Lincolnshire
COUNTY COUNCIL

Annual Report

and Accounts

For the Year Ended 31st March

2014

Pension Fund

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT FOR THE YEAR ENDED 31st MARCH 2014

CONTENTS **Page**

MANAGEMENT ARRANGEMENTS

Administering Authority Lincolnshire County Council

Pensions Committee Members at 31st March 2014

County Councillors
M G Allan (Chairman)
N I Jackson
B W Keimach
C E D Mair
R J Phillips (Vice Chairman)
F E E Ransome
S Rawlins
A H Turner

District Council Representatives
Cllr M Leaning

Representatives of Other Employers
J Grant

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers	
Executive Director of Finance and Public Protection	P Moore BA CPFA
Assistant Director of Resources	D C Forbes BSc CPFA
Independent Advisor	P Jones FIA
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

External Investment Managers of Segregated Portfolios
(all Global Equities)

Invesco Asset Management Ltd
Neptune Investment Management
Schroder Investment Management Ltd
Threadneedle Asset Management Ltd

Auditors	KPMG
Investment Custodian	JP Morgan Securities Services
AVC Provider	Prudential
Fund Banker	Barclays
Benefits Administration	Mouchel Group PLC

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.

Following the local elections in May 2013, the membership of the Pensions Committee changed considerably, with eight new members to the Committee. Members of the Committee as at 31st March 2014 are listed on page 2.

All members of the Committee can exercise voting rights.

Corporate Governance and Social Responsibility

The Fund complies with corporate governance best practice by voting its shareholdings at all UK, developed Europe, US, Canada and Japan company meetings. The Fund is also 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 social, environmental and governance issues. The Fund has produced a Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's website (details below).

Investment Performance

The Fund has an investment objective to meet its liabilities over the long term and to produce a return of 1% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2014 produced a positive return to the Fund. Most equity markets rose on the back of moderately improving fundamental data in most regions. With the aid of the Central Bank's commitment, interest rates remained at low levels and supported an increased equity valuation. Equity returns, as measured by FSTE, ranged from +17.3% in Europe to -10.8% in the US. Bonds experience a wider range of returns, with index linked bonds returning over 10%, and UK government bonds returning 4%. Property was rather flat, with a return of just 2.5% over the year.

Performance over the year, at 6.26%, marginally out-performed the specific benchmark return of 6.23%, producing a relative out-performance of 0.02%. This compares to a rise in retail prices of 2.5% and increase in public sector earnings of 1.1%. Over the last ten years, the Fund's annualised investment performance is a solid 6.9%, although this is slightly behind the benchmark return of 7.4%.

Manager Arrangements

There were no manager changes made during the year.

Fund Governance and Communication Statements and the Statement of Investment Principles

The Fund's investments are managed in accordance with the Statement of Investment Principles (SIP).

The Fund's SIP, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all attached at the end of this report. These documents, and other related publications, can also be downloaded from the Pension Fund's website, at www.lincolnshire.gov.uk/pensions.

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

Jo Ray, Group Manager – Pensions & Treasury
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
(Tel: 01522 553656)
(email: jo.ray@lincolnshire.gov.uk).

Mark Allan

CHAIRMAN

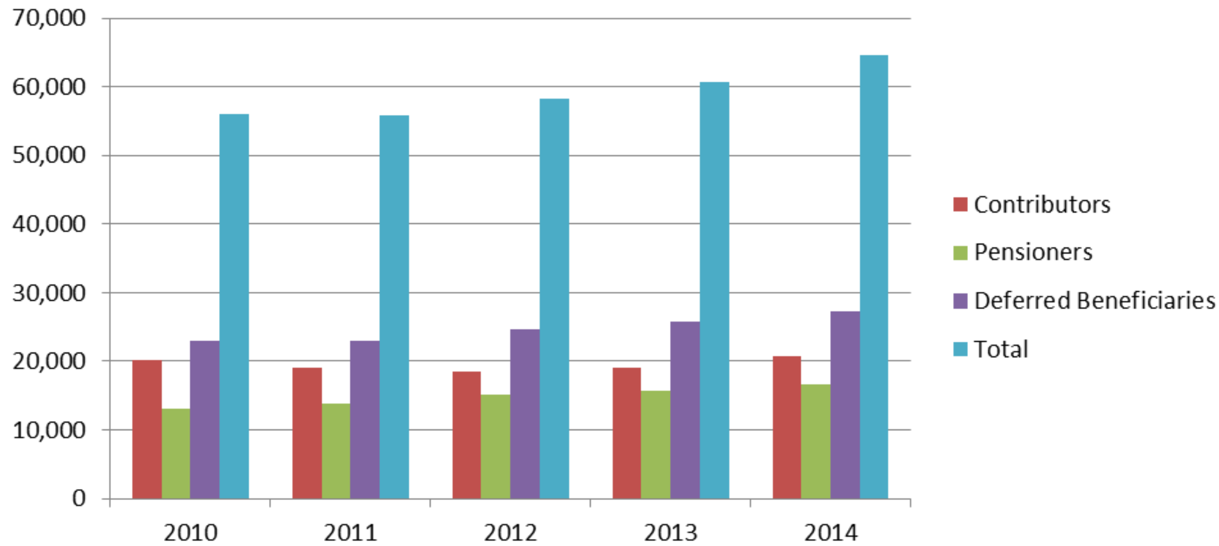
PENSIONS COMMITTEE

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 64,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the membership is still increasing, and the fall in active membership seen over the last few years has reversed. The Fund has matured considerably over the last five years, with 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 42% of the overall membership.



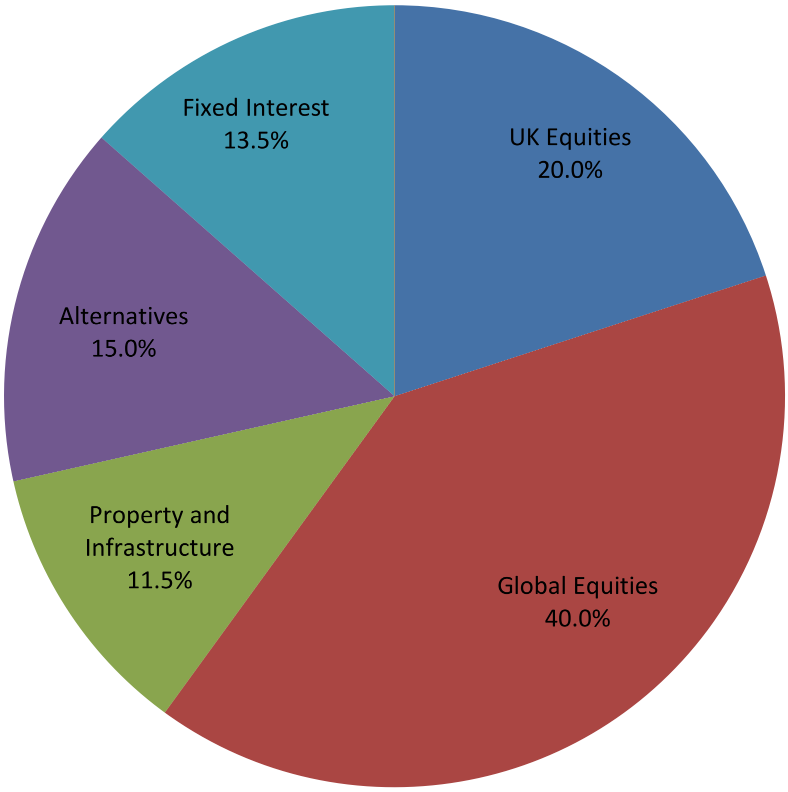
Year ended 31st March	2010	2011	2012	2013	2014
Contributors	20,130	19,043	18,527	19,102	20,697
Pensioners	13,021	13,865	15,143	15,702	16,577
Deferred Beneficiaries	22,930	22,931	24,620	25,799	27,246
Total	**56,081**	**55,839**	**58,290**	**60,603**	**64,520**

(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database. 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 every three years, following 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



Asset class	Strategic Benchmark 31st March 2014 %	Actual Asset Allocation 31st March 2014 %
UK Equities	20.0	19.4
Global Equities	40.0	40.6
Total Equities	**60.0**	**60.0**
Property and Infrastructure	**11.5**	**11.0**
Alternative (incl. Private Equity)	**15.0**	**13.1**
Fixed Interest	**13.5**	**12.5**
Cash (incl. current assets)	**0.0**	**3.4**
Total	**100**	**100**

Investment Performance

The twelve months period ended 31st March 2014 saw the value of the Fund increase by £96m to £1,591m. The investment return of 6.26% was marginally ahead of the Fund's specific benchmark return of 6.23%. Over the last ten years, the Fund's annualised investment performance of 6.9% is slightly behind the benchmark return of 7.4%.

All managers, other than the passive bond portfolio managed by Blackrock, produced positive absolute returns over the year. The main contributors to the out-performance against the benchmark were the global equity ex UK enhanced index portfolio managed by Invesco, the alternatives portfolio managed by Morgan Stanley and the absolute return bond portfolio managed by F&C. Positive relative performance also came from the active global equity managers Threadneedle and Schroder, and the impact of the currency overlay managers. The property portfolio had the largest negative relative contribution over the year, with negative relative performance also coming from the internal passive UK equity portfolio, and the active global equity portfolios managed by Neptune and Morgan Stanley.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 6.9% compares to a rise in retail prices of +3.3% and increase in public sector earnings of +2.9%.

