Lincolnshire Pension Fund Annual Report & Accounts

2023

Local Government Pension Scheme

Annual Report for the Year Ended 31 March 2023

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Management Arrangements

Administering Authority	Lincolnshire County Council

Pensions Committee Members as at 31 March 2023

County Councillors
M G Allan
P Ashleigh-Morris
P E Coupland (Vice Chairman)
T J N Smith
E W Strengiel (Chairman)

Three vacant positions

District Council Representative
R Waller

Representative of Small Scheduled Bodies
S Larter

Representative of the Academy Sector
T Hotchin

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers

Executive Director of Resources	A Crookham BSc CPFA
Head of Pensions	J Kempton
Independent Advisor	P Jones
Fund Actuary	Barnett Waddingham
Fund Investment Consultant	Hymans Robertson

Asset Pool and Operator

Border to Coast Pensions Partnership

Investment Managers of the Fund as at 31 March 2023

Equities:	Border to Coast Legal and General
Bonds:	Blackrock Border to Coast

Alternatives:	Morgan Stanley
Multi Asset Credit:	Border to Coast
Private Equity:	Aberdeen Standard Capital Dynamics Pantheon
Infrastructure:	Infracapital Innisfree Pantheon
Property:	ABRDN Allianz Aviva Blackrock Franklin Templeton Hearthstone Igloo Royal London

Auditors	Mazars LLP
Investment Custodian	Northern Trust
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 31 March 2023 are listed on page 2.

There were some changes to the Committee over the year, with the sad passing of Cllr Angela Newton, Cllr Sarah Parkin stepping down from the Committee, Cllr Mike Thompson stepping down as a Councillor, Cllr Paula Ashleigh-Morris joining to replace Cllr Martin Griggs, and the appointment of Tom Hotchin as an addition to the Committee to represent the Academy sector.

All members of the Committee can exercise voting rights.

Corporate Governance and Responsible Investing

The Fund expects its appointed investment managers to act as responsible investors and that they fully integrate environmental, social and governance (ESG) issues into their investment process. It has produced a Responsible Investment Policy and Responsible Investment Beliefs that can be found, alongside other policies, on the Council's website. The Fund works closely with Border to Coast, and the other Partner Funds of the asset pool to agree its approach to RI and stewardship. 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 ESG issues and encouraging improvement where required.

The Fund's Stewardship Code Statement for 2021/22 was again successful in meeting the new standard required under the Financial Reporting Council's 2020 Stewardship Code to explain how it acts as a responsible shareholder and is published on the Council's website.

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-month period ended 31 March 2023 saw the value of the Fund's investment assets fall by £19.4m to £3,033.6m. The overall investment return of -0.77% was ahead the Fund's specific benchmark return of -0.96%. Over the last ten years, the Fund's annualised investment performance of 7.48% is slightly ahead of the benchmark return of 7.45%.

Detail on the global markets over the year can be found in the Investment Background, on page 38.

Manager Arrangements

There have been no manager changes over the last 12 months. Details of the Fund's investments and manager performance can be found from page 38.

Pensions Administration

The pensions administration service is performed in a shared service arrangement with West Yorkshire Pension Fund (WYPF). A satellite office for WYPF is based in Lincoln, co-located with the LCC Pension Fund team. More information on the performance of the pensions administrator can be found at page 44. The Fund works closely with its employers and WYPF to improve all aspects of administering the scheme.

The current arrangement with WYPF runs until 31 March 2024, and it was approved at the Pensions Committee on 16 March 2023 to continue the shared service relationship with WYPF for a further period of nine years.

Local Pension Board

The Local Pension Board for the Lincolnshire Pension Fund was set up in April 2015, 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 page 34.

Asset Pooling

The requirement to pool the Fund's assets with other LGPS Funds came into statute in November 2016. Lincolnshire chose to become part of the Border to Coast Pensions Partnership (Border to Coast), alongside ten other partner LGPS funds. Progress has continued to ensure that Border to Coast is able to implement the investment strategy of the eleven partner funds, over the long term.

