Lincolnshire
COUNTY COUNCIL
Working for a better future

Lincolnshire Pension Fund Annual Report & Accounts 2018

Lincolnshire
Pension Fund

Local Government Pension Scheme

Annual Report for the Year Ended 31st March 2018

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Management Arrangements

Administering Authority	Lincolnshire County Council

Pensions Committee Members as at 31st March 2018

County Councillors
B Adams
R D Butroid
P E Coupland (Vice Chairman)
M J Overton
S Rawlins
A J Spencer
E W Strengiel (Chairman)
Dr M E Thompson

District Council Representative
Cllr J Summers

Representative of Other Employers
J Grant

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers

Executive Director of Finance & Public Protection	P Moore BA FCPFA
County Finance Officer	D C Forbes BSc CPFA
Pension Fund Manager	J Ray
Independent Advisor	P Jones
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

External Investment Managers of Segregated Portfolios

Invesco Asset Management Ltd
Columbia Threadneedle Investments Ltd
Schroder Investment Management Ltd

Auditors	KPMG
Investment Custodian	JP Morgan Securities Services
AVC Provider	Prudential
Fund Banker	Barclays
Benefits Administration	West Yorkshire Pension Fund

Report of the Pensions Committee

Introduction

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

Members of the Committee as at 31st March 2018 are listed on page 1.

All members of the Committee can exercise voting rights.

Corporate Governance and Responsible Investing

The Fund complies with corporate governance best practice by voting its direct shareholdings at all UK, developed Europe, US, Canada and Japan company meetings. To assist the Fund in being a responsible investor, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of social, environmental and governance issues. The Fund has produced a Tier 1 Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's shared 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 0.75% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2018 produced a positive return to the Fund, with an increase in value of £73.9m to £2,189.4m. The Fund's investment return of 3.3% was marginally ahead of the Fund's specific benchmark return of 3.0%. Over the last ten years, the Fund's annualised investment performance of 8.3% is slightly behind the benchmark return of 8.5%.

Detail on the global markets over the year can be found in the Investment Background, on p23.

Manager Arrangements

During the financial year, two additional commitments were made to infrastructure funds. A £15m commitment was made to the Infracapital Greenfield Partners Fund in August 2017, and a further $21m commitment was made to the Pantheon Global Infrastructure Fund III in February 2018. Both of these funds will complement the existing infrastructure investments that the Fund has with Innisfree.

Pensions Administration

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

Local Pension Board

It is now three years since the introduction of the requirement for a Local Pension Board for the Lincolnshire Pension Fund, as prescribed in the Public Service Pensions Act 2013 and the Local Government Regulations 2013. Its oversight role to ensure that the Fund is meeting all the requirements for administration and governance, as set out in the various regulations and by the Pensions Regulator, has been a welcome addition to the governance structure of the Pension Fund. The annual report of the Board can be found on p16.

Asset Pooling

The requirement to pool the Fund's assets with other LGPS Funds came into statute in November 2016. Lincolnshire has chosen to become part of the Border to Coast Pensions Partnership (Border to Coast), alongside 11 other partner LGPS funds. Much progress has been made in creating Border to Coast as the pooling vehicle to implement the investment strategy of the 12 partner funds. The result will be a £45bn+ asset pool, governed by a Local Government Joint Committee and Administering Authority shareholders. The outcome should reduce investment costs, improve performance and increase resilience across the Funds, over the long term. The expected go-live date is July 2018, with the Lincolnshire Pension Fund starting to transition its assets across from Q1 2019.

Fund Governance and Communication Statements and the Investment Strategy Statement

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

The Fund's ISS, Governance Compliance Statement, Communications Policy 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 shared website, at www.wypf.org.uk.

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

Jo Ray, Pension Fund Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
Tel: 01522 553656 | email: jo.ray@lincolnshire.gov.uk

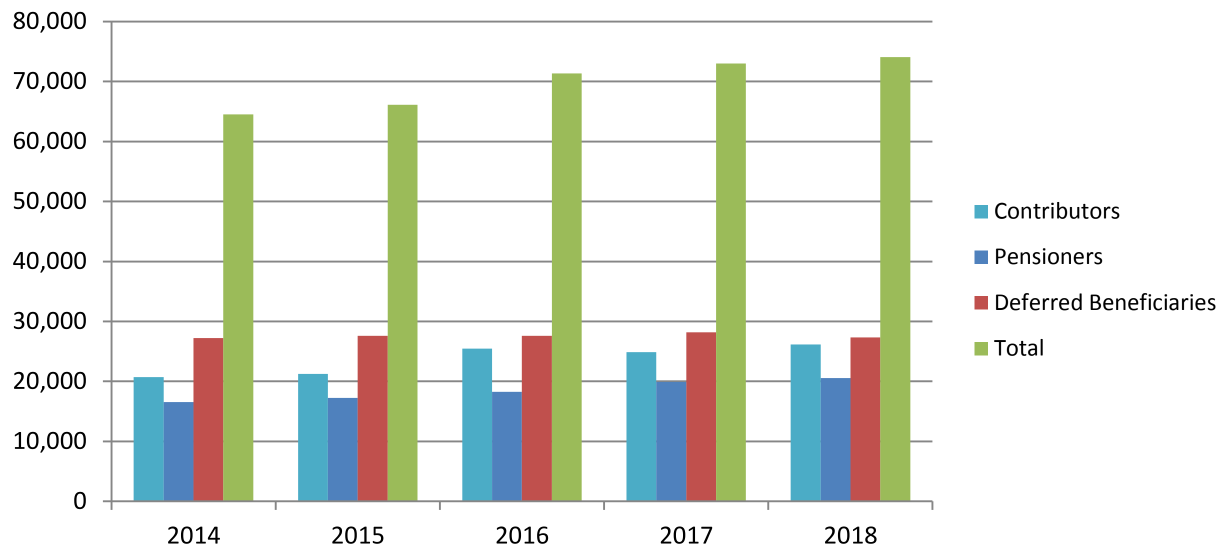
Councillor Eddie Strengiel
Chairman
Pensions Committee

Management Report of the Administering Authority

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

Local Government Pension Scheme Membership

As can be seen from the chart below, the active membership is still increasing, in part as a result of auto enrolment. The Fund has matured over the last five years, with pensioner and deferred members (those that are no longer in the Scheme but will be entitled to a pension at some point in the future) making up 64.7% of the overall membership.



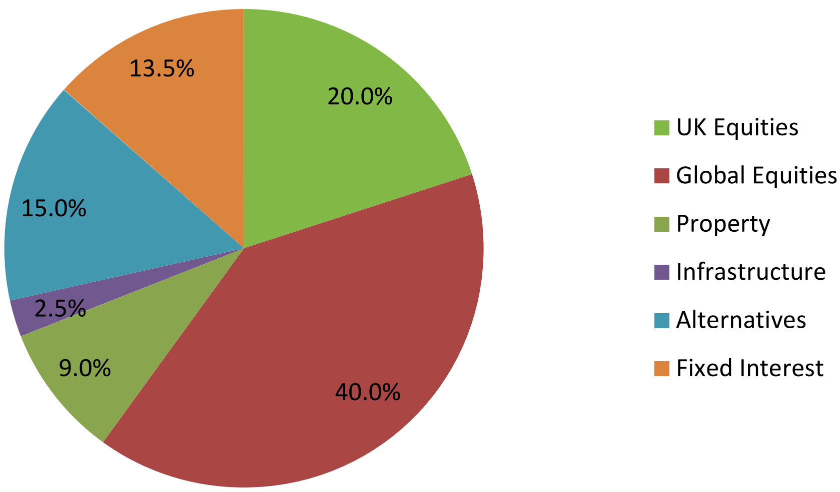
Year ended 31st March	2014	2015	2016	2017	2018
Contributors	20,697	21,262	25,451	24,893	26,153
Pensioners	16,577	17,264	18,281	19,916	20,543
Deferred Beneficiaries	27,246	27,577	27,618	28,182	27,356
Total	64,520	66,103	71,350	72,991	74,052

(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 2018 %	Actual Allocation 31st March 2018 %
UK Equities	20.0	18.5
Global Equities	40.0	43.0
Total Equities	60.0	61.5
Property	9.0	9.5
Infrastructure	2.5	1.6
Alternative (incl. Private Equity)	15.0	14.2
Fixed Interest	13.5	12.1
Cash (incl. net current assets)	0.0	1.1
Total	100.0	100.0

Investment Performance

The twelve month period ended 31st March 2018 saw the value of the Fund increase by £73.9m to £2,189.4m. The overall investment return of 3.3% was ahead the Fund's specific benchmark return of 3.0%. Over the last ten years, the Fund's annualised investment performance of 8.3% is slightly behind the benchmark return of 8.5%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 3.3% compares to a rise in retail prices of 3.3% and an increase in public sector earnings of 2.6%.

Investment Performance of the Fund 1st April 2008 to 31st March 2018

	Lincolnshire Fund Return	Comparative Benchmark Return	Retail Price Inflation	Public Sector Increase in earnings
	%	%	%	%
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
2014/15	12.3	12.4	0.9	(0.9)
2015/16	1.0	1.8	1.6	1.9
2016/17	19.8	19.3	3.1	1.3
2017/18	3.3	3.0	3.3	2.6
10 years annualised	8.3	8.5	2.8	1.9

Investment Management Arrangements

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

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
Global Equities - (Ex UK)	Invesco	502.3	22.9
Global Equities	Schroders	123.9	5.7
Global Equities	Columbia Threadneedle	132.6	6.1
UK Equities	Internally managed	0.0	0
Total Segregated Equities		758.8	34.7

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

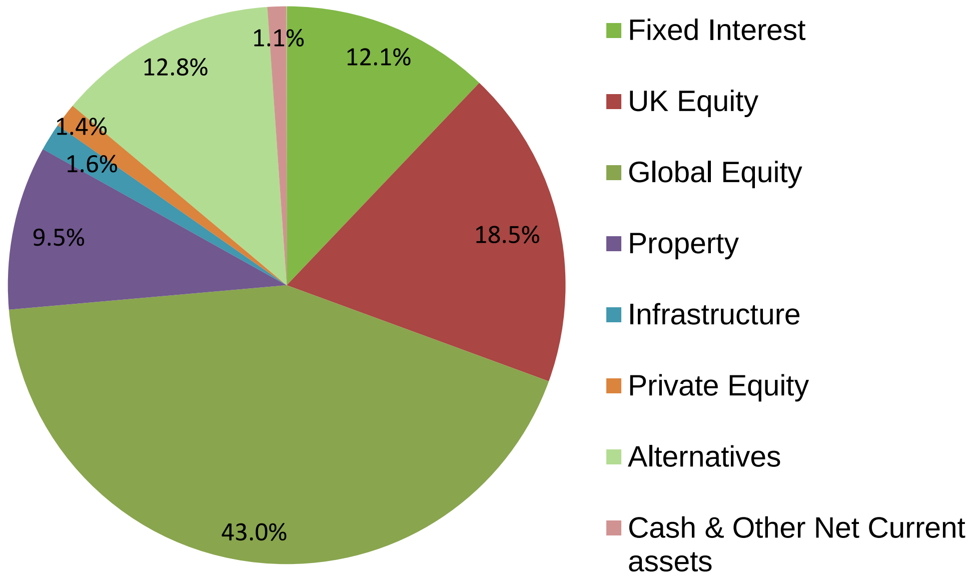
Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property	Franklin Templeton	3.9	0.2
	Igloo	2.5	0.1
	Aviva	46.6	2.1
	Royal London	23.5	1.1
	Rreef	0.5	0.0
	Blackrock	41.4	1.9
	Standard Life	76.0	3.5
	Total Property	194.4	8.9
Infrastructure	Innisfree	32.5	1.5
	Infracapital	1.5	0.1
	Pantheon	1.5	0.1
	Total Infrastructure	35.5	1.7
Private Equity	Capital Dynamics	5.7	0.3
	Pantheon	16.5	0.8
	Standard Life	7.1	0.3
	EIG	0.0	0.0
	Total Private Equity	29.3	1.4
Alternatives	Morgan Stanley	268.2	12.2
UK Equities	Legal and General	264.1	12.1
Global Equities	Morgan Stanley	178.7	8.2
Fixed Interest	Blackrock	403.8	18.4
Total Pooled Vehicles		1,374.0	62.9

Total Asset Distribution

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

Asset Class	Market Value £'000	31/3/18 %	31/3/17 %
Fixed Interest	264,097	12.1	12.4
UK Equity	403,797	18.5	18.9
Global Equity	937,527	42.8	42.8
Property	207,569	9.5	8.8
Infrastructure	35,420	1.6	1.5
Private Equity	31,634	1.4	2.0
Alternatives	280,664	12.8	11.6
Cash & Other Net Current Assets	28,649	1.3	2.0
	2,189,357	100.0	100.0



Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including pooled investments, as at 31st March 2018. These account for £1,409.7m and make up 64.4% of the Fund's investments.

