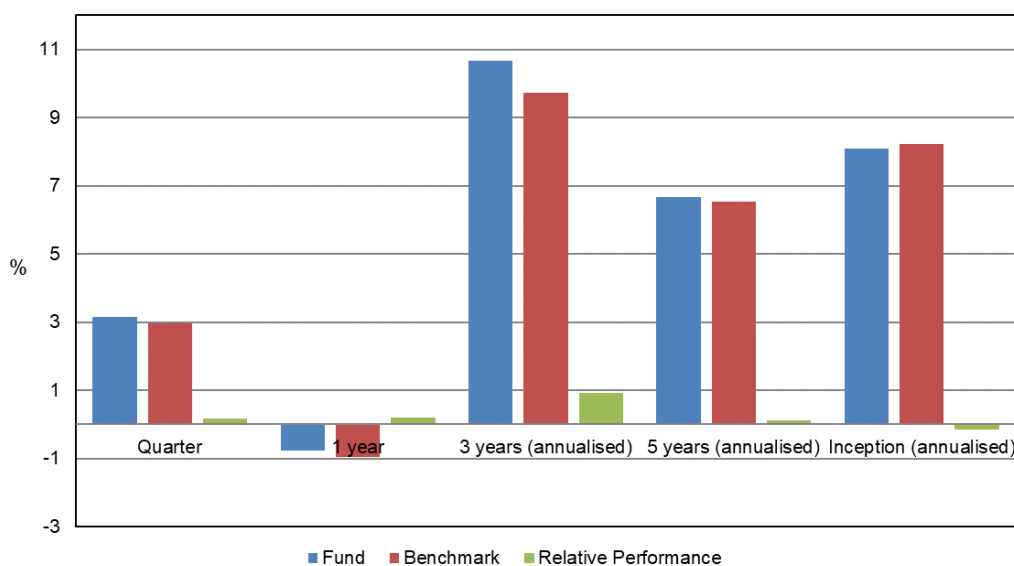
1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q1 2023 £m	Q4 2022 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	462.1	486.4	15.3	15.0	0.3
Global Equities	1,689.7	1,171.8	40.8	40.0	0.8
Alternatives	690.6	673.0	22.7	21.5	1.2
Property	228.1	230.5	7.5	10.0	(2.5)
Fixed Interest	344.2	300.7	11.3	12.5	(1.2)
Cash	73.0	64.4	2.4	1.0	1.4
Total *	3,025.6	2,926.8	100.0	100.0	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

1.6 The graph and table below show 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	3.15	2.97	0.18
1 year	(0.77)	(0.96)	0.19
3 years*	10.66	9.73	0.93
5 years*	6.67	6.54	0.13
Inception**	8.09	8.23	(0.14)

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

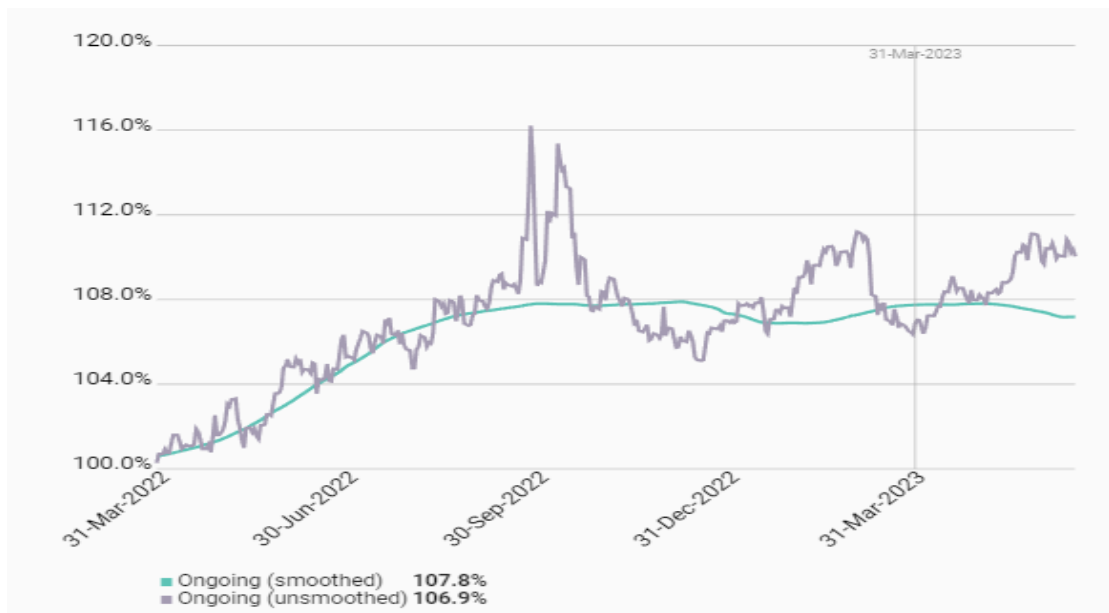
1.7 Over the quarter, the Fund produced a positive return of 3.15% (as measured by Northern Trust), outperforming the benchmark by 0.18%. The Fund was also ahead of the benchmark over the one, three and five-year periods, but slightly underperformed since inception. Details of individual managers' performance are covered at the Investment and Responsible Investment meetings of the Pensions Committee.