The oversight of the asset pool is carried out by a Local Government Joint Committee, on which the Chairman of the Pensions Committee sits, and by the Administering Authority as a shareholder. The objective of Border to Coast is to reduce investment costs, improve performance and increase resilience across the Funds, over the long term. Border to Coast went live in July 2018, with assets from three of the partner funds with internally managed assets. Work continues with Border to Coast in creating the sub-fund range that will be available to the Fund.

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, Funding Strategy Statement and Administration Strategy are all attached at the end of this report. These documents, and other related publications can also be downloaded from the Council's website. Hard copies of any of these statements may be obtained from:

Jo Kempton, Head of Pensions
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL

Tel: 01522 553656 | email: jo.kempton@lincolnshire.gov.uk

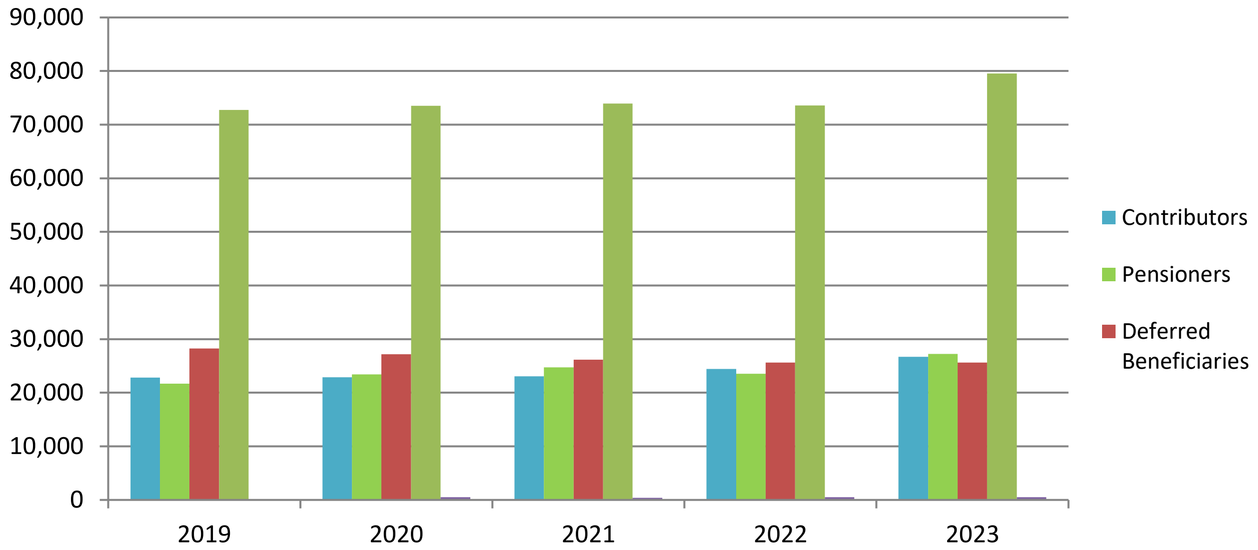
Councillor Eddie Strengiel
Chairman
Pensions Committee

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 79,000 scheme members.

Local Government Pension Scheme Membership

As can be seen from the chart below, the active membership has risen slightly over the year. 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 66.5% of the overall membership, but the past year has seen an increase in both contributing members pensioner members, with deferred beneficiaries remaining stable.



Year ended 31March	2019	2020	2021	2022	2023
Contributors	22,820	22,890	23,038	24,422	26,691
Pensioners	21,715	23,438	24,746	23,536	27,231
Deferred Beneficiaries	28,221	27,201	26,160	25,650	25,651
Total	72,756	73,529	73,944	73,608	79,573
Undecided Leavers*	-	529	383	532	524