	Market Value £m's	Proportion of Fund %
Legal & General UK Equity Index Fund	403.8	18.4
Morgan Stanley Alternatives	268.2	12.2
Morgan Stanley Global Brands Fund	178.7	8.2
Blackrock Aquila Life <5 year Corporate Bonds Fund	126.3	5.8
Blackrock Aquila Life Corporate Bond Fund	68.1	3.1
Standard Life Property Fund	64.0	2.9
Aviva Property Fund	46.6	2.1
Blackrock Aquila Life Over 5 Year Index Linked Gilt Fund	42.3	1.9
Blackrock Property Fund	41.4	1.9
Blackrock Aquila Gilts Fund	27.5	1.3
Royal London Asset Management Property Fund	23.5	1.1
Innisfree Secondary Fund	16.6	0.8
JPMorgan Chase	16.1	0.7
Apple	15.6	0.7
Microsoft	13.0	0.6
Alphabet	12.9	0.6
Bank of America	12.5	0.6
Standard Life European Property Growth Fund	12.0	0.5
Amazon	12.0	0.5
Facebook	8.6	0.4
Total	1,409.7	64.3

Stewardship Responsibilities

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

The Pensions Committee agree that the adoption of good practice in Corporate Governance will improve the management of companies and thereby increase long term shareholder value. The Fund's Responsible Investment policy and Corporate Governance and Voting policy can be found on the shared website at www.wypf.org.uk. These policies are aligned with those of Border to Coast, who will be responsible for implementing them once assets are transferred.

The Fund votes on all direct 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 530 company meetings, and cast votes in respect of 7,666 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of over 70 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. LAPFF engages with companies across a wide range of issues that can broadly be grouped into five engagement themes:

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

Risk Management

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

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

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

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

Funding Position and Contribution Rates

The employers' contribution rates (including deficit cash amounts where applicable) applying in the year ended 31st March 2018, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2017/18

Employer	Rate as a % of pay	Deficit cash payment £'000
Lincolnshire County Council	16.4	4,541
and LCC schools	21.9	
Priory Federation of Academies	18.2	
City of Lincoln Council	16.0	1,389
South Kesteven District Council	16.5	860
Lincolnshire Police	16.3	948
North Kesteven District Council	16.3	590
Boston College	21.5	74
Boston Witham Federation	18.2	54
East Lindsey District Council	16.3	662
Boston Borough Council	16.6	440
Bishop Grosseteste University	20.9	80
West Lindsey District Council	16.2	704
Lincoln College	22.3	435
South Holland District Council	16.5	860
Abbey Academies Trust	19.0	3
Grantham College	21.0	83
Compass Point Business Services	21.8	
G4S	16.3	
Serco	21.9	
Sleaford St Georges Academy	19.1	
Welton William Farr CE Academy	19.2	47
New College Stamford	20.6	62
Malcolm Sargeant Primary Academy	18.5	
Branston Community Academy	20.9	
University Academy Holbeach	19.1	38
Magna Vitae Trust	16.3	161
St Bernards Academy	19.0	56
Greenwich Leisure Limited	21.9	
Deepings Academy	19.7	
West Grantham Academy	18.6	11
Lincoln Christ Hospital Academy	19.5	29
Giles Academy	18.2	28
Gainsborough Parish Church Academy	18.5	12

The Lincolnshire Pension Fund's latest triennial valuation was as at 31st March 2016. The results from this are published on the Fund's shared website.

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

	31st March 2013	31st March 2016
Past Service Liabilities	£2,092m	£2,288m
Market Value of Assets	£1,495m	£1,759m
Surplus/(Deficit)	(£597m)	(£529m)
Funding Level	71.5%	76.9%

Asset Pooling

Introduction

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

a. Benefits of scale - a minimum asset size of £25bn;

b. Strong governance and decision making;

c. Reduced costs and value for money; and

d. Improved capacity to invest in infrastructure.

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

Lincolnshire Pension Fund's Solution

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

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

This new entity was to be a fully regulated asset management company, jointly owned by the twelve partner funds' administering authorities, with each Fund having an equal share in that company. It would have capabilities for internal management and appointing external managers. Its role would be to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions. The new entity was called Border to Coast Pensions Partnership Ltd (BCPP), and the proposal was approved by Government in December 2016. Much work has been undertaken since then to create the company and ensure that it is ready to start managing assets from July 2018.

Border to Coast Pensions Partnership

BCPP is based in Leeds and, once fully staffed, will have around 70 employees. This will include a large team to directly manage assets, alongside a team to select external managers. As a FCA (Financial Conduct Authority) regulated company, BCPP will have to comply with all the requirements that any other asset manager has to, and will also be subject to company legislation.

More information can be found at their website at www.bordertocoast.org.uk

Governance

BCPP has twelve LGPS funds – Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, Northumberland, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire, with assets of circa £45bn as at March 2018. The Chairs of the Pensions Committees of these funds sit on a Joint Committee, to exercise oversight of the investment performance of the company. This is also reported back to Pension Committees. The Joint Committee represents the Funds as investors in BCPP. As BCPP is jointly owned by the administering authorities of the Pension Funds, there is also a shareholder role that the authorities provide, and the responsibilities are all set out in a shareholder agreement. Pension Fund Officers provide day-to-day oversight and work closely with BCPP to ensure that the company can provide the investment vehicles the funds need to implement their investment strategies.

The Lincolnshire Fund is expecting to start transitioning assets across into BCPP in Quarter 1 2019, and will start with its Global Equity mandates.

Annual Report of the LGPS Local Pension Board 2017/2018

Introduction

I am pleased to present the report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2017/2018.

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

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

Purpose

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

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

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

Constitution and Membership

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

- **Independent Chair** (non-voting)
  Roger Buttery

- **2 Employer Representatives** (both voting)
  Councillor Mark Whittington (Lincolnshire County Council)
  Kirsty McGauley (Grantham College)

- **2 Member Representatives** (both voting)
  David Vickers
  Ian Crowther

Four meetings were held within the period – 25th July, 18th October, 15th January, 2017 and 26th March 2018.

All the Board Members have completed the Pension Regulator's Public Service toolkit.

Other training attended is shown below:

- Two members attended the LGPS Fundamentals 1 and 2 in October and November.
- Several members attended the "LGPS Pension Boards – 2 Years On" Seminar organised by Barnet Waddingham.
- Two Members attended the BCPP Members' Training Day in September 2017.
- Two Members attended the Barnet Waddingham/CIPFA LGPS Local Pension Board Members' Spring Seminar.
- Board Members also attended several internal training sessions on LGPS Asset Pooling, General Data Protection Regulation, aspects of the Pension Fund Report and Accounts, ESG and Sustainable Investing Overview and Equity Protection.

The Work Programme

At the July meeting, the Board considered a report which demonstrated Lincolnshire's compliance to the Code of Practice produced by tPR.

The Board considered the eleven elements in detail, namely:

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

A checklist of 99 items covering the above was produced at that meeting in a traffic lights format. It is pleasing to report that Lincolnshire was largely compliant with 90 green. There were 6 partially compliant and 3 not yet relevant. At the meeting in March 2018, a further report was considered and the position had improved with 94 green and 1 not relevant. There were still 4 partially compliant and progress continues to achieve green. The Board considered that the compliance to tPR's Code was very good.

The Board also received a detailed presentation from representatives of the West Yorkshire Pension Fund (WYPF) on the Internal Dispute Resolution Procedure (IDRP) covering Regulatory Requirements, LGPS IDRP Two-Stage process, WYPF Process, Pension Decision, Stage 1 Adjudicator's Responsibilities, Stage 2 Adjudicator's Role, the Pensions Advisory Service, the Pensions Ombudsman and finally examples of Stage 1 Appeals.

The Pension Fund Manager presented the WYPF's quarterly update on administration issues. In response to questions, the Pension Fund Manager confirmed that there were no concerns with the administrator of the fund. However, improvements could be made by employers in the fund so that the information required was not only received by the relevant deadline but that it was accurate. It was noted that WYPF was undertaking employer audits to improve the data quality held within the administration system and it was acknowledged that Lincolnshire County Council (LCC), as the largest employer, still had some way to go in ensuring its data was fully up-to-date. The Pensions Team was also improving its contribution monitoring process to include the quality of data, as well as timeliness of data and contributions.

The Board also gave consideration to a report which presented information on the internal audits undertaken over recent years on the Lincolnshire Pension Fund, as well as audits of the administration service provided by WYPF. The audit on the transfer of the Pensions Administration Service gave an "effective" assurance opinion which, by definition, gave the auditors "a high level of confidence on service delivery arrangements, management of risks and the operation of controls and/or performance". The assurance for the recent key controls audit covering the Pension Fund's investments was also given as "high" which had a similar definition to "effective".

At the October meeting, consideration was given to the Pension Fund's Annual Report and Accounts for 2016/2017 which had been approved by the Pensions Committee on 21 September 2017. Mike Norman, KPMG, LCC's Auditor, was in attendance. Although KPMG had issued an unqualified opinion on the Report & Accounts, two significant risks had been identified, namely:

a) Significant changes in the pension liability due to the triennial valuation; and

b) The continuing weaknesses in the accounting system control and financial reporting arrangements.

It was noted that the issues with the accounting system were improving but the payroll system remained an area of concern. It was also noted that there had been 160 cases of the late payment of contributions. This had not been an issue during the audit as all cases had been resolved satisfactorily or an explanation provided as to why the information was inaccurate. The Board concluded that the Report and Accounts was an excellent document.

A WYPF representative gave a presentation on administration issues. The Board was pleased that WYPF had reviewed all the key performance indicators (KPIs) and in a number of cases had changed them to 95% rather than 85% norm. It is pleasing to report that the vast majority of KPIs were being achieved and the reasons for the underperforming ones were explained. The Board concluded that the administration was sound and would continue to improve. It was also noted that the partnership between LCC and WYPF continued to develop well.

At the meeting in January 2018, and following concerns raised at the previous Board meeting, there was a presentation on the action being taken by an employer in the fund (LCC) to clear a large backlog in the provision of detailed leaver information to the Fund's administrator. After a lengthy discussion with LCC, Serco and WYPF, the Board did not feel confident that LCC was able provide any real assurance that the issue would be resolved. In addition, concerns were expressed that LCC was not undertaking appropriate monitoring of its payroll provider to ensure that it was meeting all the pension related requirements set out within the LGPS Regulations. As a result, the Board was minded to report LCC to tPR. However, it was agreed to write to LCC in the first instance, advising that they would be allowed one month to provide further assurance that the process of clearing backlogs in LGPS pensions related data was being sufficiently managed and that as an employer of the fund, LCC was fulfilling its responsibilities to the Pension Fund.

A special meeting was arranged for late February to assess progress on the Improvement Plan. In the event, the meeting had to be cancelled because of the adverse weather. However, at the meeting in March, there was a further presentation on progress with the Improvement Plan. Although some progress had been made, the Board recommended LCC to report itself to tPR. This was done in early April.

At the March meeting, the Board also considered the quarterly pensions administration report, a pension fund update and progress on asset pooling. Consideration was also given its work programme for year 2018/2019 – specific areas agreed so far are a further update on pooling particularly the governance aspects, reports from internal audit at both LCC and WYPF, Annual Report & Accounts, the LCC improvement plan on leavers, late contributions as well as the usual administration updates and the pension fund reports.

Conclusion

This is the third report of the Board. The Board considers the governance and administration of the Scheme to be sound. Lincolnshire's compliance to the vast majority of tPR's Code of Practice is particularly impressive. The Report and Accounts for 2016/2017 is an excellent document and there was an unqualified audit report. The Board is keeping a close watch on the LCC Improvement Plan concerning outstanding leavers as well as those employers paying contributions late. The Board will continue to monitor the LGPS pooling arrangements as the proposals unfold.

The Board would like to express its thanks to Jo Ray, Pension Fund Manager, her Team and the staff of the WYPF for the huge amount of work undertaken during the year. Finally, I should like to thank the four Board Members for their considerable input and support during the year.

Roger Buttery
Pension Board Chair
April 2018

Any questions regarding the Pensions Board or its work can be addressed through the Pension Fund Manager.

Jo Ray, Pension Fund Manager
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
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Information on Board membership and meetings can be found on the Council's website: http://lincolnshire.moderngov.co.uk/

Lincolnshire County Council Pension Fund Actuarial Statement for 2017/18

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) (page 80), dated March 2017. 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 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 around a 66% 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 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,759 million, were sufficient to meet 77% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £529 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

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 2013 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	22.1 years	24.4 years
Future Pensioners*	24.1 years	26.6 years

* aged 45 at the 2016 valuation

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Prepared by **Peter Summers FFA**
For and on behalf of Hymans Robertson LLP
2 May 2018

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

Investment Background

Returns for Major Markets

The twelve months to 31st March 2018 produced positive returns across all asset classes, with property performing the best, returning 11.3% for investors.