1.8 Appendix B shows the market returns over the three and twelve months to 31 March 2023.

Funding Level

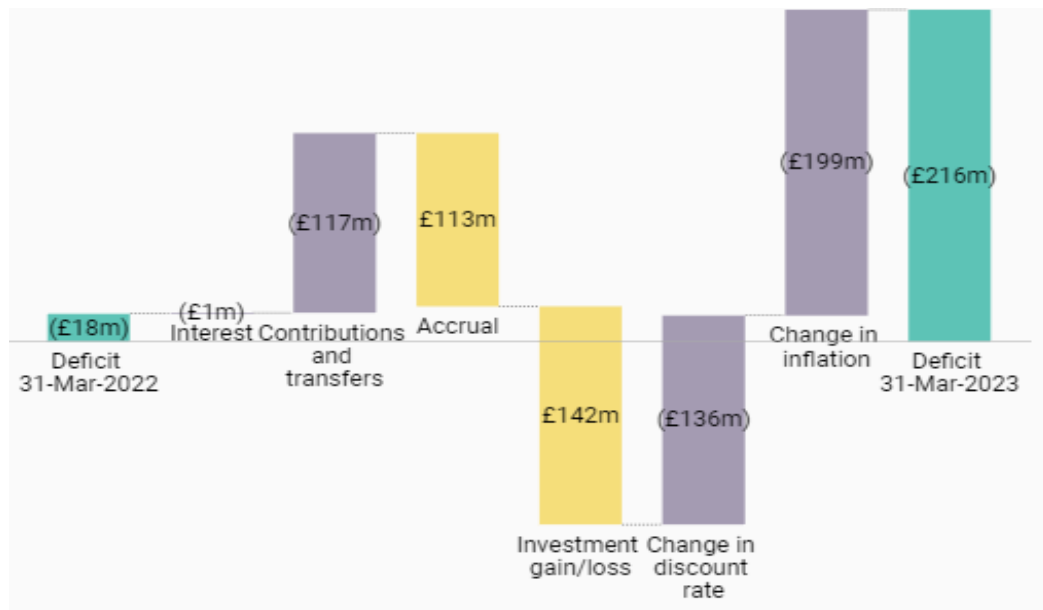
1.9 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2022, to the current quarter end, 31 March 2023. The accuracy of this type of funding update will decline over time, as the period 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 higher funding level.

1.10 At the last formal valuation, as at 31 March 2022, the funding level was 101%, with assets and liabilities measured at £3.01bn and £2.99bn respectively. Since the valuation date, the funding level has increased by 6.8% to 107.8%. The graph below shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.



1.11 Over the period 31 March 2022 to 31 March 2023 the surplus, in real money, has risen from £18m to £216m. The investment return and the change in discount rate have been negative, but this has been partly offset by the change in inflation over the

period. Since the valuation, contributions and transfers have been slightly greater than the accrual of new benefits. The table below shows the analysis of the change in deficit.



2. TPR Checklist Dashboard and Code of Practice

- 2.1 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.
- 2.2 There have been no changes since the last quarter's report. The areas that are not fully completed and/or compliant are listed below.

B12 – Knowledge and Understanding – Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?

Amber – As set out in the Fund's Training policy, it is a mandatory requirement that all PC members complete this in addition to the PB members and provide copies of the completion certificate to the Head of Pensions. However, there has been some turnover of members in both the Board and the Committee who all have a period of six months to complete their training, therefore this should be green by January, if not earlier.

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. 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 – Training is a standing agenda item and opportunities are shared with the Pension Board as they arise. Pension Board members all complete a training log annually to record all training undertaken.