*undecided leavers only recorded at year end from 31 March 2020

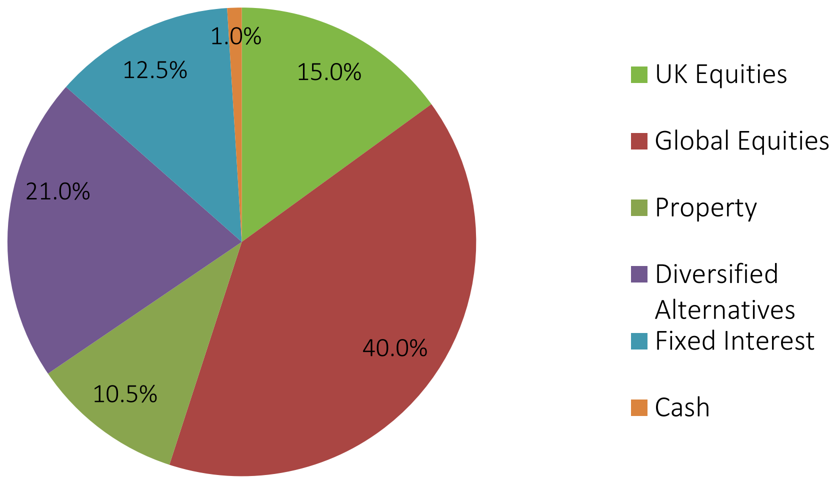
(Note: The numbers disclosed in the table above reflect individual pension records within the County Council's database at a point in time. Current and past members of the LGPS may have more than one pension record as a result, for example, of having more than one part time contract of employment with a Scheme employer.)

Investment Policy

The Fund is managed in accordance with a strategic asset allocation benchmark. This is reviewed at least every three years, alongside 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 on a monthly and quarterly basis.

Strategic Asset Allocation Benchmark

The asset allocation below reflects the long-term asset allocation agreed by the Pensions Committee, however this will be implemented over time as the Fund transitions assets to Border to Coast. In the interim, the actual asset allocation may be quite different to the final strategic allocation. For performance measurement purposes the strategic allocation is amended as assets are moved.



Asset class	Strategic Benchmark 31 March 2023 %	Strategic Benchmark 31 March 2022 %
UK Equities	15.0	15.0
Global Equities	40.0	40.0
Total Equities	**55.0**	**55.0**
Property	10.5	10.5
Infrastructure	-	-
Diversified Alternatives (incl. Private Markets, Infrastructure, Multi Asset Credit)	21.0	21.0
Fixed Interest	12.5	12.5
Cash	1.0	1.0
Total	**100.0**	**100.0**

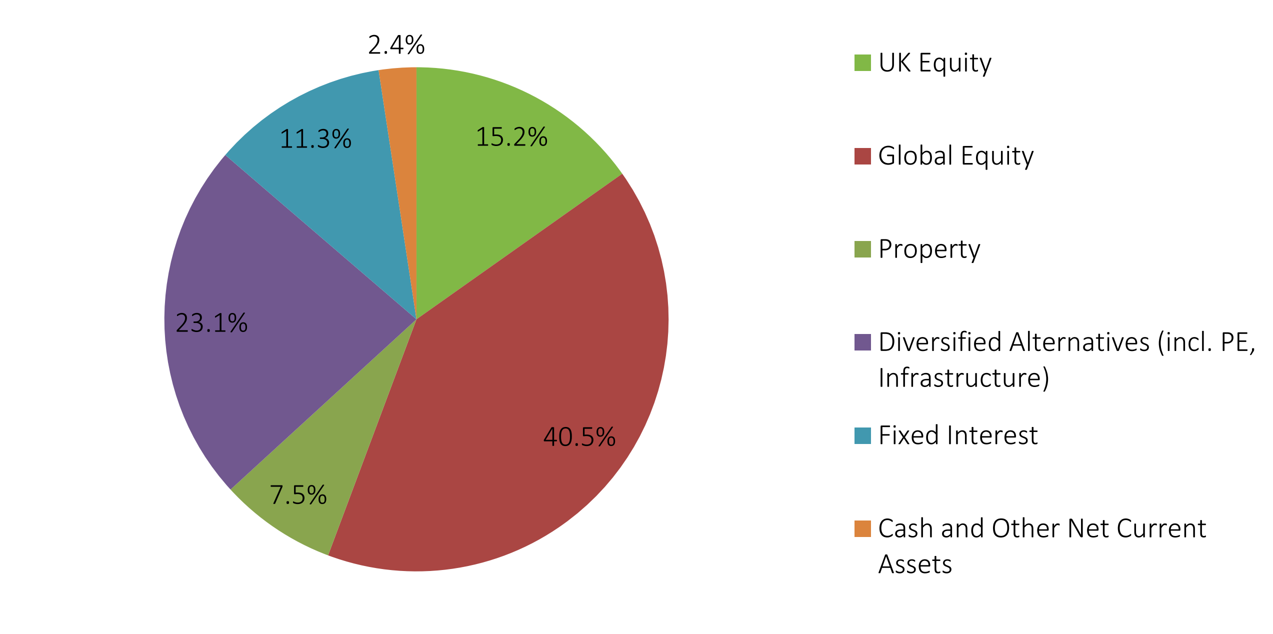
The Pensions Committee meeting in March 2023 agreed to reduce equities by 10% and increase multi asset credit and private markets by 5% each. This is not reflected in the table above yet, as further decisions need to be made on the equity reduction.