Equity market returns were mixed, ranging from 1.2% in the UK to 8.8% in the Emerging Markets.

Bond asset returns were minimal, with UK Gilts and Index Linked Gilts returning 0.5% and UK Corporate Bonds returning 1.6%.

Property, after cash, was the worst performing asset class, returning 3.8% for investors.

Investment Returns to sterling based investors 1st April 2017 to 31st March 2018

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	1.2
Global Equities	FTSE World	2.9
United States	S&P 500	1.6
Europe ex UK	FTSE Developed Europe	4.1
Japan	TOPIX	8.3
Emerging Markets	FTSE Emerging	8.8
Fixed Interest		
UK Gilts	FTSE UK Gilts	0.5
UK Index Linked Gilts	FTSE Index–Linked	0.5
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	1.6
Property	CBRE Index	11.3
Cash	LIBID Seven Day Rate (compounded)	0.2

World Equity Markets

Global equity markets reported gains over the reporting period (12 months up to March 2018 in GBP terms), with European equities outperforming their US counterparts, when measured in GBP.

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

Quarter 2 2017

Global equity markets ended the second quarter of 2017 in positive territory, in local currency terms. All the main regions reported their strongest first quarter earnings growth in nearly six years, helped by a rebound in global economic activity particularly during the first half of the quarter. European equity markets continued their advance in April and May. The shift in tone from central banks drove global financial markets in June. The US Federal Reserve (Fed) voted to raise interest rates by 0.25 percentage points, bringing them to their highest level since 2008. The European Central Bank (ECB) kept its interest rate policy unchanged, yet there were subtle changes in its guidance and forecasts. Despite some lingering uncertainty over US economic policies, Japan's equity market ended the quarter higher, with solid earnings expectations providing support. For emerging markets, an improving economic landscape and some upbeat earnings results provided a comforting backdrop.

Quarter 3 2017

In the third quarter, global equity markets moved beyond geopolitical tensions and ended in positive territory. During July, macro-economic data largely supported the global growth story and investor's appetite for risk remained robust. In August, geopolitical tensions and the struggles of the Trump administration dominated headlines. Towards the end of the quarter, markets drew strength from the continuing global economic upswing and were dominated by the chance of major corporate tax cuts in the US. The US equity market indicated confidence in the economy being able to handle rising interest rates as it drove higher based on the Fed's announcement to allow some of its bond holdings to mature.

Quarter 4 2017

Global equity markets ended the calendar year near all-time highs amid solid corporate earnings and accelerating economic activity. Global economic growth continued to be robust and broad-based, driven by industrial activity and investment. Performance towards the end of the quarter helped global equity markets achieve their best annual performance since 2013. In the US, returns were boosted by President Trump's end-of-year tax-cutting package and promised infrastructure spending. Economic growth indicators in the euro-area remained strong and picked up additional momentum over the quarter. The economic uptick continued to be broad-based, driven by a booming manufacturing sector as well as a robust services sector. In October, the ECB decided to prolong its asset purchase program for nine months. Japan's equity market ended the quarter with solid gains, with the market benefiting from the large victory of the ruling coalition in the snap election at the end of October.

Quarter 1 2018

A technology-led rout dominated global equity markets in March 2018 rounding off the worst quarter for global equities in more than two years. While markets enjoyed a good start into the new year supported by strength in corporate earnings, a pick-up in economic growth and optimism over US tax cuts, global equity markets witnessed a sharp correction in the first half of February. The catalyst for the weakness was an increase in government yields in major markets, especially in the US. This increase in yields was driven by investor concerns over rising inflation as recent data on wage growth in the US had been ahead of market expectations, and increased government budget deficits caused by the recent tax cut package. President Trump's decision to put tariffs on China heightened concerns that a trade war could hurt global economic growth. As a result, in the US the share prices of the sectors that have benefited the most from strength in the global economy saw the sharpest falls.

Fixed Interest

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

Q2 2017

Continued accommodative monetary policy, positive economic data and still subdued inflation provided a healthy backdrop for bonds over the quarter. Demand for risk assets was strong to the benefit of corporate and emerging market (EM) bonds. Inflation had still not taken hold convincingly though, either in the US or Europe. The quarter saw doubts emerging around the Trump "reflation trade", with the administration still yet to make a meaningful fiscal policy announcement. This helped to keep longer-dated US Treasury yields anchored, though the two-year yield rose steadily from mid-April onwards pricing in another rate hike ahead of the decision in June. Government bond yields were well supported for most of the quarter, but a sell-off in the final week reversed earlier gains for German Bunds and UK Gilts and pared gains for US Treasuries. This sell-off was drawn by comments from central bank leaders in the US, Europe and the UK, taken as signalling increased hawkishness. The move was more pronounced in Europe and the UK than in the US, with the euro and sterling rising against the US dollar. Corporate bonds performed strongly, well ahead of government bonds.

Q3 2017

Bond yields oscillated over the quarter and, with the exception of the UK which sold-off sharply in September, were ultimately little changed against a largely unchanged global economic backdrop. While the late-June selloff initially continued in July, it came to a halt as growing expectations of a hawkish shift among central banks were reined in. Yields moved lower in August, precipitated by safe haven buying, before reversing course once more in September as risk appetite returned. The global economic upswing continued with data confirming the US second quarter growth rebound. The "Goldilocks" scenario of moderate expansion combined with only moderate inflation, allowing for a gradual withdrawal of monetary stimulus, remained in place. The quarter saw a marked escalation in tensions between the US and North Korea, which were a key factor behind the temporary rotation into lower-risk assets in August. For the UK, the economy showed clear signs of slowing down, while inflation picked up, reaching 2.9% in August. During the quarter the Bank of England struck a more hawkish note with Governor Carney and a number of members of the Monetary Policy Committee openly discussing rate rises. This occurred against a backdrop of above target inflation and low unemployment, leading to a significant increase in UK government bond yields and a rally in sterling against both the euro and the dollar. Corporate bonds made positive returns, outperforming government bonds.

Q4 2017

US Treasury yields rose over the quarter, amid growing momentum behind a tax reform bill which was expected to stimulate growth and inflation. December saw yield volatility around this as doubts led to yields initially dropping before reversing in the run-up to the bill being approved by the Senate. In Europe, positive economic momentum continued unabated, with manufacturing activity at multi-year highs. The ECB announced the reduction of asset purchases, but extended the programme, which proved a significant boost to bond yields. Government yields in Spain, Italy and France performed well on the announcement, but the moves were either reduced or undone later on due to political factors. In the UK, ten-year gilt yields were down, with less pronounced decreases for five and two-year maturities. A November rate hike by the Bank of England was well anticipated and was accompanied by dovish guidance. Economic activity remained subdued and political uncertainty continued. Corporate bonds capped a good year with positive total returns, outperforming government bonds. Investment grade credit saw stronger returns than high yield, aside from in Europe, as the latter experienced challenging conditions in November having reached elevated valuations.

Q1 2018

US Treasury yields rose markedly across the curve over the quarter as expectations of growth, inflation and interest rates shifted higher. Volatility returned to markets, picking up sharply from low levels and impacting risk assets. In March, sentiment was negatively impacted by rising trade tensions between the US and China. The US yield curve continued to flatten modestly with shorter-dated maturities impacted by a rate hike and substantial issuance in March. UK Gilts saw more pronounced curve flattening, whilst German Bund yields rose slightly, French 10-years were modestly lower and Italian and Spanish 10-year yields fell. Corporate bonds made negative total returns and underperformed government bonds. Investment grade credit saw larger negative returns than high yield, notably in US dollar, while sterling high yield performed well. In emerging markets, local currency sovereign bonds made strong total returns as the US dollar declined, but hard currency sovereign and corporate bonds saw negative total returns.

UK Commercial Property

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

Q2 2017

The second quarter saw a continuation of the trends of the first quarter as UK commercial property markets clawed back more of the falls in value seen after the vote to leave the EU. Since the referendum, domestic investor activity was focused on industrial and logistics properties where values had risen significantly. Strong demand for Central London offices from overseas, particularly Chinese investors, helped to lift the value of this segment despite weakening tenant demand. Retail properties saw the weakest bounce back in values over the last 12 months. Prime shops in the larger regional centres performed better than the broader market, whereas secondary shopping centres remained out of favour. Alternative investment properties, such as primary healthcare and student accommodation, continued to deliver strong and stable returns underpinned by sustained rental growth. Across the UK as a whole development activity remained subdued, with the exception of Central London offices and industrial/logistics properties. In the former, vacancy had been increasing, whereas, the strength of tenant demand for industrial/logistics properties kept void rates for this sector low and driving continued rental growth.

Q3 2017

The UK property market remained resilient in the third quarter of 2017 as demand for real estate assets, particularly from overseas investors, remained robust. However, there was considerable dispersion between the various parts of the market, where Central London shops, Industrials and

Alternatives all recorded significantly higher values whilst the value of shopping Centres and out of town retail remained subdued. Transaction activity across Europe as a whole was down, with the focus moving away from the UK. That said, overseas investors remained active in the Central London office market, accounting for a record share of activity in the 3rd quarter. The Central London office market became increasingly polarised with large transactions dominating activity, with 20 transactions above £100 million vs just six in the same quarter a year ago. Domestic investors remained in the market for Industrial properties and Alternatives such as hotels, student accommodation and healthcare properties. Demand for long leased, indexed linked assets remained particularly strong, pushing up the prices of these assets.

Q4 2017

UK commercial real estate delivered positive performance during the fourth quarter, concluding a relatively rewarding year for investors. Income returns remained strong, supported by robust occupational demand, while capital values also strengthened over the year. Investor appetite also remained strong and continued to be concentrated on ‘prime’ assets, including those with long income producing leases with the potential for strong rental growth. Whilst European real estate markets performed strongly in 2017, market data suggested the UK regained its title as the largest property investment market in Europe, supported by Asian capital flows. Demand for industrial assets was particularly buoyant, as favourable fundamentals and the security of long-lease income continued to attract investors. As a result, the sector delivered its best returns over the quarter and indeed the year. Political and structural headwinds remained; with Brexit, rising base rates and reduced consumer spending all potentially weighing on occupational activity, investment demand and property returns. However, there was optimism with positive momentum driven by a growth in lending, new capital sources, greater clarity over Chinese capital flows, and a broad based global economic recovery.

Q1 2018

Following strong performance in 2017, UK commercial real estate delivered further modest capital growth in early 2018. However, there was a marked difference in performance between sectors. On a positive note, industrials continued to benefit from structural support for demand from e-commerce expansion and tight supply in urban areas. By contrast, the retail sector had a difficult start to the year, reflected in weak performance and limited investor interest in large-scale assets. The collapse of Toys R Us and Maplin, New Look’s company voluntary agreement (CVA) and Carpetright’s potential CVA all hit the headlines.

Administration of Benefits

Lincolnshire County Council has a shared service arrangement with West Yorkshire Pension Fund (WYPF) 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, and highlighted with a red, amber or green to show where expectations have not been met. Performance is reported quarterly to the Pensions Committee, and regular meetings are held between LCC and WYPF to understand and manage any performance issues.

Event	No. Cases	Target Days to Complete	No. Cases Target Met	Minimum Target %	Target Met %
AVC in-house	329	10	316	85	96
Age 55 Increase	3	20	3	85	100
Change of address	1,359	5	1,316	85	96.8
Change of bank details	574	5	528	85	92
Death grant nomination received	3,001	20	2,992	85	99.7
DWP request for information	59	10	53	85	89.8
Death grant set up	131	5	115	85	87.8
Death in retirement	518	5	455	85	87.8
Death in service	28	5	25	85	89.3
Death in deferment	59	5	51	85	86.4
Deferred benefits into payment – actual	751	5	676	90	90
Deferred benefits into payment – quote	823	35	763	85	92.7
Deferred benefits set up on leaving	2,311	20	2,011	85	87
Divorce quote	214	20	206	85	96.3
Divorce settlement – pension sharing order implemented	5	80	5	100	100
General Payroll Changes	273	5	267	85	97.8
Life certificate received	1,217	10	1,141	85	93.8
Monthly posting	2,997	10	1,933	95	64.5
NI modification	28	20	26	85	92.9
Pension estimate	1,106	10	854	75	77.2
Refund payment	613	10	597	95	97.4
Refund quote	737	35	687	85	93.2
Retirement actual	569	3	520	90	91.4

Retirement quote	731	10	663	85	90.7
Spouse – set up new pension	249	5	206	85	82.7
Spouse potential	32	20	24	85	75
Transfer in payment received	98	35	84	85	85.7
Transfer in quote	127	35	125	85	98.4
Transfer out payment	59	35	52	85	88.1
Transfer out quote	513	20	467	85	91

As can be seen from the table above, overall performance has met or exceeded targets. Those below target are shown below:

One area is highlighted in red:

- Monthly posting – all employers are required to submit their data on a monthly basis, however over the year this KPI was at 64.5% against a target of 95%. The KPI is to be able to process the data from the employers within 10 working days of receipt. Much work has been put into ensuring the timeliness of payments and data submissions, and work continues with the employers and their payroll providers to improve the data quality, and therefore the ability for straight through processing. Employer numbers are rising each year, with the growing numbers of academies and out-sourcings, so this is an ever-increasing challenge. The Fund is working closely with WYPF to get the message across to employers on the importance of clean and accurate data.