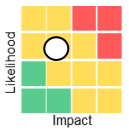
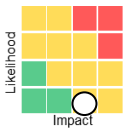

3. Breaches Reporting - update

3.1 The Fund and those charged with its governance have a requirement to log and, where necessary, report breaches to the Pensions Regulator. The Breaches Register attached at appendix D shows those breaches logged over the last twelve months. Since the last quarter end, one breach has been added, detailed below:

- **Late payment of contributions** – there have been some late employers over the quarter, but nothing of significance that requires reporting to TPR. A separate paper will be presented annually to the January meeting of this Committee covering this and other employer monitoring.

4. Risk Register Update

4.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee in October to be approved. There has been one change to the risk register.

Risk	Current risk score	Target risk score	Status	Direction of travel	Actions	Notes
P1 - Loss of key staff and loss of knowledge and skills			Limited		New roles being added to the team.	Long-term sickness absence in team.

4.2 Officers are looking to increase the team size to add additional resilience and capacity (see section 7).

5. Asset Pooling Update

Sub Funds

5.1 Work has continued with the development of the real estate funds, with the next transition for Lincolnshire expected to be into the Core Global Property fund, due to be launched in 2023.

5.2 In April, the Fund sold out of its passive bond holding in Blackrock and increased its allocation to the Sterling Investment Grade Credit Fund at Border to Coast, as part of the strategic asset allocation changes agreed at the March Committee meeting.

5.3 Since the last Committee meeting, Border to Coast has held workshops and meetings with officers and advisors covering quarterly external and internal funds, property, UK opportunities, passive funds, and responsible investment.

Joint Committee Meetings

5.4 The last Joint Committee was held on Tuesday 13 June 2023 and papers were shared with the Committee. The agenda items were:

The following items were included in the agenda:

- Schedule of Future Meetings
- Update of Impact on Committee Membership following Local Elections
- Annual Elections
- Joint Committee Budget
- Responsible Investment Update
- Market Review
- Annual Proposition Review: Externally Managed Equity Funds

- Annual Reviews - Emerging Market Equity, Global Equity Alpha, UK Listed Equity Alpha
- UK Opportunities Fund Design
- CEO Report
- Investment Review Quarter Ended 31 March 2023
- Update on emerging Matters

5.5 A Responsible Investment (RI) Workshop was also held with the Joint Committee, which covered Border to Coast's approach to RI, the RI strategy, engagement, and the RI policies review process.

5.6 The next meeting of the Joint Committee is being held on 28 September, before the Border to Coast Annual Conference, and papers will be shared with this Committee once they become available. Any questions or comments on the papers should be directed to Cllr Strenziel, Chairman of the Pensions Committee, who can raise them at the meeting.

Shareholder Matters

5.7 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources and fulfils the role as set out in the Shareholder Agreement, which was recently updated following review and approved by Full Council in February 2023.

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

5.9 There has been one shareholder resolution since the last meeting, the Executive Director remuneration policy, which was approved by Lincolnshire.

Officer Operations Group Workshop

5.10 Senior officers from the Partner Funds met for a two-day workshop in May to look at refreshing the principles that were first set out when creating Border to Coast. The agenda was to understand and review the original principles, evolve them to take account of developments since 2017, ensure they were future proof and then set the next steps to refresh them and agree a mission statement.

5.11 There has been much turnover of officers since the project began in 2015, so those officers that had been involved since the beginning provided a useful background on how Border to Coast was created and the principles that framed the culture of the company and partnership working.

5.12 The original seven principles, which are set out below, were assessed to understand what had worked well and what could be done better:

- Meeting central Government's aims for governance, responsible investing, infrastructure and value for money
- One fund, one vote
- Funds retaining governance role and ownership of asset allocation
- Generating improved net-of-fees risk adjusted performance
- Border to Coast internal management capability
- Improved resilience and capacity over existing structures
- A shared team in one location

5.13 Similar discussions were had on pooling generally, and the outputs were considered as to how these could be reflected in refreshed principles, and how we can benefit from the close relationships across the partner funds, and across pools, to improve the efficiency and effectiveness of how we run the Funds. Increased collaboration in areas outside of investments were also discussed. Discussion was had on the future options for pooling, taking into consideration the potential outcomes of the consultation due from Government.