Investment Performance of the Fund 1st April 2004 to 31st March 2014

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
2004/05	11.0	11.9	3.2	4.3
2005/06	24.4	24.1	2.4	4.4
2006/07	6.9	6.5	4.8	3.1
2007/08	(4.4)	(3.3)	3.8	3.7
2008/09	(18.6)	(20.0)	(0.4)	3.4
2009/10	29.7	36.7	4.4	4.0
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
10 years annualised	6.9	7.4	3.3	2.9

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2014, are set out below. Portfolio values include cash and cash equivalents at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
UK Equities	Lincolnshire County Council	317.1	20.1
Global Equities - (Ex UK)	Invesco	332.2	21.1
Global Equities – All Countries	Neptune	78.6	5.0
Global Equities – All Countries	Schroders	84.2	5.3
Global Equities – All Countries	Threadneedle	87.4	5.5
	Total Segregated Equities	**899.5**	**57**

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property and Infrastructure	Franklin Templeton	13.9	0.9
	Igloo	6.3	0.4
	Innisfree	25.4	1.6
	Aviva	33.2	2.1
	Royal London	17.0	1.1
	Rreef	2.9	0.2
	Blackrock	17.5	1.1
	Standard Life	58.5	3.6
	Total UK Property	**174.7**	**11.0**
Private Equity	Capital Dynamics	18.0	1.1
	Pantheon	38.2	2.4
	Standard Life	18.9	1.2
	EIG	8.2	0.5
	Total Private Equity	**83.3**	**5.2**
Alternatives	Morgan Stanley	125.9	7.9
	Total Alternatives	**125.9**	**7.9**
Global Equities	Morgan Stanley	74.7	4.7
	Total Global Equities	**74.7**	**4.7**
Fixed Interest	Blackrock	98.0	6.2
	F&C/Goodhart	100.6	6.3
	Total Fixed Interest	**198.6**	**12.5**

Stewardship Responsibilities

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

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all company holdings in the UK, developed Europe, US, Canada and Japan. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast 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. Over the year, the Fund voted at 811 company meetings, and cast votes in respect of 12,756 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 57 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 on their website at www.lapfforum.org. Highlights for the year include:

- Continued engagement with companies to discuss issues such as remuneration, carbon management, employment standards.

- Responded to a FRC consultation on the strategic report raising concerns about its status and compatibility with UK Company Law, and to a FRC consultation on directors' remuneration. Provided input to the SEC on pay ratio disclosure.

- Explored the impact of governance changes at Twenty-First Century Fox since the split from News Corporation and discussed the approach to the ongoing phone hacking scandal.

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 increased 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 outsourced contract.	Performance and management indicators, monthly meetings, internal and external audits, service level agreement and benchmarking.
Paying pensions correctly	Process controls, checking, audits, reconciliations, tracing bureau, task management.
Collecting contributions correctly	Employer contribution monitoring, annual contribution checks, audits, employer training, reconciliations.
Loss of key staff, knowledge and skills	Diversified staff/team, pensions user groups, procedural notes, section meetings, appraisals.
The transition to the new Pensions Administration provider for 1st April 2015	Project board, transition plan, meetings with the new provider.

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

ACTUARIAL POSITION AND STATEMENT

The employers' contribution rates applying in the year ended 31st March 2014, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2013/14

Employer	Rate as a % of pay
Lincolnshire County Council	18.9
Boston Borough Council	23.2
City of Lincoln Council	23.3
North Kesteven District Council	21.0
South Holland District Council	24.8
South Kesteven District Council	21.1
West Lindsey District Council	14.1
East Lindsey District Council	24.1
Lincolnshire Police	19.9
Lincolnshire Probation	18.3
G4S	19.9
Compass Point Business Services	17.7
Bishop Grosseteste University	23.7
Boston College	19.4
Grantham College	19.4
Lincoln College	21.1
Stamford College	19.4
Boston Witham Federation	24.9
Deepings School (Academy)	18.9
Priory Federation of Academies	15.4
Skegness Academy	22.1
Sleaford St Georges Academy	18.5
Welton William Farr CE School (Academy)	22.7

(West Lindsey District Council pay additional lump sum contributions, which are not expressed as a percentage of payroll)*

The Lincolnshire Pension Fund underwent its triennial valuation as at 31st March 2013. The results from this are published on the Fund's website.

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

	31st March 2010	31st March 2013
Past Service Liabilities	£1,585m	£2,092m
Market Value of Assets	£1,204m	£1,495m
Surplus/(Deficit)	(382)	(597)
Funding Level	75.9%	71.5%

Lincolnshire County Council Pension Fund ("the Fund")
Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. 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 (NB 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 below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. 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 still a better than 70% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,495 million, were sufficient to meet 71.5% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £597 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 21 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Pension increases	2.50%	-

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 2010 model, assuming the current rate of improvements has reached a peak and will converge to 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	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 as at the last formal valuation date

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Lincolnshire County Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
9 October 2014
Hymans Robertson LLP, 20 Waterloo Street, Glasgow,

INVESTMENT BACKGROUND

Returns for Major Markets

The twelve months to 31st March 2014 ended with mixed returns across asset classes. Equity markets were split, with the developed markets of UK, United States and Europe showing positive returns, and Japan, the Far East and the Emerging Markets showing negative returns.

There was also a divergence across bond assets, with UK Gilts and overseas Bonds falling over the year, whilst UK corporate bonds returned a small positive performance.

Property had a very good year, returning 14% for investors.

Investment Returns to sterling based investors 1st April 2013 to 31st March 2014

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	8.8
Global Equities	FTSE World (ex UK)	7.7
United States	FTSE North America	10.3
Europe	FTSE Europe (ex UK)	17.3
Japan	FTSE Japan	(1.6)
Far East	FTSE Pacific (ex Japan)	(5.8)
Emerging Markets	FTSE Emerging	(10.8)
Fixed Interest		
UK Index Linked Gilts	FTSE Index–Linked All Stocks	(3.8)
UK Gilts over 15 yrs	UK Gilts and All Stocks	(6.7)
Overseas Bonds	JP Morgan World ex UK	(8.5)
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	1.6
Property	IPD Index	14.0
Cash	LIBID Seven Day Rate (compounded)	0.4

World Equity Markets

The MSCI World Index ended up 8.5% for the year to the end of March 2014 (total return, sterling terms). Equity markets rose on the back of moderately improving fundamental data in most regions. With the aid of the Central Bank's commitment, interest rates remained at low levels and supported an increased equity valuation. Over the 12 month period, emerging markets underperformed their developed counterparts. A brief summary of each quarter of the financial year is shown below.

Q2 2013
Buoyed by the prospect of further ultra-easy monetary policy, global equity markets performed strongly in the first two months of the financial year, as the S&P 500 and the Dow Jones Industrial Average indices both surpassed all-time highs. However, financial markets globally suffered losses in June as US Federal Reserve (Fed) Chairman Ben Bernanke indicated that the Fed would reduce, or taper, its current US$85 billion of monthly asset purchases. Bernanke suggested that the process was likely to be gradual, most likely starting in September 2013 and finishing in spring 2014, if economic conditions continued to improve. Markets retreated further on concerns over a Chinese credit crunch when the People's Bank of China's initially refused to provide additional liquidity to the market after a spike in interbank lending rates.

Q3 2013
Except for a short period of uncertainty where investor sentiment was negative, driven by tension over the Syrian crisis, global equity markets made strong gains during the third quarter of 2013. This was mainly backed by optimism over the economic outlook for the US in July and the surprise decision by the Fed not to reduce the pace of asset purchases in September. Furthermore, the US Commerce Department announced that the US economy grew better-than-expected, and strong macroeconomic data pushed European equity markets higher. At the end of the quarter, investors turned their attention towards the failed agreement on a US budget resolution, leading to a partial shutdown of the US government.

Q4 2013
Global equity markets rounded off a very good year 2013 with positive performance during the fourth quarter. Expansionary monetary policy, more robust macroeconomic data, and improving corporate results in selected areas, have also been supportive of equity markets. In November the European Central Bank cut interest rates by 0.25% during the month, while choosing to leave deposit rates unchanged. In December, the much anticipated US Federal Reserve's announcement of tapering finally came through. Japanese equity markets ended the year on a positive note, as the outlook for global growth continued to show signs of improvement. European equity markets also rounded off a very good year with positive performance during December.

Q1 2014
Global equity markets were modestly up over the first quarter 2014, remaining resilient in the face of uncertainty with potential escalation of conflict in the Ukraine; deflation fears in the Eurozone; and scepticism over Chinese economic growth, where weak economic data has once again increased fears of a hard landing. In the US, equity markets reversed the losses that had been incurred during what was their worst January since 2010. The strength of the US economy continued to be reflected in fourth quarter 2013 company earnings announcements, the majority of which exceeded market expectations. In macroeconomic

news, a fall in unemployment in the UK and Europe was observed and economic sentiment indicators grew increasingly positive. The rise mainly reflected improvements in consumer and service sector sentiment.

Fixed Interest

The last twelve months have once again been dominated by monetary policy. The Quantitative Easing 'QE' program run by the Fed has been the subject of much debate, and the timing of its withdrawal from this program, or the 'tapering' of its asset purchases (which initially stood at $85bn per month) determined short-term market movements for prolonged periods over the year. As the first discussions of tapering came to light in the middle of 2013, US treasuries sold off in anticipation of the largest buyer in the market standing back. Other major bond markets also sold off due to the strong relationship between interest rates across developed markets. This also had the knock-on effect of causing a sell-off within emerging market debt, which had been a major beneficiary of the extra liquidity available as a result of the Fed's buying of its own bonds.

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

Q2 2013

The UK credit market outperformed government bonds during the second quarter of 2013 but still delivered negative total returns, as the negative return impact of the increase in gilt yields more than offset a relatively modest tightening of the credit yield spread. 10-year gilt yields increased by 0.67% during the quarter, as the markets priced in an increased risk that the US Fed might start to wind down its asset purchase programme earlier than expected (known as tapering). Credit spreads fell throughout April and the early part of May, before widening again as risk assets generally underperformed, particularly during June. The utility and asset-backed sectors saw the strongest excess returns relative to government bonds. Domestic events had little impact on markets and economic data releases were mixed, but generally consistent with continued modest economic growth. The UK's Monetary Policy Committee left rates and the asset purchase programme unchanged throughout the quarter with no change to voting patterns. The downgrading of the UK government's credit rating from AAA to AA+ by Fitch had no significant impact on the fixed income markets.

Q3 2013

Gilt yields continued to increase at the 10-year maturity point during the third quarter, with yields slightly lower for longer-dated maturities. The 10-year yield increased by around 0.28% to 2.72%, but did rise to above 3.0% in early September on the back of stronger than expected economic data and continued expectations of a reduction in monetary accommodation (tapering) from the Fed, before falling back later in the month as the Fed policy was not changed. The curve flattened at the long end with the 30-year yield down by 0.05%. The UK credit market outperformed government bonds and delivered positive returns during the third quarter, as credit yield spreads tightened by around 0.2%, more than offsetting the rise seen in equivalent maturity government bonds. All major sectors outperformed gilts during the quarter, with the outperformance led by the financial sector and BBB-rated securities. Supranational and AAA-rated securities lagged the broader credit market, but still outperformed gilts. Risk assets were supported by improving economic data.