Two areas are highlighted in amber:

- Spouses potential – This is 75% against a target of 85%. These are potential spouse's pensions identified from the information provided by the National Fraud Initiative, where the Fund has no details of next of kin, so require further investigation.
- Spouse – set up new pension – this is slightly below the KPI target due to queries on cases (e.g. bank details, correct certificates etc.).

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

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

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

The Pensions Committee and Pension Board take a keen interest in the administration of the Fund, and receive regular reports and presentations (see the Board's annual report on p16) on all aspects of the administration service.

The Pension Fund Manager is part of the overall shared service management team, and attends the bi-monthly management review meetings held in Bradford. In addition, as part of the overall governance of the service, the County Finance Officer and the Pension Fund Manager sit on the Collaboration Board of the shared service, alongside the senior management of WYPF, to ensure that the original aims of the partnership with WYPF are met.

Summary of LGPS Contributions and Benefits

The LGPS is a defined benefit scheme, however there are three different benefit tranches, based on when scheme changes were brought in with new regulations. The three tranches are Pre 2008, April 2008 to March 2014 and Post April 2014. The benefits scheme members will be entitled to will depend upon when they joined and left the LGPS – and scheme members may have benefits across all three tranches.

Membership from 1st April 2014

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below.

Contributions

Employee's contribution rates from 1st April 2014 are based on actual pensionable pay using the pay band table below. The bands are increased each April in line with inflation by the Ministry of Housing, Communities and Local Government. The bands, as they stood at 31st March 2018, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £13,700	5.5%
More than £13,700 and up to £21,400	5.8%
More than £21,400 and up to £34,700	6.5%
More than £34,700 and up to £43,900	6.8%
More than £43,900 and up to £61,300	8.5%
More than £61,300 and up to £86,800	9.9%
More than £86,800 and up to £102,200	10.5%
More than £102,200 and up to £153,300	11.4%
Over £153,300	12.5%

Benefits

The retirement age for scheme members is their Normal Pension Age which is the same as their State Pension Age (but with a minimum of age 65). However, employees may retire and draw their pension at any time between age 55 and 75. If an employee chooses to retire before their Normal Pension Age it will normally be reduced, as it is being paid earlier, and if taken later than

Normal Pension Age then it will be increased, as it is being paid later. Retirement before age 55, other than on ill-health grounds, is not possible.

Annual Pensions

Pensions are calculated at a rate of 1/49th of the employee's pensionable pay in each scheme year. Inflation increases will be added to ensure that pension accounts keep up with the cost of living.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of the capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two.

Death-benefits

Death in service attracts a tax free lump sum of three times final pensionable pay. An annual pension is payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and co-habiting partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement (or up to age 75), a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 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 £6,755 per annum, in blocks of £250, through Additional Pension Contributions (APCs.). As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

Membership from 1st April 2008 to 31st March 2014

Membership of the LGPS was available to all contracted employees of participating employers whether whole time or part time. Casual employees may also have been members, providing their contract of employment was for a minimum of three months. Whilst membership of the Scheme was not compulsory, employees of Scheme employers who were eligible were deemed to have joined unless they specifically opted out, whilst employees of transferred Admission Bodies were eligible only if they were employed in connection with the service transferred.

National legislation and regulation covered the LGPS, including the benefit entitlements of Scheme participants and their families. Such benefits were not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits under this tranche are outlined below:

Contributions

Employees contributed between 5.5% and 7.5% of their pensionable pay towards their pension.

Benefits

The retirement age for scheme members was 65. However, employees could retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60*, other than on ill-health grounds, was not possible without the permission of the employer (*superseded by LGPS (Amendment) Regulations 2018, with effect from 14th May 2018, to enable deferred members to take their pension from age 55 (with reductions) without employer consent).

Annual Pensions

Pensions were calculated at a rate of 1/60th of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) were increased each April in line with inflation.

Lump Sum Payments

On service from 1 April 2008 there was no automatic lump sum, but members had the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There were three tiers of benefits. The benefits were calculated as for normal retirement with additional service under tiers one and two.

Death-benefits

Death in service attracted a tax free lump sum of three time's final pensionable pay. An annual pension was payable to a spouse/civil partner/co-habiting partner (when meeting certain criteria) and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only (now superseded to allow payment without a nomination form). If a member died within ten years of their retirement (or up to age 75), a single lump sum payment was made of ten times the member's annual pension, less any pension paid since retirement. The surviving spouse was entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members could purchase additional pension of up to a maximum of £6,755 per annum, in blocks of £250, through Additional Pension Contributions (APCs). As an alternative, Scheme members could increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, was Prudential.

Membership up to 31st March 2008

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

National legislation and regulation covered the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits were not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits of this tranche are outlined below:

Contributions

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

Benefits

The normal retirement age for Scheme members was 65 but employees in the Scheme prior to 1 April 1998 could retire at 60* provided they had 25 years' service. Retirement before these ages, other than on ill-health grounds, was not possible without the permission of the employer (*superseded by LGPS (Amendment) Regulations 2018, with effect from 14th May 2018, to enable deferred members to take their pension from age 55 (with reductions) without employer consent).

Annual Pensions

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

Lump Sum Payments

A member received a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a member's pension could be taken as tax free cash.

Ill Health Retirement

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

Death-benefits

Death in service attracted a lump sum grant equivalent to up to twice final pensionable pay. An annual pension was payable to the surviving spouse and any eligible children. For death after retirement a single payment was made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse was entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members could purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members could increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority. The Lincolnshire AVC provider was Prudential plc.

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

Pensions Administration	West Yorkshire Pension Fund WYPF, PO Box 67, Bradford, BD1 1UP Tel: 01274 434999 | Email: pensions@wypf.org.uk
Pension Fund and Investments	Jo Ray, Pension Fund Manager Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 | Email : jo.ray@lincolnshire.gov.uk

Pension Fund Knowledge and Skills Policy and Report

As an administering authority of the Local Government Pension Scheme, Lincolnshire County Council recognises the importance of ensuring all staff and individuals charged with the financial management and decision making with regard to the Pension Fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. Within the management of the Pension Fund, LCC seeks to appoint individuals who are both capable and experienced, and will provide and arrange training for staff and individuals involved to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

An annual training plan is agreed by the Pensions Committee each year, setting out what training will be covered over the coming year and linking it back to the CIPFA Knowledge and Skills Framework. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences. In addition, all members are offered the opportunity to attend the three-day fundamentals training arranged by the Local Government Association (or an equivalent course) and all new members are offered a one-to-one training session with the Pension Fund Manager.

The County Finance Officer is the delegated officer responsible for ensuring that policies and strategies are implemented.

Activity in 2017/18

A full training plan was taken to Pensions Committee in July 2017 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

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

The table below details the various areas covered in training and Committee presentations during the year, and the areas within the Knowledge and Skills Framework that they relate to.

Date	Subject matter	KSF area(s)
26th May 2017		
Training	Basic Overview of LPF and Committee Member Responsibilities	1,4,5
1st June 2017		
Reports	External Manager Presentations	4,5
13th July 2017		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	Annual Property and Infrastructure Report	4,5
	Policies Review Report	1,4
	Risk Register Annual Review	1,4
	Annual Training Plan and Policy	1
21st September 2017		
Reports	MiFID II Report	4,5
	Draft Annual Report and Accounts	2
5th October 2017		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Pensions Administration Strategy	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	Annual Fund Performance Report	4
	Border to Coast Responsible Investment Policy and Voting Guidelines	1,4
	Audit Governance Report	2
14th December 2017		
Reports	External Manager Presentations	4,5
	Border to Coast – CEO presentation	1,4,5
11th January 2018		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	General Data Protection Regulations and Pensions Administration	1
	Fund Update	1,3,4
	Investment Management Report	4,5
	LPF AVC Provider – Prudential Presentation	1
22th March 2018		
Reports	Independent Advisor Market Update	4,5
	Pensions Administration Report	1
	Fund Update	1,3,4
	Investment Management Report	4,5

	Asset Pooling Update	1
	Equity Voting Template	1,4
Training	Equity Protection	4,5
	Responsible Investment	1,5

As the officer responsible for ensuring that the training policies and strategies are implemented, the County Finance Officer can confirm that the officers and individuals charged with the financial management of and the decision making for the Pension Fund collectively possess the requisite knowledge and skills necessary to discharge those duties and decisions required during the reporting period.

Lincolnshire Pension Fund

Pension Fund Account - Year Ended 31 March 2018

	See note	2016/17 £000	2017/18 £000
Contributions and Benefits			
Contributions Receivable	6	(90,083)	(97,471)
Transfers In	7	(5,170)	(6,861)
		(95,253)	**(104,332)**
Benefits Payable	8	80,219	86,584
Leavers	9	3,209	4,605
		83,428	**91,189**
Net additions from dealings with Fund members		**(11,825)**	**(13,143)**
Management Expenses	10	11,841	11,978
Net additions including management expenses		**16**	**(1,165)**
Returns on Investments			
Investment Income	11	(29,264)	(17,743)
Profit/Loss on Forward Foreign Exchange	14	37,156	(19,943)
Change in Market Value of Investments	13A	(364,274)	(35,084)
Net Returns on Investments		**(356,382)**	**(72,770)**
Net Increase in the Fund During the Year		(356,366)	(73,935)
Opening Net Assets of the Fund		(1,759,056)	(2,115,422)
Closing Net Assets of the Fund		**(2,115,422)**	**(2,189,357)**

Net Asset Statement as at 31 March 2018

	See note	2016/17 £000	2017/18 £000
Investments			
Investment Assets	13	2,104,148	2,169,901
Investment Liabilities	13	(4,383)	(2,018)
Total Net Investments		**2,099,765**	**2,167,883**
Current Assets	20	19,188	23,853
Current Liabilities	21	(3,531)	(2,379)
Net Assets of the Fund available to fund benefits at the end of the reporting period		**2,115,422**	**2,189,357**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Notes to the Pension Fund Account

1. Description of the Pension Fund

The Lincolnshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by West Yorkshire Pension Fund (WYPF) in a shared service arrangement.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee and Local Pension Board.

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members
- 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 219 contributing employer organisations in the Fund including the County Council (a list of employers is shown in Note 29) and over 74,000 members, as detailed below:

	31 March 2017	31 March 2018
Number of Employers with Active Members	****225**	****219**
Number of Employees in the Scheme		
Lincolnshire County Council	11,457	12,193
Other Employers	13,436	13,960
Total	**24,893**	**26,153**
Number of Pensioners in the Scheme		
Lincolnshire County Council	13,913	13,768
Other Employers	6,003	6,775
Total	**19,916**	**20,453**
Deferred Pensioners		
Lincolnshire County Council	21,206	19,540
Other Employers	6,976	7,816
Total	**28,182**	**27,356**

**Number of employers will differ from those listed in note 29 due to academies within Multi Academy Trusts and prime account schools

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2016, and employer primary contribution rates were set ranging from 15.9% to 29.1% of pensionable pay. In addition, the majority of employers are paying secondary deficit contributions as cash payments.

Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre April 2008	Service post April 2008
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. For more details, please refer to our shared pensions website at www.wypf.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017-18 financial year and its position at year end as at 31 March 2018.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the end of the financial year. 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

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.

Employer augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c) Investment Income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and Governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with the governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment expenses

All investment management expenses are accounted for on an accruals basis.

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
- 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.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

Net assets statement

g) Financial assets

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 as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2018 are shown in Note 30.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see note 14).

j) Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

k) Financial liabilities

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.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

m) Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the Pension Fund notes.

Accounting standards that have been issued but have not yet been adopted

On an annual basis the pension fund is required to consider the impact of accounting standards that have been issued but have not yet adopted. For the 2018/19 IFRS9 Accounts Financial Instruments will be introduced. The standard introduces changes to the way financial instruments are classified and measured in the accounts. The impact on the pension fund accounts from this new standard is not thought to be significant due to the nature of the financial instruments held.