Total Actual Asset Distribution

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

Asset Class	Market Value £'m	31/3/23 %	31/3/22 %
UK Equity	462.1	15.2	15.7
Global Equity	1,227.7	40.5	39.5
Total Equities	1,689.8	55.7	55.2
Property	227.2	7.5	7.2
Diversified Alternatives (incl. Private Equity, Infrastructure)	699.5	23.1	22.7
Fixed Interest	344.2	11.3	11.6
Cash & Other Net Current Assets	73.0	2.4	3.3
Net Investment Assets	3,033.7	100.0	100.0

Excludes Border to Coast shareholding valued at £1,181.8m



Fund Investment Performance

The twelve-month period ended 31 March 2023 saw the value of the Fund' investment assets fall by £19.4m to £3,033.6m. The overall investment return of -0.77% was ahead the Fund's specific benchmark return of -0.96%. Over the last ten years, the Fund's annualised investment performance of 7.48% is slightly ahead the benchmark return of 7.45%. The biggest impact was the outperformance in the year of the Border to Coast Global Equity Alpha portfolio.

Annual investment performance over the previous ten years is set out in the table below. The Fund's ten-year annualised return of 7.5% compares to a rise in retail prices of 4.0% and an increase in public sector earnings of 2.7%.

Investment Performance of the Fund 1 April 2013 to 31 March 2023

	Lincolnshire Fund Return %	Comparative Benchmark Return %	Retail Price Inflation %	Public Sector Increase in earnings %
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
2018/19	8.2	8.1	2.4	2.7
2019/20	(5.8)	(3.9)	2.6	3.0
2020/21	23.3	22.1	1.5	6.0
2021/22	10.7	9.7	9.0	3.3
2022/23	(0.8)	(1.0)	13.5	5.6
10 years annualised	7.5	7.5	4.0	2.7

Manager/Asset Class Performance of the Fund

Asset Class	1 Year		3 Years annualised		5 Years annualised	
	FM %	BM %	FM %	BM %	FM %	BM %
Equities						
LGIM Global Equity (inception Feb 21)	0.09	0.20	n/a	n/a	n/a	n/a
Border to Coast Global Equity (inception Oct 19)	3.77	(1.43)	18.34	15.47	n/a	n/a
Border to Coast UK Equity (inception July 20)	4.96	2.92	n/a	n/a	n/a	n/a
Fixed Interest						
Blackrock	(16.92)	(17.76)	(5.72)	(6.03)	(1.92)	(2.21)
Border to Coast Investment Grade Credit (inception Feb 20)	(9.77)	(10.20)	(2.07)	(3.07)	n/a	n/a
Property/Infrastructure						
Property Unit Trusts	(18.2)	(14.49)	2.07	2.56	1.54	2.50
Property Other and Infrastructure*	(4.57)	7.00	(2.00)	7.00	(0.28)	7.00
Diversified Alternatives						
Morgan Stanley	0.82	7.85	12.00	5.48	8.68	5.25
Legacy Private Equity	1.97	7.86	3.41	5.48	7.54	5.25
Infrastructure*	13.41	6.00	9.19	6.00	n/a	n/a
Multi Asset Credit						