Q4 2013

Yields continued to increase across the gilt curve during the fourth quarter. The 10-year yield increased by around 0.30% to 3.02%, touching a high of 3.07% in late December on the back of stronger than expected economic data and the continued expectations of a reduction in monetary accommodation from the Fed, which was announced in December. The yields on longer-dated gilts increased but to a lesser extent than the 10-year part of the curve, with the 30-year yield increasing by 0.13% to 3.67%. The UK credit market outperformed government bonds during the fourth quarter, however total returns were negative as the impact of the increase in gilt yields more than offset a tightening of credit spreads. The outperformance during the quarter was led by Financials and BBB rated securities.

Q1 2014

Gilt yields peaked in the first week of the period, with the 10-year gilts yields reaching 3.03% before falling to 2.71% at the end of January and remaining range bound thereafter to finish the quarter at 2.74%, a fall of 0.29%. The 5-year gilt yield fell by 0.23% to 1.81% and the 30-year gilt yield fell 0.15% to finish the quarter at 3.51%. Credit bond spreads were little changed over the first quarter of 2014, but credit still outperformed gilts for the seventh quarter in a row. Excess returns were 0.31% for the quarter, with financials and lower rated assets being the best performers, and negative headlines causing the utilities sector to be the worst performer. There was some weakness in longer dated corporate bond spreads, posting negative excess returns of minus 0.01%, the first negative excess return for eight quarters. The UK delivered strong economic data overall in the first quarter of 2014; unemployment was falling much faster than expected, inflation was cooling and the economy was growing at its fastest pace since 2007. Final GDP data released in late February revealed that the UK economy grew at 1.8% over 2013, 0.7% of the growth came in Q4. This was mainly driven by consumer spending. The Bank of England kept interest rates and its Asset Purchase Programme unchanged throughout the quarter.

UK Commercial Property

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

Q2 2013

There were signs in the second quarter that the phase of falling UK commercial real estate prices appeared to be coming to an end. Prices started to rise marginally during the period and were expected to stabilise further into the summer and rents generally remained flat. Overseas investors were once again a key support, although there was also demand from domestic investors, particularly in the more liquid markets such as Central London offices. The polarisation between the north and south therefore also continued over the quarter, as did investor preference for prime and good secondary assets versus poor quality secondary assets. Investor sentiment towards the UK commercial real estate market continued to be hampered by lacklustre domestic economic activity, as well as the wider woes of the ongoing Euro-zone crisis. Capital values fell further during the quarter, with pronounced declines witnessed in the retail sector where there were more tenant failures. The London City and West End office markets, however, remained the most resilient. This reflected the continued ‘flight to quality’ by investors, who remained cautious on lower quality assets outside core locations.

Q3 2013

UK commercial property continued its recent improvement during the third quarter. Capital values were increasingly positive, with further gains in each of the three months. The office and industrial sectors led the recovery, while retail lagged. However, while a report from Local Data Company showed that more shops closed than opened in the first half of the year, the net fall was 78% lower than the first six months of 2012. There was also some evidence that the recovery was broadening out. While investors still prefered more liquid markets, such as Central London, there was more interest and activity in regional markets.

Q4 2013

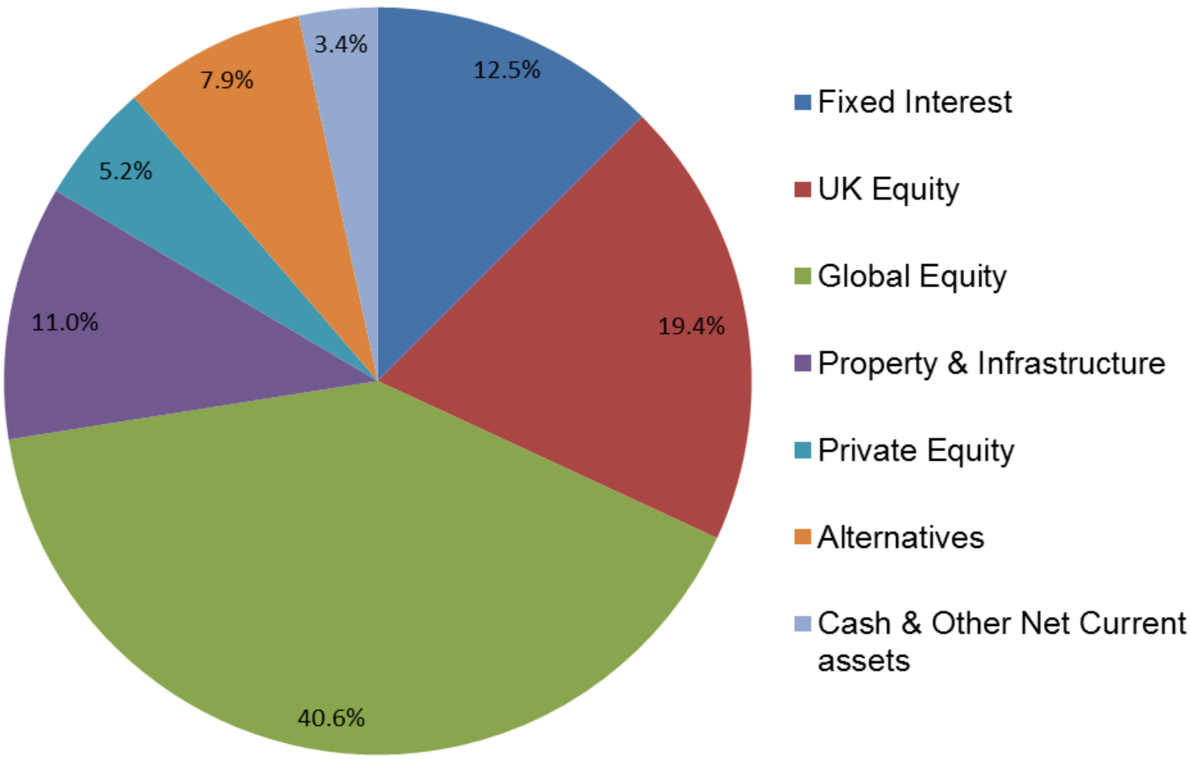
The UK commercial real estate market continued its recent recovery in the fourth quarter and enjoyed a strong end to the year. Improving domestic economic data provided support for the real estate market, given upward revisions to GDP growth, falling inflation and unemployment, robust industrial orders and a buoyant housing market. As a result, the recent recovery gathered momentum, with capital values rising 0.9% in November from 0.6% in October and September. Rents also rose, albeit less sharply, and were up 0.5% from April. On a sector basis, West End of London offices and Rest of UK industrial real estate were the strongest performers over the quarter, while standard retail continued to lag despite posting positive numbers.

Q1 2014

The recent revival in UK commercial real estate gathered momentum in the first quarter of 2014, helped by further evidence of economic recovery. Since April 2013, commercial real estate prices have increased by over 5% and while rental growth is more subdued, it is expected to rise more strongly as the economy improves further. On a sector basis, offices continued to lead the real estate recovery, followed by industrials, with retail lagging. Investment activity reached a six-year high in 2013, with overseas participants the largest investors but with increased investment from UK institutions.

Asset Distribution

Asset class	Market Value £000	31/3/14 %	31/3/13 %
Fixed Interest	198,593	12.5	12.4
UK Equity	309,436	19.4	19.9
Global Equity	645,306	40.6	41.4
Property and Infrastructure	174,702	11.0	10.4
Private Equity	83,313	5.2	6.4
Alternatives	125,936	7.9	7.6
Cash & Other Net Current assets	54,136	3.4	1.9
Total	**1,591,422**	**100**	**100**



Top Holdings

Listed below are the top twenty holdings, including pooled investments, as at 31st March 2014. These account for £655m and make up 41.3% of the Fund's investments.

	Market Value £000	Proportion of Fund %
Morgan Stanley Alternatives	125,936	7.9
F&C/Goodhart Absolute Return Bond Fund	100,617	6.3
Morgan Stanley Global Brands Fund	74,715	4.7
Aquila Life Corporate Bond Fund	49,376	3.1
Standard Life Property Fund	48,590	3.1
Aviva Pooled Property Fund	33,224	2.1
Aquila Life Over 5 Year Index Linked Gilt Fund	29,623	1.9
Royal Dutch Shell A & B Shares	23,308	1.5
HSBC	20,342	1.3
Aquila Life Overseas Bond Fund	18,977	1.2
Blackrock Property Fund	17,459	1.1
Royal London Property Fund	17,023	1.1
BP	14,891	0.9
GlaxoSmithkline	13,256	0.8
Vodafone	11,950	0.8
Pantheon Europe Fund V	11,730	0.7
Innisfree Secondary Fund	11,566	0.7
Standard Life European Strategic Partners 2006	11,218	0.7
British American Tobacco	10,934	0.7
Google	10,343	0.7
Total	**655,078**	**41.3**

ADMINISTRATION OF BENEFITS

Lincolnshire County Council has contracted with Mouchel to administer LGPS benefits and other services. 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.

Service Area	Days to complete	Performance Target (%)	Total cases	Actual Performance (%)
Processing new entrants	18	98.5	3,715	88.1
Transfers – in (calculation)	30	98.5	203	100
Transfers – in (payment received)	30	98.5	198	100
Transfers – out (calculation)	30	98.5	371	100
Transfers – out (payment made)	30	98.5	115	100
Transfer in quotes	10	98.5	203	100
Transfer out quotes	10	98.5	371	100
Actual retirements	5	98.75	372	100
Deferred into payment	20	98.5	644	100
Deferred benefits	10	98.5	2,325	99.9
Estimates	10	98.25	900	99.7
Death in service	5	98.5	12	91.7
Death of a pensioner	5	98.5	246	100
Death -initial letter to next of kin	5	98.5	338	99.4
Death - notification of spouses pension	5	98.5	155	93.5
Refunds	5	98.75	149	100
Pension calculations	10	98.5	406	99.8

As can be seen from the table above, only one area is highlighted in red, processing new entrants, where 88.1% of cases were achieved in 30 days, against a target of 98.5%. Performance is reported quarterly to the Pensions Committee, and monthly meetings are held between LCC and Mouchel to manage any performance issues.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1ST APRIL 2008 to 31ST MARCH 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

Employees contribution rate's from 1 April 2008 are based on full-time equivalent pay using the pay band table below. The bands are increased each April in line with inflation by the Department for Communities and Local Government. The bands, as they stood at 31st March 2014, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £13,700	5.5%
More than £13,700 and up to £16,100	5.8%
More than £16,100 and up to £20,800	5.9%
More than £20,800 and up to £34,700	6.5%
More than £34,700 and up to £46,500	6.8%
More than £46,500 and up to £87,100	7.2%
More than £87,100	7.5%

Benefits

The retirement age for scheme members is 65. However, employees may 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, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/60th (1/80th for service accrued prior to 1 April 2008) 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) are increased each April in line with inflation.