4 Critical Judgements in Applying Accounting Policies

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

5 Assumptions Made About the Future and Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2018 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 (Note 19)	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 £310m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £24m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £276m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £134m.
Private Equity (Note 15)	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 £29m. There is a risk that these may be over or understated in the accounts by £8m.

6 Contributions Receivable

Contributions receivable are analysed below:

	2016-17 £000	2017-18 £000
Employers		
Normal	60,252	55,197
Deficit Funding	9,401	21,334
Additional – Augmentation	1,198	1,519
Members		
Normal	19,001	19,341
Additional Years	231	80
	90,083	**97,471**

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

	2016-17 £000	2017-18 £000
Lincolnshire County Council	36,193	37,659
Scheduled Bodies	47,975	48,461
Admission Bodies	5,915	11,351
	90,083	**97,471**

7 Transfers In From Other Pension Funds

	2016-17 £000	2017-18 £000
Individual Transfers from Other Schemes	5,170	6,861
Group Transfers from Other Schemes	0	0
	5,170	**6,861**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2018.

8 Benefits Payable

	2016-17 £000	2017-18 £000
Pensions	66,666	68,800
Commutations and Lump Sum Retirement Benefits	11,920	14,482
Lump Sum Death Benefits	1,633	3,302
	80,219	**86,584**

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

	2016-17 £000	2017-18 £000
Lincolnshire County Council	43,169	45,951
Scheduled Bodies	33,758	36,214
Admission Bodies	3,292	4,419
	80,219	**86,584**

9 Payments To and On Account of Leavers

	2016-17 £000	2017-18 £000
Individual Transfers to Other Schemes	2,988	4,390
Group Transfers from Other Schemes	0	0
Refunds to Members Leaving Service	221	215
	3,209	**4,605**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2018.

10 Management Expenses

This analysis of the costs of managing the Lincolnshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The external Audit fee for the year was £0.024m (£0.024m in 2016/17):

	2016-17 £000	2017-18 £000
Administrative Costs	1,130	1,047
Investment Management Expenses	10,038	10,476
Oversight and Governance Costs	673	455
Total Management Expenses	**11,841**	**11,978**

A further breakdown of the investment management expenses is shown below.

	2016-17 £000	2017-18 £000
Transaction Costs	837	690
Management Fees	6,883	6,982
Performance Related Fees	1,499	2,146
Custody Fees	819	658
Total Investment Management Expenses	**10,038**	**10,476**

11 Investment Income

	2016-17 £000	2017-18 £000
Equities	27,954	16,173
Pooled Investments		
Property	840	1,384
Infrastructure	72	(7)
Alternatives	(2)	3
Cash Deposits	78	61
Stock Lending	322	129
	29,264	**17,743**

12 Taxes on Income

	2016-17 £000	2017-18 £000
Withholding Tax - Equities	1,283	1,355
	1,283	**1,355**

13 Investments

	2016-17 £000	2017-18 £000
Investment Assets		
Equities	726,451	751,286
Pooled Investments		
Property	187,038	194,461
Infrastructure	31,381	35,420
Private Equity	43,334	29,345
Bonds	262,168	264,097
Equities	577,302	582,508
Alternatives	245,375	258,167
Cash Deposits	26,609	38,746
Investment Income Due	4,189	4,412
Amounts Receivable from Sales	301	1,409
Open Forward Foreign Exchange (FX)	0	50
Total Investment Assets	**2,104,148**	**2,169,901**
Investment Liabilities		
Open Forward Foreign Exchange (FX)	(3,668)	0
Investment Income payable	(1)	(2)
Amounts Payable for Purchases	(714)	(2,016)
Total Investment Liabilities	**(4,383)**	**(2,018)**
Net Investment Assets	**2,099,765**	**2,167,883**

13A Reconciliation of Movements in Investments

Period 2017/18	Market Value 31 March 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2018 £000
Equities	726,451	347,673	(330,951)	8,113	751,286
Pooled Investments					
Property	187,038	82	(17,625)	24,966	194,461
Infrastructure	31,381	4,211	(7,190)	7,018	35,420
Private Equity	43,334	663	(3,300)	(11,352)	29,345
Bonds	262,168	4,578	(4,578)	1,929	264,097
Equities	577,302	0	(1,650)	6,856	582,508
Alternatives	245,375	53,814	(28,576)	(2,446)	268,167
	2,073,049	**411,021**	**(393,870)**	**35,084**	**2,125,284**
Cash deposits	26,609				38,746
Other Investment balances:					
Open Forward FX	(3,668)				50
Amounts receivable for sales	301				1,409
Investment income due	4,188				4,410
Amounts payable for purchases	(714)				(2,016)
Net investment assets	**2,099,765**				**2,167,883**

Period 2016/17	Market Value 31 March 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2017 £000
Equities	951,839	321,843	(789,482)	242,251	726,451
Pooled Investments					
Property	171,951	15,208	(4,972)	4,851	187,038
Infrastructure	27,355	1,015	(3,100)	6,111	31,381
Private Equity	56,338	774	(19,838)	6,060	43,334
Bonds	227,600	159,941	(142,904)	17,531	262,168
Equities	99,033	436,053	(2,654)	44,870	577,302
Alternatives	183,434	88,467	(69,126)	42,600	245,375
	1,717,550	**1,023,301**	**(1,032,076)**	**364,274**	**2,073,049**
Cash deposits	24,570				26,609
Other Investment balances:					
Open Forward FX	(2,354)				(3,668)
Amount receivable for sales	499				301
Investment income due	5,183				4,188
Amounts payable for purchases	(1,307)				(714)
Net Investment Assets	**1,744,141**				**2,099,765**

13B Analysis of Investments

Geographical Analysis of Fund Assets as at 31 March 2018:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	403,797	498,160	431,837	1,333,794
Bonds	264,097	0	0	264,097
Alternatives incl. PE, Property & Infrastructure	212,465	43,795	271,133	527,393
Cash and Equivalents	38,746	0	0	38,746
Other Investment Balances - Assets				5,871
Total Investment Assets	**919,105**	**541,955**	**702,970**	**2,169,901**
Other Investment Balances - Liabilities				(2,018)
Total				**2,167,883**

Geographical Analysis of Fund Assets as at 31 March 2017:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	398,290	489,866	415,597	1,303,753
Bonds	262,168	0	0	262,168
Alternatives incl. PE, Property & Infrastructure	199,260	40,769	267,099	507,128
Cash and Equivalents	26,609	0	0	26,609
Other Investment Balances - Assets				4,489
Total Investment Assets	**886,327**	**530,635**	**682,696**	**2,104,147**
Other Investment Balances - Liabilities				(4,382)
Total	**886,327**	**530,635**	**682,696**	**2,099,765**

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

	2016-17 £000	2017-18 £000
Property		
Unit Trusts	161,526	175,574
Other Managed Funds (LLP's)	25,512	18,887
Infrastructure		
Other Managed Funds (LLP's)	31,381	35,420
Private Equity		
Other Managed Funds (LLP's)	43,334	29,345
Bonds		
Other Managed Funds	262,168	264,097
Equities		
Other Managed Funds	577,302	582,508
Alternatives		
Other Managed Funds	245,375	268,167
Total Pooled Vehicles	**1,346,598**	**1,373,998**

13C Investments Analysed by Fund Manager

Fund Manager	31 March 2017 £'000	%	31 March 2018 £'000	%
Externally Managed				
Invesco	495,686	23.7	504,993	23.4
Schroders	117,615	5.6	123,942	5.7
Columbia Threadneedle	121,890	5.8	133,095	6.1
Morgan Stanley (Global Brands)	179,016	8.6	178,705	8.2
Morgan Stanley (Alternatives)	246,032	11.8	280,716	12.9
Morgan Stanley (Private Equity)	45,394	2.2	31,634	1.5
Blackrock	262,168	12.5	264,122	12.2
Legal & General	398,286	19.0	403,793	18.6
Internally Managed				
Property	194,607	9.3	207,567	9.6
Infrastructure	31,381	1.5	35,650	1.6
UK Equity	4	0	334	0
Unallocated Cash	0	0	3,322	0.2
Total	**2,092,079**	**100.0**	**2,167,883**	**100.0**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The investments that fall into this category as follows:

Investment	31 March 2017 £000	%	31 March 2018 £000	%
Legal & General UK Equity Fund	398,286	18.8	403,793	18.4
Blackrock 1-5yr Corporate Bond Fund	125,928	6.0	268,167	12.2
Morgan Stanley Alternative Investments	245,375	11.6	178,715	8.2
Morgan Stanley Global Brands	179,016	8.5	126,293	5.8

13D Stock Lending

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JPMorgan. The total amount of stock on loan at the year-end was £37.464m (£20.761m at 31 March 2017) 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 £40.314m (£22.876m at 31 March 2017), which represented 107.6% of the value of securities on loan.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. Income received from stock lending activities, before costs, was £0.123m for the year ending 31 March 2018 (£0.362m at 31 March 2017) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

14 Analysis of Derivatives

Objectives and policies for holding derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets.

Open forward Currency Contracts

Settlement	Currency Brought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month						
	GBP	14	DKK	120	0	0
	USD	197	JPY	21,000	0	0
Over one month						
	GBP	596	AUD	1,089	2	0
	GBP	1,670	CAD	3,064	0	(20)
	GBP	8,144	EUR	9,273	0	(7)
	GBP	223,786	USD	314,865	75	0
Total					**77**	**(27)**
Net Forward Currency Contracts at 31 March 2018						**50**
Prior Year Comparative						
					4,646	(8,314)
Net Forward Currency Contracts at 31 March 2017						**(3,668)**

Profit (Loss) of Forward Currency Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of normal trading of the Fund's managers who manage multi-currency portfolios. For 2017/18 this was a gain of £19.943m (£37.156m loss in 2016/17).

15 Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors and investment managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Private Equity	26%	29,345	36,975	21,715

15A Fair Value Heirachy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Non-tiered	
Values at 31 March 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**£000**	**Total £000**
Financial Assets					
Fair value through profit and loss	1,603,710	229,931	297,512	0	2,131,153
Loans and receivables	0	0	0	62,599	62,599
Total Financial Assets	**1,603,710**	**229,931**	**297,512**	**62,599**	**2,193,752**

Financial Liabilities					
Fair value through profit and loss	0	0	0	(2,016)	(2,016)
Measured at amortised cost	0	0	0	(2,379)	(2,379)
Total Financial Liabilities	**0**	**0**	**0**	**(4,395)**	**(4,395)**
Net Investment Assets	**1,603,710**	**229,931**	**297,512**	**58,204**	**2,189,357**

Values at 31 March 2017	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Non-tiered £000	Total £000
Financial Assets					
Fair value through profit and loss	1,570,410	218,419	288,709		2,077,538
Loans and receivables				45,797	45,797
Total Financial Assets	**1,570,410**	**218,419**	**288,709**	**45,797**	**2,123,335**
Financial Liabilities					
Fair value through profit and loss				(4,382)	(4,382)
Measured at amortised cost				(3,531)	(3,531)
Total Financial Liabilities				**(7,913)**	**(7,913)**
Net Investment Assets	**1,570,410**	**218,419**	**288,709**	**37,885**	**2,115,422**

15B Reconciliation of Fair Value Measurements within Level 3

Period 2017/18	Market value at 31 March 2016	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	43,334	0	0	663	(3,300)	(26,693)	15,341	29,345
Alternatives	245,375	0	0	53,814	(28,576)	(24,408)	21,962	268,167
Total	**288,709**	**0**	**0**	**54,477**	**(31,876)**	**(51,101)**	**37,303**	**297,512**

Period 2016/17	Market value at 31 March 2015	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	56,338	0	0	774	(19,838)	(10,486)	16,546	43,334
Alternatives	183,434	0	0	88,467	(69,126)	18,230	24,370	245,375
Total	**239,772**	**0**	**0**	**89,241**	**(88,964)**	**7,744**	**40,916**	**288,709**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and change in market values line of the Fund account.