5.14 A number of workstreams were agreed for further consideration, and actions were shared across the members of the officer operations group. Progress will be monitored and reported back to the group and shared with committees as appropriate.

6 Internal Audit – Pensions Administration 2022/23

6.1 LCC's internal audit team periodically look to seek assurance over the adequacy of the Pensions Administration service, managed by West Yorkshire Pension Fund (WYPF). To maximise efficiencies and avoid duplication, LCC's internal audit take assurance from the relevant work undertaken by the internal auditors of WYPF, Bradford Metropolitan District Council (MDC). MDC's annual audit plan for WYPF in 2022/23 was for 105 days.

6.2 LCC's internal audit reviewed the scope of the work undertaken by MDC and assessed the assurance outcomes. Audits undertaken and the assurance outcomes received are listed below:

- LGPS New Pensions and Lump Sums - Deferred Benefits = Good
- Reimbursement of Agency Payments = Excellent
- Additional Voluntary Contributions Arrangements = Good
- Fire Service New Pensions & Lump Sums - Normal and Early Retirements = Good
- Annual Benefit Statements = Excellent
- Shared Service Partner Admission (from 2021/22) = Good

- 6.3 Following LCC Internal audit's contact with the WYPF audit provider, they can continue to place assurance on the robust nature of the audits completed by Bradford MDC. They were pleased that the audits continue to have positive assurance levels to date and that any actions recommended are implemented. Internal audit are happy to place reliance on this assurance over Pension Administration and plan to maintain their relationship with Bradford MDC.

7 Custodian Tender

- 7.1 The current agreement with the custodian, Northern Trust, was due to expire on 31 March 2024, and officers were planning on running a tender exercise over the summer months to bring a recommendation to the Committee.
- 7.2 Given current resource constraints, approval has been given to extend the agreement for a further 12 months, to 31 March 2025.

8 Pensions Team Structure

- 8.1 As the Committee are aware, approval was given in 2021 to appoint an additional post to the Pensions Team. The post was for a Principal Accounting, Investment and Governance Officer at a G10 grade. Unfortunately, the recruitment exercise carried out in 2022 was not successful as the role is very broad with no candidates able to meet all requirements at that level.
- 8.2 Officers have further reviewed the capacity and resilience within the current team and the increasing requirements from regulators and stakeholders. This has identified that two posts are required rather than the one previously approved, but that these should be career grade posts (G8-G10) to enable development into the required roles. These two posts will work closely together, but one will concentrate on the Investments and Stewardship aspects, and the other on the Administration and Accounting aspects. The addition of these posts will improve the resilience, continuity, and succession planning within the team, and increase the capacity to ensure that the Fund continues to be managed as effectively as possible.
- 8.3 This additional post will be funded from the Pension Fund, so there are no additional costs to LCC.
- 8.4 Approval is requested from the Committee to progress with the additional post. Once approved, it is expected that recruitment for both posts will start later this summer.

9 Conference and Training Attendance

- 9.1 It is stated in the Committee's Training Policy, approved each July, that following attendance (virtual or otherwise) 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 recommend it for others to attend.

- 9.2 There have been two conferences since the last meeting. The LGC Investment Seminar was held in March and was attended by the Chairman of the Committee and the Head of Pensions. Conference notes produced by Hymans Robertson are attached at appendix E. The PLSA LA Annual Conference was held in June and was attended by the Chairman of the Committee and Cllr Mark Whittington from the Pension Board (conference notes not available at the time of writing this report).
- 9.3 The Committee and officers are requested to share information on relevant events they have participated in since the last Committee meeting.
- 9.4 New members of the Committee and Board attended an induction training session with the Head of Pensions in June, as part of the mandatory training required.
- 9.5 Upcoming training opportunities are shared in the weekly and monthly emails and current ones are shown below. Any member wishing to attend or require more information should contact Jon Haw (Jonathan.haw@lincolnshire.gov.uk):
- Border to Coast Annual Investment Conference 28-29 September, Leeds
 - LGA Fundamentals Training 2023 – three days over October, November and December, at either Manchester or London, or on-line.

Conclusion

10. The Fund is 107.8% funded (on a roll-forward basis) as at the end of March, with an overall value of invested assets of £3,025.6m.
11. The Committee are requested to approve the additional resource into the Pension Team.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Market Returns
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register
Appendix E	Conference Highlights – LGC Investment Seminar

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 Kempton, who can be contacted on 01522 553656 or jo.kempton@lincolnshire.gov.uk.

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