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 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 depending on age.

Death-benefits

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement, 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 1st 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 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. 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.

LGPS 2014

Public sector pensions have changed again. A new LGPS scheme was introduced from 1st April 2014 (one year ahead of the other public sector schemes). The main changes are highlighted in the table below, and compared to the current scheme.

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final salary
Accrual Rate (how much do I get for each year of service?)	1/49th	1/60th
Revaluation rate (how is it increased each year?)	Consumer Price Index (CPI)	Based on final salary
Pensionable pay	Pay including non-contractual overtime and additional hours for part-time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee contribution rate	Ranging from 5.5% to 12.5% (generally only higher rate tax payers will see an increase in their rate)	Ranging from 5.5% to 7.5% (see table above)
Retirement age	In line with state pension age	65
Contribution flexibility	Yes, members can pay 50% contributions for 50% of the benefits	No
Vesting period (when can I still get a refund if I opt out?)	2 years	3 months

All benefits accrued up to 31st March 2014 will be protected, and additional protections are brought in for those members within 10 years of age 65 in 2012.

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

The department for Communities and Local Government (CLG) issued amended regulations to replace the existing scheme with a 'New Look' scheme from the 1st April 2008. Prior to this the key features were as follows:

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual.

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

Employees contribute 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years' service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/80th 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 are linked to the movement in inflation.

Lump Sum Payments

A member receives 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 can be taken as tax free cash.

Ill Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of pensionable membership.

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single 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 of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may 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 is Prudential plc.

The principal points of contact in respect of questions about the LGPS are:

Pension Fund and Investments	Jo Ray, Group Manager – Pensions & Treasury Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 Email : jo.ray@lincolnshire.gov.uk
Pensions Administration	Graeme Hall, Pensions Manager Mouchel, Mill House, Brayford Wharf North, Lincoln, LN1 1YT Tel: 01522 836466 Email: graeme.hall@mouchel.com

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 members 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 members 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 April, setting out what training will be covered over the coming year and relating it back to the CIPFA Knowledge and Skills Frameworks. 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 were offered the opportunity to attend the three-day fundamentals training arranged by the Local Government Association.

The Assistant Director of Resources, the delegated S151 Officer, is responsible for ensuring that policies and strategies are implemented.

Activity in 2013/14

With the Committee changes in May 2013, all new members undertook internally delivered training ahead of their attendance at their first Pensions Committee in July 2013. A full training plan was taken to that Committee 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	Topic	KSF area(s)
4th Jul 2013 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Internal Manager Presentation Annual Property Report Annual Training Paper Policies Review Report Risk Register Annual Review	4,5 1,3,4 4,5 1 4 4,5 1 1 1,4
12th Sep 2013 Training	Understanding The Valuation Process Investment Strategy and Asset Classes Investment Management	6 5 3,4
10th Oct 2013 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report External Manager Presentation 2013 Valuation Results Annual Fund Performance Report Annual Report and Accounts Pension Fund Discretions	4,5 1,3,4 4,5 1 4 6 4 2 1
29th Nov 2013 Committee topics	Investment Consultant Presentations	4,5
19th Dec 2013 Committee topics	External Manager Presentations	4,5
9th Jan 2014 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Equity Voting Template Review	4,5 1,3,4 4,5 1 1

13th Feb 2014 Committee topics and training	Funding Strategy Statement Review Pensions Administration Understanding Investment Behaviours	1,6 1 5
10th Apr 2014 Committee topics	Independent Advisor Market Update Fund Update Investment Management Report Pensions Administration Report Annual Training Paper LAPFF Co-filing Policy	4,5 1,3,4 4,5 1 1 1

As the officer responsible for ensuring that the training policies and strategies are implemented, the Assistant Director of Resources can confirm that the officers and members 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.

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2014

	See Note	2012/13 £000	2013/14 £000
Contributions and Benefits			
Contributions Receivable	8	74,559	76,984
Transfers in	9	5,674	6,732
		80,233	**83,716**
Benefits Payable	10	73,235	74,244
Leavers	11	6,900	3,922
Administrative expenses	12	1,167	1,188
		81,302	**79,354**
Net additions from dealings with fund members		**(1,069)**	**4,362**
Returns on Investments			
Investment Income	13	25,002	27,815
Profit (Loss) on Forward Deals & Currency Deals	17	(1,426)	3,085
Change in Market Value of Investments	15	141,590	64,495
Investment management expenses	12	(5,092)	(3,380)
Net returns on investments		**160,074**	**92,015**
Net increase in the Fund during the year		159,005	96,377
Opening net assets of the Fund		1,336,040	1,495,045
Closing net assets of the Fund		**1,495,045**	**1,591,422**
Net Assets statement as at 31st March 2014			
Investments	15		
Equities		842,804	880,027
Pooled Investments:			
Property		155,117	174,701
Private Equity		95,595	83,313
Fixed Interest		155,540	168,971
Index Linked Bonds		29,525	29,623
Equities		74,037	74,715
Alternatives		113,613	125,936
Cash Deposits		14,696	38,836
Other Investment Balances	18	5,242	4,365
		1,486,169	**1,580,487**
Current Assets and Liabilities			
Cash Balances		3,954	4,630
Debtors	19	7,035	6,974
Long Term Debtors	19	2,558	2,131
Creditors	19	(4,671)	(2,800)
		8,876	**10,935**
		1,495,045	**1,591,422**

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Lincolnshire County Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2013/14 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined 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 fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

Membership

Membership of the LGPS is automatic for eligible employees, but they are able to opt out 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.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 185 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2013	31 Mar 2014
Number of employers with active members	171	185
Number of employees in the scheme		
Lincolnshire County Council	9,949	10,734
Other employers	9,153	9,963
Total	19,102	20,697
Number of pensioners		
Lincolnshire County Council	9,684	10,121
Other employers	6,018	6,456
Total	15,702	16,577
Number of deferred pensioners		
Lincolnshire County Council	18,146	18,794

Other employers	7,653	8,452
Total	25,799	27,246

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

Benefits

Pensions benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1st April 2008	**Service post 31st March 2008**
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	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, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1st April 2011.

LGPS 2014

The new LGPS 2014 comes into effect from 1st April 2014. The table below shows the key benefit changes between the current scheme and the new scheme. Further details are shown on page 20.

	Service pre 1st April 2014	**Service post 31st March 2014**
Scheme	Final salary scheme, with pension based upon the salary at retirement.	CARE scheme (career average revalued earnings) where each year builds up a pension pot that is revalued in line with inflation.

Pension	Each year is worth 1/60 x final pensionable salary.	Each year is worth 1/49 x salary earned in that year, revalued in line with inflation.
50/50 Option	Not available	Option for employees to pay half the contributions to accrue half of the pension.

2 Basis of Preparation

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The Code includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

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 period end. 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 accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

Contributions receivable are included in the accounts in the year to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

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 during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

Fund account - expense items

Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

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.

Administrative expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period. The costs of the Pensions Administration team are charged to the Fund.

Investment expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period.

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 the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Threadneedle Asset Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

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.

The cost of obtaining investment advice from external consultants is included in the investment management charges.

The costs of the Council's in-house fund management team are charged to the Pension Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

Net assets statement

Financial assets

Financial 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.

The values of investments have been determined as follows:

UK listed securities are stated at bid price.
Overseas listed securities are stated at bid price.
Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment. These valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

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.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

Cash and cash equivalents

Cash comprises cash in hand and deposits. 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.

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 31st March 2014 are shown in note 29.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:
- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
- the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Pension Fund will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	
Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

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 2014 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 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.

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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	**31 Mar 2013** **£m**	**31 Mar 2014** **£m**
Present value of Promised retirement benefits	2,266	2,456

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014. I estimate this liability at 31 March 2014 comprises £1,032m in respect of employee members, £459m in respect of deferred pensioners and £965m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £190m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	**1 Mar 2013** **% p.a.**	**31 Mar 2014** **% p.a.**
Inflation/Pension Increase rate	2.8	2.8
Salary Increase Rate*	5.1	4.1
Discount Rate	4.5	4.3

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 15 April 2014. 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.

Anne Cranston

Anne Cranston AFA
14 May 2014
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainly

The accounts contain estimated figures that are based on assumptions made by the council, and other Professionals, about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the accounts for the year ended 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	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: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £224m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £37m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £171m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £74m.
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £85.8m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2013/14

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	100.0%

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31-Mar 2013 £m	%	31-Mar 2014 £m	%
EXTERNALLY MANAGED				
Invesco	318	21	332	21
Neptune	72	5	79	5
Schroders	79	5	84	5
Threadneedle	81	5	87	6
Morgan Stanley (Global Brands)	74	5	75	5
Morgan Stanley (Alternatives)	117	8	139	9
Morgan Stanley (Private Equity)	99	7	87	6
Blackrock	97	7	98	6
Goodhart	88	6	101	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	157	11	179	11
UK Equity	299	20	317	20

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
Goodhart	Bid
INTERNALLY MANAGED	
Pooled Investments:	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £28,676,625, and this value is included in the net assets statement to reflect the Funds 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 £31,114,222, which represented 108.5% of the value of securities on loan.

Income received from stock lending activities, before costs, was £272,264 for the year ending 31 March 2014 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2012/13 £000	2013/14 £000
Employers		
Normal	46,645	48,015
Deficit Funding	8,758	9,603
Additional - Augmentation	1,588	1,446
Members		
Normal	17,387	17,786
Additional years	181	134
	74,559	**76,984**

These contributions are analysed by type of Member Body as follows:

	2012/13 £000	2013/14 £000
Lincolnshire County Council	35,464	34,356
Scheduled Bodies	33,404	37,816
Admitted Bodies	5,691	4,812
	74,559	**76,984**

9 Transfers In

During the year individual transfers in from other schemes amounted to £6.7m (£5.7m in 2012/13).