16 Financial Instruments

16A Classification of Financial Instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2017			31 March 2018		
	Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Equities	726,451	0	0	751,286	0	0
Pooled investments						
Property	187,038	0	0	194,461	0	0
Infrastructure	31,381	0	0	35,420	0	0
Private Equity	43,334	0	0	29,345	0	0
Bonds	262,168	0	0	264,097	0	0
Equities	577,302	0	0	582,508	0	0
Alternatives	245,375	0	0	268,167	0	0
Cash		37,490	0	0	54,894	0
Other investment balances	4,489	0	0	5,869	0	0
Debtors	0	8,307	0	0	7,705	0
	2,077,538	**45,797**	**0**	**2,131,153**	**62,599**	**0**
Financial Liabilities						
Other Investment Balances	(4,382)	0	0	(2,016)	0	0
Creditors	0	0	(3,531)	0	0	(2,379)
	(4,382)	**0**	**(3,531)**	**(2,016)**	**0**	**(2,379)**
Grand Total	**2,073,156**	**45,797**	**(3,531)**	**2,129,137**	**62,599**	**(2,379)**

16B Net Gains and Losses on Financial Instruments

	2016/18 £000	2017/18 £000
Financial Assets		
Designated at fair value through profit and loss	364,274	35,084
Loans and receivables	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Financial liabilities at amortised cost	0	0
Total	**364,274**	**35,084**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17 Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

a) Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

<u>Other Price Risk</u>

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. The Fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

<u>Other Price Risk - Sensitivity Analysis</u>

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for the 2017-18 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movements (+/-)
UK Bonds	6.0%
UK Equities	10.0%
Overseas Equities	10.0%
Property	16.0%
Infrastructure	18.0%
Private Equity	26.0%
Alternatives	10.0%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31 March 2018 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	264,097	6.0%	279,943	248,251
UK Equities	403,796	10.0%	444,176	363,416
Overseas Equities	929,997	10.0%	1,022,997	836,997
Property	194,461	16.0%	225,575	163,347
Infrastructure	35,420	18.0%	41,796	29,044
Private Equity	29,345	26.0%	36,795	21,715
Alternatives	268,167	10.0%	294,984	241,350
Total	**2,125,283**		**2,346,446**	**1,904,120**

Asset Type	Value at 31 March 2017 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	262,168	8%	283,141	241,195
UK Equities	398,290	13%	450,068	346,512
Overseas Equities	905,463	12%	1,014,119	796,807
Property	187,038	13%	211,353	162,723
Infrastructure	31,381	13%	35,461	27,301
Private Equity	43,334	21%	52,434	34,234
Alternatives	245,375	8%	265,005	225,745
Total	**2,073,049**		**2,311,580**	**1,834,518**

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 cash flows of a financial instrument will fluctuate because of changes to market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Assets Exposed to Interest Rate Risk	Value at 31 March 2018 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	38,746	0	38,746	38,746
Cash balances	16,148	0	16,148	16,148
Bonds	264,097	2,641	266,738	261,456
Total	**318,991**	**2,641**	**321,632**	**316,350**

Assets Exposed to Interest Rate Risk	Value at 31 March 2017 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	26,609	0	26,609	26,609
Cash balances	10,881	0	10,881	10,881
Bonds	262,168	2,622	264,790	259,546
Total	**299,658**	**2,622**	**302,280**	**297,036**

Income Exposed to Interest Rate Risk	Value at 31 March 2018 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	61	1	62	60
Bonds	0	0	0	0
Total	**61**			

Income Exposed to Interest Rate Risk	Value at 31 March 2017 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	78	1	79	77
Bonds	0	0	0	0
Total	**76**	**1**	**77**	**75**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 8%, as measured by one standard deviation (13% in 2016-17).

An 8% fluctuation in the currency is considered reasonable based on an analysis of historical movements in volatility of exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8% 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:

Assets Exposed to Currency Risk	Value at 31 March 2018	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	751,282	60,103	811,385	691,179
Pooled Investments:				
Overseas/Global Equities	178,715	14,297	193,012	164,418
Overseas/Global Property	15,918	1,273	17,191	14,645
Overseas/Global Infrastructure	1,498	120	1,618	1,378
Overseas/Global Private Equity	29,345	2,348	31,693	26,997
Overseas/Global Alternatives	268,167	21,453	289,620	246,715
Total	**1,244,925**	**99,594**	**1,344,519**	**1,145,331**

Assets Exposed to Currency Risk	Value at 31 March 2017	Percentage Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	726,447	94,438	820,885	632,009
Pooled Investments:				
Overseas/Global Equities	179,016	23,272	202,288	155,744
Overseas/Global Property	19,159	2,491	21,650	16,668
Overseas/Global Private Equity	43,335	5,634	48,969	37,701
Overseas/Global Alternatives	245,375	31,899	277,274	213,476
Total	**1,213,332**	**157,734**	**1,371,066**	**1,055,598**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund is additionally exposed to credit risk through securities lending and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, 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 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.

The Pension Fund's bank account is held at Barclays, which holds an 'A' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices.

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31st March 2018, these assets totalled £1,598m (£1.566m as at 31 March 2017), with a further £54.893m held in cash (£37.489m as at 31 March 2017). 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.

d) Outsourcing risk

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 West Yorkshire Pension Fund (WYPF), through a shared service agreement. WYPF present to the Pensions Committee on a quarterly basis and both the County Finance Officer and the Pension Fund Manager sit on the Collaboration Board which meets quarterly.

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 $22 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 Custodian's 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 2016. 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.

18 Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the scheme by recognising the link between assets and adopting an investment strategy that balances risk and return
4) to reflect the different characteristics of employing bodies in determining contribution rates where reasonable to do so, and
5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates, where possible. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 76.9% funded (71.5% at the March 2013 valuation). This corresponded to a deficit of £529m (2013 valuation: £597m) at that time.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£000)		
1 April 2017-31 March 2020	2017/18	2018/19	2019/20
17.4%	18,004	20,539	23,222

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report on the Fund's website.

The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. The calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The principal assumptions were as follows.

Financial Assumptions

Future Assumed Returns at 2016	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property	3.8
Cash	2.5

Other Financial Assumptions	31 March 2013 % p.a.	31 March 2016 % p.a.
Discount rate	4.6	4.0
Price inflation (RPI)	3.3	3.2
Pay increases*	3.8	2.6
Pension increases	2.5	2.1
Revaluation of deferred pension	2.5	2.1
Revaluation of accrued CARE pension	2.5	2.1
Expenses	0.4	0.5

*An allowance is also made for promotional pay increases

Demographic Assumptions

The baseline longevity assumptions are a bespoke set specifically tailored to fit the membership profile of the Fund. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% per year. The assumed life expectancy from age 65 is as follows:

		31 March 2013	31 March 2016
Male			
	Current Pensioners	22.2 years	22.1 years
	Future Pensioners	24.5 years	24.1 years
Female			
	Current Pensioners	24.4 years	24.4 years
	Future Pensioners	26.8 years	26.6 years

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option

It is assumed that 2% of active members (evenly distributed across age, service length and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

19 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 2018 for IAS19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Lincolnshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2018	31 March 2017
Active members (£m)	1,465	1,347
Deferred members (£m)	750	755
Pensioners (£m)	1,128	1,174
Total (£m)	**3,343**	**3,276**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £66m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.8%	2.8%
Discount Rate	2.7%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 summarised below:

	Males	Females
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 years	26.6 years

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

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	276
0.5% p.a. increase in the Salary Increase Rate	1%	49
0.5% p.a. decrease in the Real Discount Rate	10%	345

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2018 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by: Anne Cranston AFA

30 April 2018
For and on behalf of Hymans Robertson LLP

20 Current Assets

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. 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. Debtors includes £3.839m relating to contributions due from employers (£4.701m in 2016/17) and £1.288m for contributions due from employees (£1.411m in 2016/17).

Current Assets	31 March 2017 £000	31 March 18 £000
Debtors	7,028	6,852
Long term debtors	1,279	853
Cash balances	10,881	16,148
Total	**19,188**	**23,853**

Analysis of Debtors

	31 March 2017 £000	31 March 18 £000
Debtors		
Central Government Bodies	345	1,792
Other Local Authorities	6,007	3,684
Other Entities and Individuals	676	1,376
Total	**7,028**	**6,852**
Long Term Debtors		
Central Government Bodies	1,279	853
Total	**1,279**	**853**

21 Current Liabilities

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.

Current Liabilities	31 March 2017 £000	31 March 18 £000
Creditors	(3,531)	(2,379)

Analysis of Liabilities

	31 March 2017 £000	31 March 18 £000
Creditors		
Central Government Bodies	9	(19)
Other Local Authorities	(4)	(27)
Other Entities and Individuals	(3,536)	(2,333)
Total	**(3,531)**	**(2,379)**

22 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £8.651m (£8.902m in 2016-17). Member contributions of £1.021m (£1.020m in 2016/17) were received by the Prudential in the year to 31st March and £1.814m (£1.954m in 2016/17) was paid out to members. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

23 Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the council incurred costs of £0.172m in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the Pension Fund and contributed £28.386m to the Fund in 2017/18. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £15.8m and interest of £71.5k was earned over the year.

Governance

Under legislation introduced in 2003-04, Councillors had been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Following the Council elections in May 2017, any Councillors who were contributing members became deferred members in the scheme. One Committee member, A Antcliff (employee representative), is a contributing member of the Pension Fund as at 31st March 2018.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

24 Key Management Personnel

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 Schedule 1 of the Accounts and Audit (England) Regulations 2015) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

This disclosure can be found in the main accounts of Lincolnshire County Council at Note 34, which are available on the Council's website at www.lincolnshire.gov.uk/finance.

25 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity, property or infrastructure investments. At the year end, the value of outstanding commitments to the 21 investment vehicles amounted to £46.743m.

26 Contingent Assets

Six 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.

27 Impairment Losses

The Fund has no recognised impairment losses.

28 Dividend Tax Claims

The County Council has lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. Claims relate to 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.

The table below summarise the position of the claims as at 31st March 2018. 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.

Territory	Claim Period	Amount (local currency)	Submitted	Status
Fokus Bank Claims				
Netherlands	2004-2006	€130,076	Jan 2010	Claims repaid in Jan 2010
Germany	2007-2010	€191,946	Dec 2011	There has been no response from the German Tax Authorities. Litigation has been initiated by a Canadian resident pension fund. The Court issued a positive decision, finding that the Canadian-resident pension fund was comparable to a German-resident Pension Funds. This may be helpful to UK pension fund claims.
Spain	Q4 2007-Q4 2009	€85,072	Jan 2012	Claim repaid except for Q4 2007 (claim amount €10,545) awaiting decision from Spanish tax authorities
Total		**€407,094**		
FID- Mannimen claims	1994-1998	£793,497	Aug 2006	The test case is being progressed by Pinsent Masons. Statutory Claims - Court of Appeal - the court has proceeded to make a positive final order, however, the claims are held to be out of time by this court and need to proceed to the High Court to recover these periods. High Court claimants may be able to benefit from the provisions of the Limitation Act 1980 which would allow an extended time limit for claims. Pinsent Masons are currently liaising with the test claimant and Counsel regarding these proceedings.
Stock lending claims	2004-2014	£1,422,421	Feb 2010 Feb 2011 Jul 2012 Aug 2016	The test case is being progressed by Pinsent Masons. The test case was heard at the Upper Tier (UT) Tribunal in February 2018 and it is expected that there will be a decision by the end of May. Although it is notoriously difficult to make predictions based on the hearing we were encouraged by how the arguments progressed and questions asked by the UT. It is possible the UT will decide a reference to the Court of Justice of the EU (CJEU).
Total		**£2,215,918**		

29 Scheduled & Admitted Bodies

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	195	17	212
Admitted Body	20	12	32
Total	**215**	**29**	**244**

Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2018:

County and District Councils	North Hykeham TC	Magna Vitae
Lincolnshire County Council	Pinchbeck PC	New Linx Housing
(incl. LCC Schools)	Skegness TC	Outspoken Training
Boston Borough Council	Skellingthorpe PC	Serco
East Lindsey District Council	Sleaford TC	Vinci
City of Lincoln Council	Stamford TC	
North Kesteven District Council	Sutton Bridge PC	**Academies**
South Kesteven District Council	Sudbrooke PC	Aegir Community Academy
South Holland District Council	Washingborough PC	Alford Queen Elizabeth
West Lindsey District Council	Woodhall Spa PC	Barnes Wallis Academy
		Bassingham Primary Academy
Internal Drainage Boards	**FE Establishments**	Beacon Primary
Black Sluice	Bishop Grosseteste University	Boston Grammar
Lindsey Marsh	Boston College	Boston High School
North East Lindsey	Grantham College	Boston John Fielding
South Holland	Lincoln College	Boston West Academy
Upper Witham	Stamford College	Boston Witham Federation
Welland and Deeping		Bourne Abbey Academies Trust
Witham First	**Other Scheduled Bodies**	Bourne Academy
Witham Fourth	Acorn Free School	Bourne Grammar
Witham Third	BG Lincoln	Bourne Westfield Primary
	Compass Point	Bracebridge Infant and Nursery
Parish and Town Councils	Lincs Police Chief Constable	Branston CofE Infant School
Billinghay PC	Police & Crime Commissioner	Branston Community Academy
Bourne TC		Branston Junior Academy
Bracebridge Heath PC	**Admitted Bodies**	Browns CofE Academy
Cherry Willingham PC	Active Lincolnshire	Caistor Grammar Academy
Crowland PC	Active Nation	Caistor Yarborough
Deeping St James PC	Adults Supporting Adults	Carlton Academy
Gainsborough TC	Aspens Services	Castle Wood Academy
Gedney PC	Boston Mayflower	Caythorpe Primary Academy
Greetwell PC	Caterlink	Charles Read Academy
Heighington PC	Easy Clean Contractors Ltd	Coningsby St. Michaels CofE Primary Academy
Horncastle TC	Edwards & Blake	Cordeaux Academy
Ingoldmells PC	G4S	Edenham CofE Academy
Langworth PC	GLL	Ellison Boulters Academy
Louth TC	Lincoln Arts Trust	Ermine Primary
Mablethorpe & Sutton TC	Lincoln BIG	Fosse Way Academy
Market Deeping TC	Lincs HIA	Gainsborough Benjamin Adlard
Metheringham PC	Kier Group	Gainsborough Parish Church
Nettleham PC	Making Space	Giles Academy