Border to Coast Multi Asset Credit (inception Nov 21)	(3.32)	5.80	n/a	n/a	n/a	n/a
Total	(0.77)	(0.96)	10.66	9.73	6.67	6.54

* Infrastructure performance was comingled with property returns until 1/4/2019

Top Holdings

Listed below are the top twenty holdings in the Pension Fund, including both pooled investments and direct holdings in the segregated account, as at 31 March 2023. These account for £2,923.4m and make up 95.5% of the Fund's investments.

	Market Value £m's	Proportion of Fund %
Border to Coast Global Equity Alpha Fund	763.8	25.0
Morgan Stanley Alternative Investments	466.6	15.2
Legal and General Future World Fund	463.9	15.2
Border to Coast UK Listed Equity Fund	462.1	15.1
Border to Coast Investment Grade Credit Fund	219.3	7.2
Border to Coast Multi-Asset Credit Fund	146.2	4.8
Abrdn Property Fund	66.6	2.2
Blackrock Aquila Corporate Bond Fund	61.0	2.0
Abrdn European Property Growth Fund	45.5	1.5
Blackrock Aquila Life >5 Year ILG Fund	39.2	1.3
Blackrock Property Fund	39.1	1.3
Royal London Asset Management Property Fund	25.5	0.8
Blackrock Aquila Gilts Fund	24.6	0.8
Allianz Home Equity Fund Innisfree Secondary Fund	23.5	0.8
Hearthstone Residential Property Fund	17.2	0.6
Innisfree Secondary Fund	17.1	0.6
Infracapital Greenfield Partners	16.8	0.5
Pantheon Global Infrastructure III Fund	15.2	0.5
Innisfree Continuation Fund	10.2	0.3
Innisfree Secondary Fund 2	8.9	0.3
Total	2,923.4	95.7

Investment Management Arrangements

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

Pooled Funds

Asset Class	Manager	Market value £m's	%
Fixed Interest	Blackrock	124.9	4.1
	Border to Coast	219.3	7.2
	Total Fixed Interest	344.2	11.3
UK Equities	Border to Coast	462.1	15.1
Global Equities	Border to Coast	763.8	25.0
	LGIM	463.9	15.2
	Total Equities	1,689.8	55.3
Property	Abrdn	112.1	3.7
	Allianz	23.5	0.8
	Aviva	9.3	0.3
	Blackrock	39.1	1.3
	Franklin Templeton	0.2	0.0
	Hearthstone	17.2	0.6
	Igloo	0.2	0.0
	Royal London	25.5	0.8
	Total Property	227.1	7.5
Infrastructure	Infracapital	16.8	0.5
	Innisfree	36.4	1.2
	Pantheon	15.2	0.5
	Total Infrastructure	68.4	2.2
Private Equity	Abrdn	1.7	0.1
	Capital Dynamics	0.1	0.0
	Pantheon	4.3	0.1
	Total Private Equity	6.1	0.2
Alternatives	Morgan Stanley	466.6	15.2
Multi Asset Credit	Border to Coast	146.2	4.8
Total Pooled Vehicles		**2,948.5**	**96.5**

Investment Administration and Custody

The Fund's investment managers are responsible for the administration of the assets held within their portfolios, and the Council's officers are responsible for the administration of the pooled fund investments.

The Fund's custodian at 31 March 2023 was Northern Trust, with responsibility for safeguarding the segregated assets, in addition to providing investment accounting and performance measurement services.

Funding

The Lincolnshire Pension Fund's latest triennial valuation was as at 31 March 2022. 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, which was undertaken by the Fund's previous Actuary.

	31 March 2019*	31 March 2022
Past Service Liabilities	£2.54bn	£2.99bn
Market Value of Assets	£2.35bn	£3.01bn
Surplus/(Deficit)	(£0.18bn)	£0.02bn
Funding Level	93%	101%

*Valuation undertaken by Hymans Robertson

The funding level of the Fund is monitored each quarter on a roll forward basis, and this is reported to the Pensions Committee.