There were no material outstanding transfers due to or from the Pension Fund as at 31st March 2014.

10 Benefits Payable

	2012/13 £000	2013/14 £000
Pensions	57,730	60,641
Commutations & Lump Sum Retirement Benefits	13,455	12,337
Lump Sum Death Benefits	2,050	1,266
	73,235	**74,244**

These benefits are analysed by type of Member Body as follows:

	2012/13 £000	2013/14 £000
Lincolnshire County Council	40,589	37,857
Scheduled Bodies	30,519	31,820
Admitted Bodies	2,127	4,567
	73,235	**74,244**

11 Payments to and on account leavers

	2012/13 £000	2013/14 £000
Individual transfers to other schemes	6,894	3,917
Refunds to members leaving service	6	5
	6,900	**3,922**

12 Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below. The external Audit fee for the year was £24,350 and is included within the administrative expenses below.

	2012/13 £000	2013/14 £000
Benefit Administration Expenses	1,123	1,052
Actuarial & other Professional Charges	44	136
Administrative expenses	**1,167**	**1,188**
Investment, Management & Custody	4,921	3,245
Performance Measurement and other advisory charges	171	135
Investment Management expenses	**5,092**	**3,380**

13 Investment Income

		2012/13 £000	2013/14 £000
Equities		23,673	26,520
Pooled Investments			
	Property	955	985
	Private Equity	54	0
	Alternatives	0	6
Cash deposits		47	30
Stock Lending		273	272
Class Actions		0	2
		25,002	**27,815**

14 Taxes on Income

	2012/13 £000	2013/14 £000
Withholding tax - Equities	1,188	1,060
	1,188	**1,060**

15 Investments

	Value at 31/03/2013 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2014 £000
Equities	842,804	288,543	299,287	47,967	880,027
Pooled Investments					
Property	155,117	13,292	5,459	11,751	174,701
Private Equity	95,595	3,193	15,266	(209)	83,313
Fixed Interest	155,540	11,624	0	1,807	168,971
Index Linked Bonds	29,525	1,377	0	(1,279)	29,623
Equities	74,037	0	0	678	74,715
Alternatives	113,613	41,812	33,269	3,780	125,936
	1,466,231	**359,841**	**353,281**	**64,495**	**1,537,286**
Cash Deposits	14,696				38,836
Other Investment Balances	5,242				4,365
Current Assets & Liabilities	8,876				10,935
	1,495,045	**359,841**	**353,281**	**64,495**	**1,591,422**

	Value at 31/03/2012 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2013 £000
Equities	779,938	247,249	285,247	100,864	842,804
Pooled Investments					
Property	152,538	10,274	6,623	(1,072)	155,117
Private Equity	90,949	6,566	12,972	11,052	95,595
Fixed Interest	143,166	4,922	2,923	10,375	155,540
Index Linked Bonds	26,895	0	0	2,630	29,525
Equities	0	67,500	0	6,537	74,037
Alternatives	96,798	28,091	22,480	11,204	113,613
	1,290,284	**364,602**	**330,245**	**141,590**	**1,466,231**
Cash Deposits	28,409				14,696
Other Investment Balances	3,279				5,242
Current Assets & Liabilities	14,068				8,876
	1,336,040	**364,601**	**330,245**	**141,590**	**1,495,045**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £502,409 (£504,194 in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

A further analysis of the market value of investments is given below:

	31-Mar 2013 £000	%	31-Mar 2014 £000	%
Equities				
UK Quoted	319,114	22	323,815	21
Overseas Quoted	523,690	35	523,690	35
Total Equities	**842,804**	**57**	**880,027**	**56**
Pooled Investments				
Property	127,499	9	150,923	10
Private Equity	2,032	0	1,222	0
Fixed Interest	67,577	5	68,353	4
Index Linked Bonds	29,525	2	29,623	2
Equities	74,037	5	74,715	5
Alternatives	113,613	8	125,936	8
Total UK Pooled	**414,283**	**28**	**450,772**	**29**
Property	27,618	2	23,779	2
Private Equity	93,564	6	82,091	5
Fixed Interest	87,962	6	100,617	6
Total Overseas Pooled	**209,144**	**14**	**209,144**	**13**
Total Pooled Investments	**623,427**	**42**	**657,259**	**42**
Cash				
Short Term Loans/External Deposits	14,696	1	38,836	2
Total	**1,480,927**	**100**	**1,576,122**	**100**

An analysis of the type of pooled investment vehicles is given below:

		2012/13 £000	2013/14 £000
Property			
	Unit Trusts	97,359	116,296
	Other managed funds (LLP's)	57,758	58,405
Private Equity			
	Other managed funds (LLP's)	95,595	83,313
Fixed Interest			
	Other managed funds	155,540	168,971
Index linked gilts			
	Other managed funds	29,525	29,623
Equities			
	Other managed funds	74,037	74,715
Alternatives			
	Other managed funds	113,613	125,936
Total Pooled Vehicles		**623,427**	**657,259**

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 two investments that fall into this category as follows:

Investment	2012/13 Value (£000)	% of net assets	2013/14 Value (£000)	% of net assets
Goodhart Absolute Return Bond Fund	87,962	5.9	100,617	6.3
Morgan Stanley Alternative Investments	113,613	7.9	125,936	7.9

16 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 of 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. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	GBP	54	AUD	(98)		-
	JPY	26,000	EUR	(184)		(1)
	MXN	2,061	GBP	(95)		-
	USD	607	GBP	(365)		(1)
	USD	8	CAD	9		-
Over one month						
	GBP	19,737	CHF	(28,800)	132	
	GBP	32,187	EUR	(38,813)	42	
	GBP	121,645	JPY	(20,346,000)	2,962	
	GBP	386,724	USD	(636,849)	4,327	
	CHF	25,600	GBP	(17,617)		(188)
	EUR	333,000	GBP	(27,799)		(219)
	JPY	14,878,000	GBP	(89,484)		(2,683)
	USD	580,100	GBP	(352,715)		(4,411)
Total					**7,463**	**(7,503)**
Net forward currency contracts at 31 March 2014						**(40)**
Prior year comparative						
Open forward currency contracts at 31 March 2013					**9,978**	**(10,745)**
Net forward currency contracts at 31 March 2013						**(767)**

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.6m (unrealised loss of £0.8m in 2012/13) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

		2012/13 £000	2013/14 £000
Dividends Receivable		2,868	2,991
Recoverable Tax		691	888
Outstanding Foreign Exchange		(767)	(40)
Outstanding Stock Lending		0	19
Unsettled Trades	Purchases	0	(1,024)
	Sales	2,450	1,531
		5,242	**4,365**

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4,099,190 for contributions due from employers (2012/13 £3,488,135). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2012/13 £000	2013/14 £000
Debtors		
Central Government Bodies	1,341	745
Other Local Authorities	4,504	4,868
NHS Bodies	0	0
Public Corporations and Trading Funds	46	12
Other Entities and individuals	1,144	1,349
	7,035	**6,974**
Long Term Debtors		
Central Government Bodies	2,558	2,131
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,558	**2,131**
Creditors		
Central Government Bodies	(1,153)	(569)
Other Local Authorities	(256)	(891)
NHS Bodies	0	0
Public Corporations and Trading Funds	(3,118)	(781)
Other Entities and individuals	(144)	(559)
	(4,671)	**(2,800)**

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £29,109,878.

21 Contingent Assets

Five 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.

22 Impairment Losses

The Fund has no recognised impairment losses.

23 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 amounted to £8,675,676.27 (£8,285,448 in 2012/13) and member contributions of £1,087,950.16 (£1,020,583 in 2012/13) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund’s custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £377,253. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000, followed by a further rejection of approximately £65,000. The Pension Fund has appealed these rejections and there has been some positive news in the last year, with the Spanish Authorities accepting a small proportion of claims against them. As with the tax claim detailed in the paragraphs above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

During the financial year 2012/13 the County Council successfully lodged a claim with the Austrian tax authorities for the recovery of witholding tax suffered on overseas dividends and received €26,129.62 (approx. £22k) in March 2013.

25 Related Party Transactions

In accordance with Financial Reporting Standard 8 ‘Related Party Disclosures’ material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003/04, Councillors are entitled to join the Scheme. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan and A Antcliff are contributing members of the Pension Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

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 £3,838m and interest of £29.1k was earned over the year.

Lincolnshire County Council paid contributions of £25.8m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 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 Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) 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 disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	2012/13 Designated as fair value through profit & loss £000	2012/13 Loans & receivables £000	2012/13 Financial liabilities at amortised cost £000	2013/14 Designated as fair value through profit & loss £000	2013/14 Loans & receivables £000	2013/14 Financial liabilities at amortised cost £000
Financial Assets						
Equities	842,804			880,027		
Pooled Investments:						
Property	155,117			174,701		
Private Equity	95,595			83,313		
Fixed Interest	155,540			168,971		
IL Bonds	29,525			29,623		
Equities	74,037			74,715		
Alternatives	113,613			125,936		
Cash		18,650			43,466	
Other Inv. Balances	15,987			12,892		
Debtors		9,593			9,105	
	1,482,218	**28,243**	**-**	**1,550,178**	**52,571**	**-**
Financial Liabilities						
Other Inv. Balances	(10,745)			(8,527)		
Creditors			(4,671)			(2,800)
	(10,745)	**-**	**(4,671)**	**(8,527)**	**-**	**(2,800)**
	1,471,473	**28,243**	**(4,671)**	**1,541,651**	**52,571**	**(2,800)**

Net gains and losses on financial instruments

	2012/13 £000	2013/14 £000
Financial Assets		
Fair value through profit & loss	141,590	64,495
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(767)	(40)
Loans and receivables		
Financial liabilities measured at amortised cost		
	140,823	**64,455**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments 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 interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments 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.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2014.
The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.
The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,166,228	174,701	209,249	1,552,699
Loans and receivables	52,571			52,571
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,218,799**	**174,701**	**209,249**	**1,605,270**
Financial Liabilities				
Fair value through profit & loss		(8,527)		(8,527)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,800)			(2,800)
Total Financial Liabilities	**(2,800)**	**(8,527)**	**-**	**(11,327)**
Net Financial Assets	**1,215,999**	**166,174**	**209,249**	**1,593,943**

Values at 31st March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,117,893	155,117	209,208	1,482,218
Loans and receivables	28,243			28,243
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,146,136**	**155,117**	**209,208**	**1,510,461**
Financial Liabilities				
Fair value through profit & loss		(10,745)		(10,745)
Loans and receivables				
Financial liabilities measured at amortised cost	(4,671)			(4,671)
Total Financial Liabilities	**(4,671)**	**(10,745)**		**(15,416)**
Net Financial Assets	**1,141,465**	**144,372**	**209,208**	**1,495,045**

27 Nature and Extent of Risks Arising from Financial Instruments

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 cashflows.