Academies (cont)	Long Bennington CofE	Spilsby Primary Academy
Gipsey Bridge Academy	Louth Academy	St Bernards Academy Louth
Gosberton House Academy	Louth King Edward VI Grammar	St Giles Academy
Grantham Ambergate	Mablethorpe Academy	St John's Primary Academy
Grantham Isaac Newton Primary	Manor Farm Academy	St Lawrence Academy
Grantham Kings School	Manor Leas Infant Academy	Stamford Malcolm Sargent
Grantham Sandon	Manor Leas Junior Academy	Stamford St Augustines
Grantham Walton Girls	Market Rasen De Aston	Stamford St Gilberts
Harrowby CofE Infants	Marton Primary Academy	Stamford Welland Academy
Hartsholme Academy	Mercer's Wood Academy	The Deepings Academy
Heighington Millfield Academy	Morton CofE Academy	The Gainsborough Academy
Hillcrest EY Academy	Mount Street Academy	The Garth School
Hogsthorpe Primary Academy	National CofE Junior	The Lincolnshire Teaching & Learning Centre
Holbeach Primary	Nettleham Infants Academy	The Phoenix School
Horncastle Banovallum	North Kesteven School	The Priory School
Horncastle QE Grammar	North Thoresby Primary	Theddlethorpe Primary Academy
Huntingtower Community Primary	Phoenix Family Academy	Thomas Cowley Academy
Huttoft Primary Academy	Priory Federation of Academies	Thomas Middlecott Academy
Ingoldmells Academy	Rauceby CofE	Tower Road Academy
Ingoldsby Primary Academy	Ruskington Chestnut Street	University Academy Holbeach
John Spendluffe Tech College	Sir Robert Pattinson Academy	Utterby Primary Academy
Keelby Primary Academy	Sir William Robertson	Waddington All Saints Primary
Kesteven & Grantham Academy	Skegness Academy	Wainfleet Magdalene Primary
Kesteven & Sleaford High	Skegness Grammar	Warren Wood Specialist
Kidgate Primary Academy	Skegness Infant Academy	Washingborough Academy
Kirkby La Thorpe	Skegness Junior Academy	Welton William Farr CE
Lincoln Castle Academy	Sleaford Carres Grammar	Welton St Mary's CofE
Lincoln Christs Hospital School	Sleaford Our Lady of Good Counsel	West Grantham Federation
Lincoln Our Lady of Lincoln	Sleaford St Georges	Weston St Mary
Lincoln St Hugh's Catholic	Sleaford William Alvey	Whaplode CofE Academy
Lincoln St Peter & St Paul's	Somercotes Academy	White's Wood Academy
Lincoln UTC	South Witham Community	William Lovell Academy
Lincoln Westgate Primary	Spalding Academy	Witham St Hughs Academy
Lincoln Anglican Academies	Spalding Grammar	Woodhall Spa St Andrews
Ling Moor Academy	Spilsby Eresby	Woodlands Academy Spilsby
Little Gonerby CofE	Spilsby King Edward Academy	

30 Exchange Rates Applied

The exchange rates used at 31 March 2018 per £1 sterling were:

Australian Dollar	1.8288	Mexican Peso	25.6060
Brazilian Real	4.6624	Norwegian Krone	11.01330
Canadian Dollar	1.8086	New Zealand Dollar	1.9446
Swiss Franc	1.3433	Polish Zloty	4.8050
Danish Krone	8.5023	Swedish Krona	11.7482
Euro	1.1406	Singapore Dollar	1.8395
Hong Kong Dollar	11.0096	Thai Baht	43.8656
Indonesian Rupiah	19313.0503	Turkish Lira	5.5571
Israeli Shekel	4.9250	Taiwan Dollar	40.9015
Japanese Yen	149.1878	US Dollar	1.4028
Korean Won	1495.2446	South African Rand	16.6215

KPMG

Independent auditor's report to the members of Lincolnshire County Council on the pension fund financial statements published with the Pension Fund Annual Report.

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 3, pages 43 to 47.

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 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Respective responsibilities of The Executive Director of Finance & Public Protection and the auditor

As explained more fully in the Statement of the Executive Director of Finance & Public Protection's Responsibilities The Executive Director of Finance & Public Protection 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 2017/18.

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 2017/18.

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.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

John Cornett

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St Nicholas House
31 Park Row
Nottingham
United Kingdom
NG1 6FQ

27 July 2018

Additional Information Available

Additional information regarding the Pension Fund and the scheme is available by going to the shared service website **www.wypf.org.uk**

The following documents are included in this report, and can also be found by selecting Policy Statements on the home page, and then Lincolnshire Policies, on the WYPF shared website.

Funding Strategy Statement

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

Investment Strategy Statement

This document describes the key issues that govern the investment of the Pension Fund, including the approach to risk, the approach to pooling and the approach to environmental, social and governance (ESG) factors.

Communications Policy

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that individuals and employers receive accurate and timely information about their pension arrangements.

Governance Compliance Statement

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Ministry of Housing, Communities and Local Government.

Lincolnshire Pension Fund

Funding Strategy Statement

March 2017

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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, investment adviser and approval by the Pensions Committee. It is effective from 31 March 2017.

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 Pension Fund, in effect the LGPS for the Lincolnshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

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

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 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 / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, 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, Pension Fund Manager in the first instance at e-mail address jo.ray@lincolnshire.gov.uk or on telephone number 01522 553656.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 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 (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority 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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies	Designating Bodies
Sub-type	**Local Authorities, Police and Crime Commissioner**	**Small Scheduled Bodies**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**	**Internal Drainage Board**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, assumes long – term Fund participation (see Appendix E)
Primary rate approach	(see Appendix D – D.2)							
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	15 years	20 years	Outstanding term, subject to a maximum of 15 years	Outstanding term, subject to a maximum of 15 years	Outstanding contract term, subject to a maximum of 15 years	20 years
Secondary rate – Note (d)	Monetary amount (other than maintained schools where % of payroll)	% of payroll	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority					Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the	Preferred approach: contributions kept at Primary rate. However, reductions may be

Type of employer	Scheduled Bodies				Community Admission Bodies and Designating Employers		Transferee Admission Bodies	Designating Bodies
							Administering Authority to reduce the surplus over the remaining contract term	permitted by the Administering Authority
Probability of achieving target – Note (e)	66%	70%	75%	75%	75%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None	None	None
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						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	n/a	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	n/a
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).		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	Can be ceased subject to passing of resolution. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see

Type of employer	Scheduled Bodies	Community Admission Bodies and Designating Employers	Transferee Admission Bodies	Designating Bodies
			future deficits and contributions arising.	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 set a higher funding target (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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the standard stabilisation arrangements that will apply for employers are as follows. Other stabilisation arrangements may, on occasion, be allowed if the actuary considers them to be prudent.

Type of employer	Local Authority Council	Police and Crime Commissioner Pool
Stabilisation Mechanism	Fixed % of pay plus increasing monetary amount	Fixed % of pay plus increasing monetary amount
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer, covering the three year period until the next valuation, will normally be set as a monetary amount. However, the Administering Authority reserves the right to amend these rates between valuations.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor may pay the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit 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 does not 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; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus 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 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.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

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

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, 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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Small scheduled bodies e.g. Town and Parish Councils (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).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- 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 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. As at the 2016 valuation, separate pools were operated for:-

- Lincolnshire County Council;
- Police and Crime Commissioner for Lincolnshire;
- East Lindsey District Council;
- Lindsey Marsh Internal Drainage Board

- 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.

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 time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

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 may be spread.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

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.

3.7 External Ill health insurance

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

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that 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.

3.8 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 employers.

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.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

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 (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

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 Appendix 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 Appendix 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; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help 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 2020, it should be noted that this will need to be reviewed following the 2019 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 newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in February 2017 for comment;
b) Comments were requested within 4 weeks, and answers provided;
c) There was an Employers Forum on 23 March 2017 at which questions regarding the FSS could be raised and answered;
d) Following the end of the consultation period the FSS was updated where required and approved at the Pensions Committee meeting on 8 March 2017, then published before the month end.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.wypf.org.uk;

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Pension Board;

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

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.wypf.org.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Ministry of Housing, Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Lincolnshire Pension Fund

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns 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, monetary amounts to be continued to be paid 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

Risk	Summary of Control Mechanisms
	contribution increases (see Note (b) to 3.3). 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 were 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.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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 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 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

Risk	Summary of Control Mechanisms
	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.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, 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).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;

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

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

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

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

Until 31 March 2016 the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned 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".

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.

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 until 31 March 2016 meant that there were inevitably 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 was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided to adopt a different apportionment approach going forward.

With effect from 1 April 2016, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for employers' benefit.

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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets 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 applies: 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 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.6% p.a. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

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. 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 have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8% p.a.), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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 the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.2 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target 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 where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
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.
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 **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	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**.
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.
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).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
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).

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
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.
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 2016), 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.

INVESTMENT STRATEGY STATEMENT

INTRODUCTION

The Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS has been agreed by the Committee having taken advice from the Investment Consultant and Pension Fund Manager.

The ISS, which was approved by the Committee on 8th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2017. The FSS, which was approved by the Pensions Committee on 8th March 2017, complies with these Regulations.

INVESTMENT STRATEGY

The primary objective of the Fund is to provide pension benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market risk and the nature of the Fund's liabilities.

Asset class	Strategic allocation	Range	Maximum
Equities	60%	+/- 6%	66%
UK equities	20%	+/- 2%	22%
Global equities	40%	+/- 5.5%	45.5%
Alternatives	15%	+/- 1.5%	16.5%
Property	9%	+/- 1.5%	10.5%
Infrastructure	2.5%	+/- 1.5%	4%
Fixed Income	13.5%	+/- 1.5%	15%
Cash	0%	+/- 0.5%	0.5%

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee reviews the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equities	
UK Equities	FTSE All Share
Global Equities (ex UK)	MSCI World ex UK Index
Global Equities	MSCI All Countries World Index
Bonds and Cash	
UK Gilts Over 5 Years	FTSE UK Gilts Index-Linked Over 5 Years Index
Corporate Bonds	iBoxx £ Non-Gilts Index
All Stocks UK Gilt Index Fund	FTSE UK Gilts Index-Linked All Stocks Index
Corporate Bonds up to 5 Years	iBoxx Sterling Non-Gilts 1-5 Year Index
Cash	LIBID 7 Day
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Alternatives	LIBOR 3 Months + 4%

The suitability of particular investments and types of investments

The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 1.8% over the long term, a nominal return of 4.0% assuming inflation (CPI) to be 2.2%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, JPMorgan, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

The approach to risk

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis. The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Investment Mangers present to the Committee on an annual basis.
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging where appropriate.
Foreign exchange	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.

Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

Approach to pooling investments

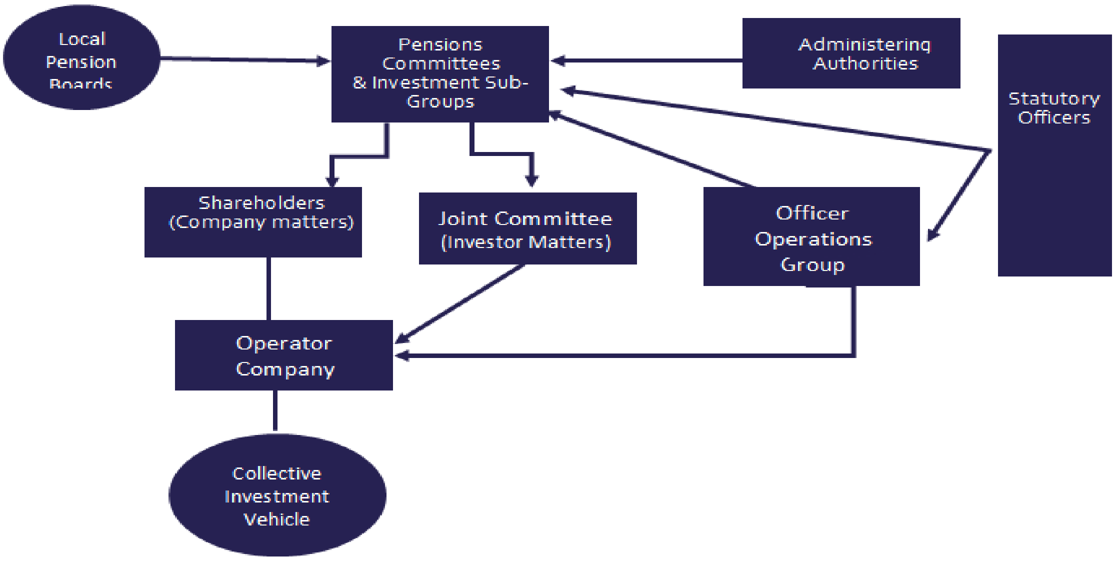
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Ministry of Housing, Communities and Local Government ("MHCLG") in November 2015, the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

BCPP is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Minister to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015.

The proposed governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited.

It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred, it is expected that once these investments mature the proceeds will be reinvested into BCPP. At the current time it is estimated that c. 66% of the Fund's assets will be invested in BCPP subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and corporate governance (ESG) factors

The Fund considers itself to be a responsible investor and take ESG matters very seriously and monitors investment managers' approach to ESG.

All of the Fund's investment managers consider that ESG factors can have a material impact on an investments financial return. As a result, ESG factors are fully incorporated into their respective investment processes.

The Fund's external Investment Managers also consider the impact of climate change risks and opportunities in the investment process to engage with companies in which they invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy. External investment managers are required to report quarterly on their engagement activity.

The Fund does not hold any investments that it deems to be social investments.

The Fund will take non-financial considerations into account when making investments, but not where it is considered to have a detrimental financial impact.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

It is considered that the Pensions Committee represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The exercise of rights attaching to investments (including voting rights)

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long term value for shareholders. The Fund believe that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors, the Fund expects the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this the Fund has summarised its compliance with the UK Stewardship code and principles relating to good stewardship below.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Whilst the Lincolnshire Pension Fund takes its responsibilities as a shareholder seriously, it does not have a specific policy on Stewardship, other than that stated in the Statement of Investment Principles. It seeks to adhere to the Stewardship Code where possible, and expects its appointed asset managers to do so too. Resources do not currently allow for a dedicated role to oversee LPF's RI responsibilities at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

In practice the Fund applies the Code in two ways; through arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group for Local Authority Pension Funds. Through these channels, LPF seeks to improve long term share performance through investment in better governed companies, therefore improving the funding level of the LPF and reducing the cost to stakeholders in the Local Government Pension Scheme.

As part of the manager appointment process, the Fund selects managers who show how their stewardship responsibilities are built in as an integral part of their investment process. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by LAPFF and a member of the Pensions Committee regularly attends the LAPFF meetings. The Fund also attends the LAPFF Annual Conference to ensure a full understanding and input into the work programme of LAPFF.

Voting is carried out at Fund level, rather than by appointed managers, using a third party voting agency, Manifest. A general global voting template is agreed by the Pensions Committee using the best practice principles advised by Manifest. Voting decisions for non-standard items are made on a case-by-case basis using the analysis produced by Manifest and take into account any voting alerts provided by LAPFF, or where needed, additional information is requested from managers. The Fund reports quarterly to the Pensions Committee on all voting activity undertaken.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee and the Pension Board review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all members are required to sign an annual declaration form in line with the published policy. The policy can be found on the shared LPF website at www.wypf.org.uk. In addition, Committee members are required to make declarations of interest prior to committee meetings which are documented in the minutes of each meeting and available on the Council's website at www.lincolnshire.gov.uk.

Principle 3 - Institutional investors should monitor their investee companies.

As investors we own a portion of the companies we invest in. With our voting policies and working through our external managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for managing our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to LPF, so that activity and impact can be monitored. The Fund has regular meetings with its external managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through LAPFF are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives an ‘Alerts’ service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies, and is used when making voting decisions.

Resources do not currently allow for a dedicated role to monitor investee companies at a Fund level, however the asset pooling arrangements currently being implemented will enable a more active role in the future.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund’s asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. We review each manager’s policy on engagement and escalation prior to appointment and we review their engagement activity during regular review meetings with them, and support it when required. Escalation routes across our managers involve meetings with company management, meetings with Non-Executive Directors, collaborating with other institutional shareholders, submitting resolutions at general meetings and in the most extreme instances divestment of shares. The outcome of any engagement is reported to the Fund through the normal reporting routine.

On occasion, the Fund may itself choose to escalate activity through its participation in the Local Authority Pension Fund Forum. The areas where escalation might occur would be aligned with the LAPFF work programme. Fund involvement would be by either co-signing a shareholder resolution or publically supporting a shareholder resolution. This would happen following a request from LAPFF explaining the engagement activity taken so far and the reasons why a shareholder resolution is required. The Fund had an agreed process for this internally which requires a paper taken to our Pensions Committee (time allowing) or through delegation to the Council's Executive Director of Finance and Public Protection in consultation with the Chair and Vice Chair of the Pensions Committee to agree. Examples of escalation activity from LAPFF that the Fund has supported are shown below:

- Supporting the Human Rights Capital shareholder resolution at Sports Direct
- Part of the 'Aiming for A' investor coalition – successfully co-filing at BP, Shell, Anglo American, Rio Tinto and Glencore on strategic resilience resolutions
- Supported shareholder resolutions at National Express on workplace rights

The Fund monitors and participates in shareholder litigation through its contracts with IPS (Institutional Protection Services) and US law firm SRKW. In addition, supplementary monitoring is provided by BLBG.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.
The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings. This plan sets out the engagement areas for activity for the coming year. Lincolnshire Pensions Committee member Cllr Eddie Strengiel is the named representative responsible for attending these meetings and actively participates in any discussions and setting of the work programme. He raises any concerns that the Fund may have and feeds back to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Manager, Jo Ray, at jo.ray@lincolnshire.gov.uk.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights is maintained at Fund level, and not delegated to the Fund's appointed asset managers. The Fund exercises all votes for its UK, developed Europe, US, Canada and Japanese equity holdings. Votes are cast in accordance with a template that represents best practice corporate governance standards, that is agreed by the Pensions Committee. Advice on best practice is supplied by the voting agency Manifest. This includes consideration of company explanations of compliance with the Corporate Governance Code. Reports are presented to the Pensions Committee on a quarterly basis on how votes have been cast, and controversial issues are often discussed at committee meetings.

The Fund will only support the Board when the recommendations meet the best practice requirements in the guidance supplied by the Fund's voting advisor, Manifest. All votes cast by the Fund are logged in Manifest's on-line system, which also identifies where the Fund has voted against the Board and reasons why. The Fund always responds to requests from companies to explain voting outcomes, and will, wherever possible, explain in advance of the actual vote being cast.

The quarterly reports presented to the Pensions Committee include high level voting activity and are available on the Council's website, alongside all committee reports.

The Fund participates in stock lending through its Custodian, JPMorgan. Stock is not recalled ahead of company meetings to allow voting on the holdings participating in the stock lending programme, due to the restricted resources within the internal team.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports quarterly to the Pensions Committee on stewardship activity through a specific section on voting undertaken each quarter, in the Fund Update. This includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website.

Data to produce these reports is taken from the Councils voting service provider's online system, which records all votes undertaken, and from reports produced by LAPFF.

Although voting is not delegated to managers, they are required to share their engagement activity with the Fund on a regular basis.

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate.

Approved by Lincolnshire Pension Committee 8th March 2017

COMMUNICATION 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 200 employers and over 70,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Ministry of Housing, Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

b) In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
ii. the format, frequency and method of distributing such information or publicity; and
iii. the promotion of the Scheme to prospective members and their employing authorities.

The day-to-day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by West Yorkshire Pension Fund (WYPF), in a shared service arrangement. Communication material is produced by WYPF in collaboration with the Pensions Team in Lincolnshire. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with WYPF.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website (www.wypf.org.uk).

WYPF provide a dedicated enquiry phone numbers and emails for both scheme members and employers for pension related enquiries. For scheme members it is 01274 434999 and pensions@wypf.org.uk, and for employers it is 01274 434900 and wypf.pfr@wypf.org.uk. The appropriately qualified staff from the County Council, WYPF or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund's objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

Communications events - Scheme Members

Communication	Format	Frequency	Method of Distribution
LGPS active members (including representatives of retired members)	Newsletter	2 per year	Mail
	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Newsletter	2 per year	Mail
	Annual benefit statement	1 per year	Mail
	Pre-retirement course	Monthly	Face to face
LGPS deferred members (including representatives of deferred members)	Annual meeting	1 per year	Meeting
	www.wypf.org.uk	Constant	Web
	Contact Centre	8.45 to 4.30 Monday to Friday	Telephone E-mail Face to face
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Social media	Constant	Web
	Newsletter	1 per year	Mail
	Annual meeting	1 per year	Meeting
LGPS pensioner members (including representatives of retired members)	www.wypf.org.uk	Constant	Web
	Contact centre	8.45 to 4.30 Monday to Friday	Face to face Telephone E-mail
	County Offices, Lincoln	8.00 to 5.00 Monday to Friday	Face to face
	Pension advice slips	As and when net pension varies by 25p or more	Mail

	P60	1 per year	Mail
	Social media	Constant	Web
	Newsletter	1 per year	Mail
	Annual meeting	1 per year	Meeting

Communications events - Employers

Communication	**Format**	**Frequency**	**Method of Distribution**
Employers	Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Face to face Telephone E-mail
	Website	Constant	Web
	Fact card	1 per year	Mail
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	Ad hoc training	As and when required	Face to face
	Update sessions	2 per year	Meeting
	Annual meeting	1 per year	Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Pension Matters and Xtra	12 per year and as and when required	E-mail
	Social media	Constant	Web
	Ad hoc meetings	As and when required	Face to face
	Workshops	10 per year	Face to face
	Introduction to Pensions	Bi-monthly	Face to face
	Online training video	Constant	Web

Reviewed 13th July 2017 by the Pensions Committee

GOVERNANCE POLICY AND COMPLIANCE STATEMENT
LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority (and Scheme Manager) for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Ministry of Housing, Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director of Finance and Public Protection. The Public Service Pensions Act (2013) required all administering authorities to introduce a local Pension Board to assist the Scheme Manager.

Pensions Committee

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- 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

- agree appropriate means of securing external representation on the Pensions Committee, in consultation with relevant external bodies.

Lincolnshire Pension Board

The Lincolnshire Pension Board will ensure the Scheme Manager effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board will also ensure that it complies with the knowledge and understanding requirements in the Pensions Regulator's Code of Practice.

In addition to the local structure, the Lincolnshire Pension Board is accountable to the Pensions Regulator and the National Scheme Advisory Board.

The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues (supplementary to the whistle blowing policy and anti-fraud and corruption policy operated by the administering authority, which operate to include all of the functions of the Council and its advisers).

The role of the Lincolnshire Pension Board is set out below:

- Assist Lincolnshire County Council as Scheme Manager;

- To secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;

- To secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and

- In such other matters as the scheme regulations may specify.

The terms of reference for the Board are available on the Funds shared website with WYPF at www.wypf.org.uk.

The Lincolnshire Pension Board consists of five members:

- two employer representatives (to represent all employers within the Scheme)
- two scheme members representatives (to represent all members of the Scheme (active, deferred and pensioner))
- an independent member (to act as Chairman)

The employer and scheme member representatives can vote. The Independent Chairman cannot vote.

The Lincolnshire Pension Board has a minimum of four meetings each year. In addition, Board members must attend regular training events.

The Lincolnshire Pension Board meetings are open to the public and agendas, reports and minutes are made available through the Funds shared website with WYPF at www.wypf.org.uk. An annual report on the work of the Board is included in the Fund's annual report, which is published on the Council's website and provided to all scheme employers with an abbreviated version distributed to scheme members.

Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Code of Practice as published by the Pensions Regulator.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Pension Fund Manager (email: jo.ray@lincolnshire.gov.uk or telephone 01522 553656).

Reviewed 13th July 2017 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 advice that falls to be considered at meetings of the main committee.**	Yes	**All members are treated equally in every respect.**
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. A report on the administration of the scheme is taken to each quarterly committee meeting. At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.**
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.**