Stewardship Responsibilities

The Lincolnshire Pension Fund was again successful in submitting its Stewardship Code statement for 2021/22, meeting the requirements of the Financial Reporting Council's (FRC) Stewardship Code. The FRC produced the new code in 2020 requiring more detail and examples of outcomes of stewardship. The stewardship code statement can be found on the Council's website.

The Fund encourages its external managers and service providers to produce their own statements against the FRC code and requires them to report their engagement and stewardship activity to the Fund.

The Pensions Committee believe 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 (RI) policy and Corporate Governance and Voting policy can be found on the Council's website. These policies are aligned with those of our asset pool, Border to Coast, who is responsible for implementing them across the assets that they manage for the Fund. In addition to this, the Committee have their own agreed Responsible Investment Beliefs, which were last reviewed in February 2022, and these can also be found on the shared website. Any investment decisions that the Committee make are made with consideration of these beliefs.

The Fund requests that its equity managers vote on all company holdings, wherever possible. Information on the votes cast by these managers is reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund works closely with Border to Coast and the other partner funds within the asset pool to ensure that they integrate RI into all of their investment activity. The RI Strategy 2022-2025 is set out below. Further information on the RI work that Border to Coast does can be found on their website at www.bordertocoast.org.uk.

Principle	2025 target – Border to Coast	Partner Fund Role
Integrating ESG	All relevant and material factors accounted for in risk and return decisions across all asset classes over an appropriate time horizon in both internally and externally managed portfolios. We understand our impact on the world from the decisions we make.	Long-term ESG factors are taken into account when setting strategy. Understand impact from strategic decisions. Monitor and oversee (legacy) asset managers.
Active Ownership	We engage with portfolio companies to: • Undertake research for our investment decisions • Influence their approach to risk management. • Explore systemic risks that could impact the portfolio • We will set measurable outcomes and articulate the impact of engagement on our investment decision-making over an appropriate time horizon. • We set clear voting indications for companies and public as part of our wider engagement framework.	RI policy and voting guidelines clear. LAPFF active role where applicable
Industry engagement	• Engagement on systemic risks with policymakers, regulators and standard setters to create a stable environment with clear expectations in which asset owners and portfolio companies can operate efficiently to enhance long-term portfolio returns. • We will develop the capability and capacity to co-lead on collaborations in our priority engagement themes alongside working with others as a junior partner with a strong network of collaborators on wider systemic risks.	Support industry-wide collaborations and work with Border to Coast to, per the FRC's Stewardship Code Principle 4: "identify and respond to market-wide and systemic risks to promote a well-functioning financial system".
Reporting and governance	We believe strong reporting and governance is important to: - Build public trust that we are appropriately managing public money	Transparency of approach to RI shared publicly (website, annual report & accounts, public statements).

	- Set clear external expectations to support our other aims and objectives - Enable internal oversight of our progress in delivering our RI strategy	Compliance with Stewardship Code, TCFD and other regulatory standards.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation comprising of 87 LGPS Funds and six of the LGPS asset pools. 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 at www.lapfforum.org. LAPFF engages with companies across a wide range of issues that can broadly be grouped into five engagement themes:

- Climate risk;
- Social risk;
- Governance risk;
- Reliable accounting risk; 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 risk register had a full review at the July 2022 meeting, where it was aligned to the Council's updated risk management process.

The table below highlights the key risks split across the areas of Governance, Investments and Funding, Operational, and People risks, and how they are managed.

Key risk identified:	A range of controls are in place including:
GOVERNANCE	
Failure to ensure that the Committee's knowledge and understanding of pensions related activities is robust and meets all statutory requirements.	Induction training for new Committee members. training policy and annual training plan, opportunities to attend external training sessions and conferences, self-assessment, on-line training platform run by Hymans offering bite size training on demand, regular training at Committee meetings.
Governance of asset pooling - management of relationship with Border to Coast.	Various levels of oversight including Joint Committee, officer operations group, senior officer group, a governance charter and full review undertaken in 2022/23.