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.

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 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. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	12.2%
Overseas Equities	8.9%
UK Bonds	5.7%
UK Index Linked	7.7%
Overseas Bonds	6.8%
Private Equity	14.6%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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 31/03/2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	38,836	0.0	38,836	38,836
UK Equities	389,530	12.2	437,053	342,007
Overseas Equities	556,212	8.9	605,715	506,709
UK Bonds	68,353	5.7	72,249	64,457
UK Index Linked	29,623	7.7	31,904	27,342
Overseas Bonds	100,617	6.8	107,459	93,775
Private Equity	83,313	14.6	95,477	71,149
Alternative Investments	125,936	10.0	138,530	113,342
Property	174,702	5.8	184,835	164,569
Dividends Accrued	2,991	0.0	2,991	2,991
Recoverable Tax	888	0.0	888	888
Outstanding FX	(40)	0.0	(40)	(40)
Outstanding Stock Lending	19	0.0	19	19
Unsettled Purchases	(1,024)	0.0	(1,024)	(1,024)
Unsettled Sales	1,531	0.0	1,531	1,531
Total assets available to pay benefits	1,571,487		1,716,423	1,426,551

Asset Type	Value at 31/03/2013 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	14,696	0.0	14,696	14,696
UK Equities	393,151	15.2	452,910	333,392
Overseas Equities	523,690	12.7	590,199	457,181
UK Bonds	67,577	5.8	71,496	63,658
UK Index Linked	29,525	7.0	31,592	27,458
Overseas Bonds	87,963	7.2	94,296	81,630
Private Equity	95,595	14.6	109,552	81,638
Alternative Investments	113,613	10.0	124,974	102,252
Property	155,117	5.8	164,114	146,120
Dividends Accrued	2,868	0.0	2,868	2,868
Recoverable Tax	691	0.0	691	691

Outstanding FX	(767)	0.0	(767)	(767)
Unsettled Purchases		0.0	-	-
Unsettled Sales	2,450	0.0	2,450	2,450
Total assets available to pay benefits	1,486,169		1,659,071	1,313,267

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 risks, which represent the risk that the fair value or future cashflows 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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	**31/03/2013 £000**	**31/03/2014 £000**
Cash deposits	14,696	38,836
Cash balances	3,954	4,630
Pooled Fixed Interest Securities	185,065	198,594
Total	203,715	242,060

Interest rate risk - sensitivity analysis

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.

Asset Type	**Value at 31/03/2014 £000**	**Change in Year +1% £000**	**-1% £000**
Cash deposits	38,836	388	(388)
Cash balances	4,630	46	(46)
Pooled Fixed Interest Securities	198,594	1,986	(1,986)
Total	242,060	2,420	(2,420)

Asset Type	**Value at 31/03/2013 £000**	**Change in Year +1% £000**	**-1% £000**
Cash deposits	14,696	147	(147)
Cash balances	3,954	40	(40)
Pooled Fixed Interest Securities	185,065	1,851	(1,851)
Total	203,715	2,037	(2,037)

Currency risk

Currency risk represents the risk that the fair value of future cashflows 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.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2014 and 31 March 2013.

Currency Exposure - Asset Type	**31/03/2013 £000**	**31/03/2014 £000**
Overseas Equities (quoted)	523,690	556,212
Pooled Investments:		
Overseas Property	27,618	23,779
Overseas Private Equity	93,564	82,091
Overseas Fixed Interest	87,962	100,617
Total	732,834	762,699

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	**Value at**	**Change in Year**	
	31/03/2014	**+10%**	**-10%**
	£000	**£000**	**£000**
Overseas Equities (quoted)	556,212	611,833	500,591
Pooled Investments:			
Overseas Property	23,779	26,157	21,401
Overseas Private Equity	82,091	90,300	73,882
Overseas Fixed Interest	100,617	110,679	90,555
Total	762,699	838,969	686,429

Currency Exposure - Asset Type	**Value at**	**Change in Year**	
	31/03/2013	**+10%**	**-10%**
	£000	**£000**	**£000**
Overseas Equities (quoted)	523,690	576,059	471,321
Pooled Investments:			
Overseas Property	27,618	30,380	24,856
Overseas Private Equity	93,564	102,920	84,208
Overseas Fixed Interest	87,962	96,758	79,166
Total	732,834	806,117	659,551

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 Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, 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 the type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan 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.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (or equivalent) across three ratings agencies 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.

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 2014, these assets totalled £1,153m, with a further £38.8m held in cash. 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.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration

This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $19 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management

The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

28 Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils

Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards

Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

Parish and Town Councils

Billinghay PC
Bourne TC
Bracebridge Heath PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC

Academies

Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Charles Read Academy
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Kings School
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College
Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Counsel
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Splisby Eresby
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy

Parish and Town Councils
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC
Sudbrooke PC
Washingborough PC
Woodhall Spa PC

FE Establishments
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Other Scheduled Bodies
Acorn Free School
Compass Point
BG (Lincoln) Ltd
Lincolnshire Police Authority
Lincolnshire Probation Service

Academies
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln
Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary

Academies
Witham St Hughs Academy
Woodhall Spa Academy

Admitted Bodies
Acis Group
Active Nation
Adults Supporting Adult
Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)
Mouchel Connextions
New Linx Housing
Rentokil Initial

29 Exchange Rates Applied

The exchange rates used at 31 March 2014 per £1 sterling were:

Australian Dollar	1.7987
Brazilian Real	3.7619
Canadian Dollar	1.8401
Swiss Franc	1.4727
Danish Krone	9.0310
Euro	1.2096
Hong Kong Dollar	12.9322
Indonesian Rupiah	18,938.8237
Israeli Shekel	5.8186
Japanese Yen	171.6914
Korean Won	1,774.5978
Mexican Peso	21.7542
Norwegian Krone	9.9813
New Zealand Dollar	1.9212
Polish Zloty	5.0371
Swedish Krona	10.8091

Singapore Dollar	2.0965
Thai Baht	54.0823
Turkish Lira	3.5664
Taiwan Dollar	50.7689
US Dollar	1.6671
South African Rand	17.5349

Independent auditor's report to the members of Lincolnshire Pension Fund on the pension fund financial statements published with the Pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 28 to 56.

Respective responsibilities of the Executive Director (Resources and Community Safety) and the auditor

As explained more fully in the Statement of the Executive Director (Resources and Community Safety) Responsibilities, the Executive Director (Resources and Community Safety) is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Lincolnshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted my work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Lincolnshire County Council for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
1 Waterloo Way
Leicester
LE1 6LP
25 September 2014

ADDITIONAL INFORMATION AVAILABLE

Additional information regarding the Pension Fund and the scheme is available by going to the website below:

www.lincolnshire.gov.uk/pensions/

The following documents are included in this report, and can also be found by selecting Fund in the main menu of the Pensions 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.

STATEMENT OF INVESTMENT PRINCIPLES

This document describes the key issues that govern the investment of the Pension Fund, and states the extent to which the Council's investment principles comply with six principles set out in a publication by the Chartered Institute of Public Finance and Accountancy (CIPFA), entitled 'Investment Decision Making and Disclosure in the Local Government Pension Scheme'.

COMMUNICATIONS POLICY

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that relevant 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 Department for Communities and Local Government.

Lincolnshire Pension Fund

Funding Strategy Statement

March 2014

Contents

Funding Strategy Statement | PAGE

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1st March 2014.

1.2 What is the Lincolnshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Lincolnshire 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;

uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

affordability of employer contributions,

transparency of processes,

stability of employers' contributions, and

prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates 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 Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends 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, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;

an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;

a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

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

to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

to ensure that employer contribution rates are reasonably stable where appropriate;

to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries please contact Jo Ray, Group Manager – Pensions and Treasury in the first instance at jo.ray@lincolnshire.gov.uk or on 01522 553656.

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

the market value of the employer's share of assets, 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.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 21 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

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.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 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, 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 DCLG 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.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- 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.

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;
- 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 Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which 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, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

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 may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. 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 choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers	
Sub-type	**Local Authorities, Police & Crime Commissioner**	**Small Scheduled Bodies**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to "gilts basis" - see Note (a)	
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)					Attained Age approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years	20 years	Outstanding contract term, subject to a maximum of 15 years	Outstanding contract term, subject to a maximum of 15 years
Deficit recovery payments – Note (d)	% of payroll or Monetary Amount	% of payroll	% of payroll or Monetary Amount	% of payroll or Monetary Amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	At the discretion of the Administering Authority. May be 3 years - Note (e)	Choice of three options ranging from LCC rate to actual rate	At the discretion of the Administering Authority. May be 3 years - Note (e)	At the discretion of the Administering Authority. May be 3 years - Note (e)
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					
New employer	n/a	n/a	n/a	Note (g)	Note (h)	
Cessation of participation: cessation debt payable	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 Note (j).				Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	

Type of employer	Transferee Admission Bodies	Designating Bodies
Sub-type	**(all)**	**Internal Drainage Boards**
Basis used	Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, assumes long-term Fund participation (see Appendix E)
Future service rate	Approach dependent on whether contract is open or closed to new entrants (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	No	Yes - see Note (b)
Maximum deficit recovery period – Note (c)	Outstanding contract term, subject to a maximum of 15 years	20 years
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount
Treatment of surplus	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
Phasing of contribution changes	At the discretion of the awarding authority - Note (e)	At the discretion of the Administering Authority.
Review of rates – Note (f)	Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	Notes (h) & (i)	n/a
Cessation of participation: cessation debt payable	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.	Can be ceased subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).

Note (a) (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 vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to 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).

On the basis of modelling carried out prior to the 2013 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 Authorities Council**	**Police and Crime Commissioner**	**Internal Drainage Boards**
Stabilisation mechanism	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount
Max cont increase	+1% of pay	+1% of pay	+1% of pay
Max cont decrease	-1% of pay	-1% of pay	-1% of pay

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security. Possible actions may include increases in contributions expressed as a percentage of pay or revised deficit contributions expressed as monetary amounts.

The stabilisation criteria and limits will be reviewed no later than at the 31 March 2016 valuation, with any changes in contribution strategy taking effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 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 spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 3 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or

the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant. Where it is a Transferee Admitted Body, the awarding authority must act as guarantor.

Employers which have no active members at this valuation will not be phased.

The employers considered eligible for 'phasing in' were:

- Small Scheduled Bodies
- Colleges
- Lincolnshire Sports Partnership
- Lincolnshire Home Improvements Agency

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 employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) 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 those of the other academies in the MAT;

b) 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;

c) The new academy will be allocated an initial asset share from the ceding council pool's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council pool's 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 asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's contribution rate will be calculated using the ongoing assumptions that applied as at the last formal valuation and the ceding council pool's funding position and membership data, all as at the day prior to conversion.

e) As an alternative to (d), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (c), (d) and (e) above will be reconsidered at each valuation.

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 fall in gilt yields;

allowance for the possible non-payment of employer and member contributions to the Fund;

the current deficit.

For all new Transferee Admission Bodies, 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.

The Administering Authority will only consider requests from Community Admission Bodies (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 pays the same rate as the letting employer, which is may be under the 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 at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

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. The Admission 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;
- 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;
- 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 it should be noted that current legislation does not permit a refund payment to the Admission Body.

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 there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing 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.

Under (a) and (c), 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 would look to any bond, indemnity or guarantee in place for the employer.

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, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. Normally employers with less than 50 employees would be encouraged to participate in a pool if appropriate. Similar types of employers with more than 50 employees would be allowed to participate in a pool if they requested to do so.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

Smaller admitted 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).

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. As at the 2013 valuation, separate pools were operated for:-

- Lincolnshire County Council and Schools;
- Small Scheduled Bodies;
- The following Multi Academy Trusts:
    - David Ross Education Trust
    - Boston Witham Academies Trust
    - Phoenix Family of Schools
    - Priory Federation of Academies
    - Tall Oaks Academy Trust
    - West Grantham Federation
- Lincolnshire Police and G4S

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, 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;

whether the admission agreement is likely to be open or closed to new entrants.

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. The administering authority may, at its sole discretion, agree alternative funding approaches on a case by case basis but will at all times take into account its responsibilities in regard to the security of the Fund.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

It is generally expected that such strain costs are paid immediately, however, in exceptional circumstances and with the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 3 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt 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.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund, which can be found within the discretionary policies document. 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;

The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), 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 after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is 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 A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 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 regular Pensions Committee meetings, and also to employers through Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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 2012) and to its Statement of Investment Principles.

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 January 2014 for comment;

b) Comments were requested within 4 weeks;

c) There was an Employers Forum on 12th February 2014 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 and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.lincolnshire.gov.uk/pensions;
- Each participating employer in the Fund notified by email of its availability on the website;
- All Pensions Committee members notified by email of its availability on the website, including the employee representative;
- All Fund members signposted to the FSS on the website in the annual summary leaflet;

A full copy included in the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers upon request;

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. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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 Statement of Investment Principles, 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 web at www.lincolnshire.gov.uk/pensions.

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 Statement of Investment Principles (SIP) 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;

prepare and maintain a FSS and a SIP, 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/SIP 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, 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 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 Admission Bodies' 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 SIP 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 SIP;

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.

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 valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are

Risk	Summary of Control Mechanisms
	monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

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.

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 future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service 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 future service 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 calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

1 See LGPS (Administration) Regulations 36(5).
2 See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

past contributions relative to the cost of accruals of benefits;

different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

the effect of any differences in the valuation basis on the value placed on the employer's liabilities;

any different deficit/surplus spreading periods or phasing of contribution changes;

the difference between actual and assumed rises in pensionable pay;

the difference between actual and assumed increases to pensions in payment and deferred pensions;

the difference between actual and assumed retirements on grounds of ill-health from active status;

the difference between actual and assumed amounts of pension ceasing on death;

the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

the actual timing of employer contributions within any financial year;

the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). 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 measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis may apply: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) 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. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) 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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around a year of life expectancy on average. 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.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: 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

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial**

assumptions.

Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if

	formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers 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).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Lincolnshire Pension Fund

Statement of Investment Principles

July 2014

Statement of Investment Principles – Contents

1. INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.

1.2 The SIP is published on the Pension Fund's website at www.lincolnshire.gov.uk/pensions.

1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representative, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.

1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Finance and Public Protection and professional advisers as required.

1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is reviewed every three years, after each Valuation.

1.6 The Committee are responsible for the ongoing monitoring and review of all investments, service providers and Fund administration.

1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

The primary objective of the Fund is to ensure that that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.

As required by the Regulations, an Actuary conducts a triennial valuation to assess to what extent the Fund's assets match its pension obligations and then determines appropriate levels of contributions for the various employers participating in the Scheme.

2.2 Funding Objective

The Pension Fund, in collaboration with the Fund's Actuary, has produced a Funding Strategy Statement (FSS) which is published on the Pension Fund's website at www.lincolnshire.gov.uk/pensions, or is available in hard copy by request (see contact details on page 7).

The purpose of the Funding Strategy Statement 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.

The FSS sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The FSS is reviewed every three years following the Actuarial Valuation.

3 INVESTMENT OBJECTIVES

The Fund's investment objective is to achieve a level of return from the assets that will, as a minimum, meet the investment return assumptions made by the Actuary in the triennial valuation. In order to achieve this long term objective, the following has been agreed by the Pensions Committee.

3.1 Investment Policy

The Committee will ensure that one or more investment managers are appointed to manage and invest Fund money, and that they are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term.

3.2 Investment Managers

The Managers appointed to manage the Fund's assets are detailed in appendix B. A management agreement is in place for each specialist mandates, detailing performance targets and benchmarks.

3.3 Custody and Stock-Lending

The Fund has appointed JPMorgan as Global Custodian for all listed assets. The Custodian is responsible for the safekeeping of the Fund's assets.

The Fund participates in a collateralised stock-lending programme managed by the Custodian. This is restricted to an overall limit of £220 million and an individual counterparty limit of £33 million, within the 25% maximum allowed in the Regulations.

3.4 Allowable Investments

All investments made by the Fund are in accordance with those permitted under the Regulations. These include equities, bonds, property and a range of alternative investments including private equity. The types of investments held by the current managers are detailed in appendix B.

3.5 Balance Between Types of Investment

The overall strategy of the Fund, to produce the Strategic Benchmark, is reviewed every three years after the Actuarial Valuation. An asset liability study is currently being undertaken following the 2013 Valuation.

The study addresses the long term strategy for the Fund, taking into consideration the liability profile of the Fund, the current solvency level and the risk tolerance of the Committee.

All recommendations of changes to the Strategic Benchmark are agreed by the Pensions Committee, before being implemented over an agreed period of time.

3.6 Risk

The Pensions Committee's appetite for risk is factored into the Asset Liability Study mentioned above, and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.

Each asset class, and within that each manager, operates within a tolerance range to ensure that the Fund does not deviate too far from the agreed Strategic Benchmark, whilst allowing for a degree of flexibility.

The appointment of more than one manager diversifies the manager risk within asset classes, and each manager is expected to maintain a degree of diversification within their investment portfolio. This is monitored by the Pensions Committee.

3.7 Expected Returns

The Strategic Benchmark is expected to produce a return in excess of the investment return assumed in the Actuarial Valuation, over the longer term. The assumptions used in the latest Valuation are shown in appendix C. Individual manager performance against benchmark and targets, as well as the overall return to the Fund, is regularly monitored by the Pensions Committee.

3.8 Realisation of Investments

The Pension Fund is currently cash positive, in that it has excess cash paid into the Fund each month from contributions and investment income after all pensions are paid. The Fund expects to be cash positive for the short to medium term.

The majority of the Fund's investments are quoted on major stock markets and can be realised quickly, in normal market conditions, if required. More illiquid investments, such as property and private equity make up a smaller proportion of the Fund. The mix of liquid and illiquid investments is one consideration in preparing the Strategic Benchmark.

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

All local government pension funds have an in-house AVC scheme where scheme members can invest money, deducted directly from salaries, through an AVC provider. The Fund has appointed Prudential to act as its' provider and a comprehensive range of investment funds is offered.

Information about AVC's is available on the Pension Fund's website at www.lincolnshire.gov.uk/pensions.

5 PENSION FUND CASH

There are two aspects to cash management within the Pension Fund:

5.1 Cash Held in the Pension Bank Account

The cash held in the Pension Fund Bank account is managed by the Lincolnshire County Council (LCC) Treasury Team. This cash is managed in accordance with the LCC Treasury Management Strategy. A Service Level Agreement is in place between the Pension Fund and LCC detailing how risk and return are apportioned.

5.2 Cash Held in the Custodian Bank Accounts

Each investment manager in the Fund with a segregated account will have a number of bank accounts (of various currencies) with the Fund's Custodian. Cash held in these accounts is either frictional, and arises due to timing issues of purchases, sales or income received; or as a strategic decision by the investment manager. Maximum cash limits are agreed with managers in their Investment Management Agreements, and managers have the discretion as to how this cash is dealt with. Other cash is held by the Custodian to fund investment draw-downs (e.g. for property investments), or currency hedging outflows.

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all UK, developed Europe, US, Canada and Japanese company holdings. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast 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 is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 61 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.

The Fund has produced a Stewardship Code statement (available on the Pension Fund website) in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

6.2 Socially Responsible Investing

Whilst the Fund does not have an explicit policy on socially responsible investing (SRI), most of the fund is managed externally by managers who incorporate a strategic commitment to SRI. Their decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies with good all-round credentials. Many of these managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.

6.3 Compliance with the Myners Principles

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (management and Investment of Funds) (Amendment) Regulations 2002 required administering authorities to publish the extent to which they complied with these principles.

In 2007, a review was conducted to assess the progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The outcome of this review was reported by the Treasury in 2008, and the ten principles were updated to reflect the findings.

The outcome was a set of six principles, which have been modified in the context of the LGPS, to replace the original ten principles. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require the administering authority to publish the extent to which they comply with these six principles. This is shown at appendix D.