INVESTMENT AND FUNDING	
Required returns not met due to poor strategic allocation and assets not enough to meet liabilities.	Professional advice, triennial actuarial review, performance monitoring, regular reporting to Pensions Committee, strategic asset allocation review undertaken in 2022/23.
Poor long term investment performance or non-compliance from managers.	Performance measurement, managers regular reports, reporting to pensions committee, diversification, manager meetings, long term timeframe, refresh the manager monitoring arrangements.
Asset pooling - transition of assets from existing mandates to Border to Coast.	Officer operations group, workstreams within Border to Coast, regular communication to Committee, senior officer meetings, use of transition managers.
Failure to meet requirements as a responsible investor - across all ESG risks (including climate change and a move to a low carbon economy).	Border to Coast assistance, managers reporting requirements, LAPFF membership, voting and corporate governance policy, RI policy, RI Beliefs, quarterly stewardship paper to Committee, UK Stewardship Code, increased focus on ESG investments.
Asset Pooling – failure in the management of the relationship with Border to Coast Pensions Partnership and/or the investment performance, as a client and a shareholder.	Joint Committee, officer operations group, senior officers' group, regular meetings with Border to Coast.
Cashflow - not enough income to meet pension payments due.	Asset allocation review to increase income generating assets when required, cashflow monitoring, work with Border to Coast on income options from their investment vehicles.
OPERATIONAL	
The administrator does not perform its functions in accordance with the agreement.	Performance Indicators, bi-monthly meetings with WYPF, internal controls and audits, collaboration agreement, process management, customer surveys, reporting to Committee and Board.
Cyber security breach.	WYPF and Bradford Council policies, LCC policies and training, external provider control reports
Employers exiting.	Admission agreement, pass-through policy, exit credit policy, bonds, covenant monitoring, employer communication, PFR roles.
Fraud risk not managed.	Separation of duties, internal and external audit, monthly reporting, reconciliation procedures, regular National Fraud Initiative reporting.

Changes in legislation not implemented correctly, currently McCloud and Pensions Dashboard.	Regular meetings with and reporting from WYPF, LCC staff appropriately qualified and aware of legal requirements, Pension Fund managed in line with statutory regulations, membership of professional networks e.g. PLSA, Pension Board oversight.
PEOPLE	
Loss of key staff and loss of knowledge and skills.	Diversified staff / team, look at other authorities with best practices to ensure LCC positions still desirable, attendance at pensions user groups, procedural notes, section meetings / appraisals, B2C and partner funds relationships, training requirements and qualifications.

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

Lincolnshire County Council's (LCC) internal audit team undertake audits across different aspects of the Fund's management and administration. The timing and frequency of their work is determined by a risk-based assessment, which is reviewed annually. LCC's internal audit team undertook one audit in 2022/23 which covered the key control testing for the Fund’s investments, and it received high assurance. The output from audits is reported to the Council's Audit Committee and brought to the Pension Board and Committee as appropriate. In addition, the internal audit team work with the internal auditors of West Yorkshire Pension Fund, from Bradford Council, to provide additional assurance over the administration function.

Assurance from the service suppliers and fund managers appointed by Lincolnshire Pension Fund is obtained thorough the receipt and monitoring of control reports – e.g. ISAE 3402 (AAF 01/06) or SSAE16/70. For 2022/23 reasonable assurance was obtained from all third-party operations.

Business Plan and Budget

The Fund's Business Plan is brought to the Pensions Committee each March for approval. The business plan sets out the Fund's objectives, the resources and budget, the key tasks for the year ahead, the key risks and a forward plan of Committee and Board meetings.

The table below shows the reviews the progress of the key tasks for the year 2022/23:

Subject	Context	2022/23 Review
Pensions Committee and Board meetings	The responsibility for the Pension Fund is delegated to the Pensions Committee, with the Pension Board providing an oversight role on the administration and governance of the Fund.	All Pension Committee and Board meetings held as expected. Committee and Board agendas were reviewed, and the structure of the meetings changed for 23/24 to make them more fit for purpose.