7 CONTACT DETAILS

For further information on any of the subjects contained in the Statement of Investment Principles, please contact:

Jo Ray Group Manager – Pensions & Treasury

Tel: 01522 553656
Email: jo.ray@lincolnshire.gov.uk

Reviewed 24th July 2014 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

Asset Class	Manager Allocation %	Asset Class Strategic Benchmark %
UK Equities		20.0
Passive - Internally Managed	20.0	
Global Equities		40.0
Enhanced Passive ex. UK– Invesco	20.0	
Active – Neptune	5.0	
Active – Schroders	5.0	
Active – Threadneedle	5.0	
Active – Morgan Stanley	5.0	
Property		11.5
Bonds		13.5
Passive – Blackrock	6.75	
Absolute Return - Goodhart	6.75	
Alternatives		15.0
Absolute Return - Morgan Stanley	15.0	

The Fund has an active currency overlay programme in place with two managers, Record Currency Management and HSBC Trinkaus & Burkhardt, for the Invesco Enhanced Index Global ex UK Equities mandate.

Passive means trying to match the return of a specified index.

Enhanced Passive means trying to outperform an index by a small amount.

Active means trying to outperform an index by a considerable amount, with perhaps little or no regard to the index.

Absolute return means trying to provide a positive return over and above a cash return.

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

Manager	Asset Class	Index	Mandate	Relative Targets against index (3yr rolling basis before fees)*	Fee basis
Internal Team	UK Equities	MSCI UK IMI	Passive	+/- 0.5% p.a.	In-house
Invesco	Global ex UK Equities	MSCI World ex UK	Enhanced Passive	+1% p.a.	% of assets and performance fee
Neptune	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Schroders	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Threadneedle	Global Equities	MSCI AC World	Active	+2% p.a.	% of assets
Morgan Stanley	Global Equities	MSCI World	Active	n/a*	% of assets
Blackrock	Bonds	50% iBoxx Sterling Non Gilt 30% FTS Govt IL > 5yr 20% JPM GBI Global ex UK	Passive	0% p.a.	% of assets
Goodhart	Bonds	3mth LIBOR	Absolute Return	+2.5% p.a.	% of assets and performance fee
Various Unit Trusts	Property	IPD	Passive	No formal target	% of assets
Various Funds / Fund of Funds	Specialist Property	Fund specific	Active	Fund specific	% of assets
Morgan Stanley	Alternative Investments	3mth LIBOR	Absolute Return	+4% p.a.	% of assets and performance fee

***** - The Morgan Stanley Global Franchise strategy seeks to generate attractive long term returns by investing in high quality franchises characterised by dominant intangible assets, high barriers to entry and strong free cash flow generation. To achieve this objective, the investment process focuses on minimising the absolute risks associated with the portfolio holdings. Whilst the portfolio construction process is benchmark agnostic, the strategy is expected to outperform broadly based benchmarks such as the MSCI World Index over a full market cycle with less than average absolute volatility.

OTHER SERVICE PROVIDERS

Service Provider	Mandate	Fee Basis
Currency Overlay **Record Currency Managers** **HSBC Trinkaus & Burkhardt**	Manage the currency risk for a specific Global equity portfolio, to return 1% p.a. on a rolling three-year basis	% of assets
Custodian **JP Morgan**	Custody of all listed assets	Fee based in part on fixed rates per transaction and in part by percentage of assets
Investment Consultant **Hymans Robertson**	Investment advice to Pensions Committee	Indexed rates for specific types of work
Actuary **Hymans Robertson**	Actuarial advice	Indexed rates for specific types of work
Voting Adviser **Manifest**	Advice and vote processing for UK, developed Europe, US and Canada listed equities	Indexed fixed fee

APPENDIX C – ACTUARIAL ASSUMPTIONS (2013 VALUATION)

Assumption	Derivation	Rate at 31 March 2013	
		Nominal	**Real**
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	2.5%	-
Pay increases	Assumed to be 2% p.a. in excess of price inflation	3.8%	1.3%
"Gilt-based" discount rate	The yield on fixed interest (nominal) and index-linked (real) Government bonds	3.0%	0.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	4.6%	2.1%

APPENDIX D – COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF GOOD INVESTMENT PRACTISE

	Principle	Compliance Statement
1	**EFFECTIVE DECISION MAKING** Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund's investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund's management. The Pensions Committee makes decisions after advice from one or more of the Executive Director of Resources and Community Safety, the Fund Actuary and the Independent Advisor. Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world. An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. 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.
2	**CLEAR OBJECTIVES** An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and	The overall objective for the Fund is to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term. The Pension Fund is seeking to ensure that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.

	investment managers.	This is done whilst considering the affordability and sustainability of contributions, both from the employer and the employee, and is achieved by regular actuarial valuations and Asset Liability Modelling. The Fund's Funding Strategy Statement can be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions.
3	**RISK AND LIABILITIES** In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	The Fund's actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and its' liabilities. Interim valuations are also prepared for the larger employers in the Fund. Following each triennial valuation, the Fund's consultant undertakes Asset Liability Modelling to ensure that the investment strategy is fit for purpose. The Fund is a member of Hymans Robertson's Club Vita, which looks at the longevity risk specific to the Lincolnshire fund.
4	**PERFORMANCE ASSESSMENT** Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	All investment managers are measured against specific targets, which are based on the Fund's bespoke strategic benchmark. Fund and individual investment manager performance is reported to the Pensions Committee on a monthly and quarterly basis. Investment managers report in person to the Pensions Committee at least once every year. Officers from the Investment Team regularly discuss performance with all investment managers, and meet at least once every year. The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee. The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.

5	**RESPONSIBLE OWNER** Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities.	The Fund's position on Corporate Governance and Socially Responsible Investment (SRI) is set out in the SIP. The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee. The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website. The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.
6	**TRANSPARENCY AND REPORTING** Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate.	The Fund's Governance Policy and Compliance Statement, Communication Policy Statement and Stewardship Code Statement can be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions. The Lincolnshire Fund has an Employer's Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund. This meets twice a year, and an annual employer meeting is also held. The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions. The Fund sends an Annual newsletter to all

		Pensioners and a summary of the Report and Accounts to all members alongside their Annual Benefit Statements.

COMMUNICATIONS POLICY STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

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 180 employers and over 63,000 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 Department of 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 Mouchel. Communication material is the responsibility of senior staff within the County Council's Finance and Public Protection Directorate in collaboration with the Mouchel pension service team. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with Mouchel.

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.lincolnshire.gov.uk/pensions).

Mouchel provide a dedicated enquiry phone number (01522 836590) and email address (pensions_enquiries@mouchel-lincoln.com) for pension related enquiries. The appropriately qualified staff from the County Council, Mouchel 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.

Method of Communication	**Media**	**Frequency**	**Method of Distribution**	**Audience (Active, Deferred, Pensioners, representatives, employers, prospective members or All)**
Scheme Booklet	Paper based and on the website	At joining and major scheme changes	Post to home address or via employers, and available through the website	Prospective and Active Members
Statutory notices	Paper based	Various	Post to home or via employers	Active
Newsletters	Paper based and on the website	Annually and whenever scheme changes take place	Post to home or via employers, and available through the website	Active, Deferred and Pensioners
Guides to specific issues or options	Paper based and on the website	As requested and whenever scheme changes take place	Post to home or via employers, and available through the website	Active, Deferred and Pensioners Employers
Fund Annual Report and Accounts	On the website	Annual	Email on request and available through the website	All
Summary annual report and accounts	Paper based	Annual	Post to home or via employers	Active, Deferred and Pensioners
Estimated Benefit statements	Paper based	Annual	Post to home or via employers	Active and Deferred
Seminars and forums	Face to Face	Twice yearly forums, annual employer meeting and as requested	Held at appropriate venue	All

Statement of Investment Policy	On the website	Annual	Email on request and available through the website	All
Funding Strategy Statement	On the website	Every three years	Email on request and available through the website	All
Pensions Committee agenda, reports and minutes	Paper based and on the website	Quarterly	Post on request and available through the website	All
Pensions Administration Strategy	On website	As required	Email and available through the website	Employers
E-Fundamentals – communication document	On website	As required	Email and available through the website	Employers

Reviewed 24th July 2014 by the Pensions Committee

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority 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 Director of Resources.

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;

- set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice,
- appoint and review the performance of all Fund Managers and associated professional service providers,

- approve the Annual Report and Statement of Accounts of the Fund,
- consider any other matters relevant to the operation and management of the fund, and
- respond to any relevant consultation impacting upon the Local Government Pension Scheme.

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 of Finance and Public Protection

The Executive Director of Finance and Public Protection 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
- to agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Group Manager – Pensions & Treasury, Finance and Asset Management. Jo.ray@lincolnshire.gov.uk, telephone 01522 553656.

Reviewed 24th July 2014 by the Pensions Committee

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
A - Structure	**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.**	Yes	**See terms of reference for the Pensions Committee in the Policy Statement above.**
	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.	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.**
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Relevant	**As discussed above, no such forum has been established as yet.**
	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.	Not Relevant	**As discussed above, no such forum has been established as yet.**

B - Representation	**a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-** • **Employing authorities (including non-scheme employers, e.g. admitted bodies);** • **Scheme members (including deferred and pensioner scheme members),** • **Where appropriate, Independent professional observers, and** • **Expert advisors (on an ad hoc basis)**	Partial	**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.**
	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.	Yes	**All members of the Committee have full voting rights and equal access to information, training, etc.**
C – Selection and Role of Lay Members	**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.**	Yes	**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 on set dates.
	b. That at the start of any meeting, committee members are invites to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	**The declaration of member's interests is a standard item on the agenda of the Pensions Committee.**
D - Voting	**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.**	Yes	**Full voting rights are given to all members of the Committee.**
E – Training/Facility Time/Expenses	**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.**	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. 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.	Yes	**All members are treated equally in every respect.**

	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	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.**
F – Meetings - Frequency	**a. That an administering authority's main committee meet at least quarterly.**	Yes	**See Compliance Policy Statement above.**
	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.	Not Relevant	**As discussed above, no such forum has been established as yet.**
	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.	Not Relevant	**Three added members exist and have equal rights with all mainstream members in all respects.**
G – Access	**a. That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and**	Yes	**All members are treated equally in every respect.**

	advice that falls to be considered at meetings of the main committee.		
H – Scope	**a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**	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. 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.**
I - Publicity	**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.**	**Yes**	**The County Council publishes the many governance documents and communicates regularly with employers and scheme members.**