Asset Pooling with Border to Coast	Border to Coast Pensions Partnership has been created to meet the Government's investment reform criteria. In accordance with regulations and statutory guidance, assets should transition to the management of Border to Coast as appropriate vehicles become available.	Oversight meetings held at officer, S151 and Joint Committee levels. Continued development on the property funds.
Alternative Investments	The alternative investments are currently managed in a discretionary mandate by Morgan Stanley. Border to Coast offer a number of alternative funds covering private equity, private credit and infrastructure. A decision needs to be made on whether this should transition to Border to Coast.	Decision made on the alternative investments to retain Morgan Stanley for the medium term.
Administration Service (including employer data quality)	A good performing administration service is key to our stakeholders and for ensuring the quality of information held is appropriate for calculating benefits and liabilities.	Strong KPI figures generally throughout the year and positive customer survey responses, as reported to Committee and Board each quarter. Work undertaken to look at the options for the administration service as the shared service arrangement comes to the end of its term in March 2024, with a recommendation brought to the March 2023 Committee.
Annual Report and Accounting	The Fund is required to produce an Annual Report and Accounts document and ensure the financial statements are accepted as a true and fair view by auditors.	Delayed receipt of external audit opinion due to an issue with the Council's accounts meant Pension Fund accounts were published by 1 December without the opinion, but with an unqualified opinion expected. The accounts opinion has yet to be received.

Responsible Investment (RI)	There is continued focus on how LGPS Funds can best address and manage RI issues such as environmental, social and governance matter (ESG).	The Committee received regular updates and information on RI activity undertaken by managers. The Stewardship Code submission was made to the FRC in October 2022 for the financial year to 31 March 2022 and was successful. Work continued with external managers and Border to Coast to ensure that RI is embedded across all investment decisions.
Work by the Scheme Advisory Board (SAB)	The SAB have a number of projects underway to improve the management /governance of LGPS Funds.	Unfortunately, the Good Governance project was delayed. The Fund responded to any requests from SAB throughout the year.
Employer Accounting	Employers within the Fund require pensions accounting information at various times of the year, for inclusion in their statutory accounts.	All employers received appropriate accounting reports as required.
Staffing and Structure Review	The workloads and requirements of the team have expanded considerably over the last few years, therefore a review of the current staffing and structure is required to ensure it is fit for purpose.	Following the workload review in 2022, a new post was agreed for a Principal Investment, Accounting and Governance Officer. Unfortunately, the recruitment to this post was unsuccessful, so a career grade post has been identified to grow someone into the role.
Triennial Valuation	The three yearly valuation of the Pension Fund's assets and liabilities is as of 31 March 2022. This will set the employer rates for the three years from to 1 April 2023.	The Triennial Valuation process went as planned, with good quality data submitted on time, and employers receiving and accepting their new contribution rates – all employers returned signed declarations. The updated Funding Strategy Statement was taken to the March Pensions Committee, following consultation with employers.

The budget and actual expenditure for operating the Lincolnshire Pension Fund for 2022/23 are set out in the table below. They are split between Administration Costs, Investment Management Expenses and Oversight and Governance Costs.

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

	Original Budget 2022/23 £000	Actuals 2022/23 £000	Variance £000
Administration Costs			
Charge from Shared Service Administrator	1,287	1,385	98
Other	1	1	0
Investment Management Expenses			
Management Fees	9,500	8,391	(1,109)
Performance Related Fees	1,500	1,889	389
Other Fees	1,000	1,165	165
Oversight and Governance Costs			
Contracted Services	450	416	(34)
Recharge of Actuarial Services	(160)	(94)	66
Recharge from Administering Authority (incl. staff costs	258	267	9
Border to Coast Governance Costs	315	304	(11)
Other Costs	30	21	(9)
Total	14,181	13,745	(436)

At the end of the year, variances between the original budget and actual expenditure included:

- **Administration Costs:** At the end of the financial year the charge for the administration service from West Yorkshire Pension Fund is reviewed and updated to reflect the actual number of members and the annual charge per member. The actual cost for 2022/23 was £16.72 per member. The cost per member was lower than originally charged to the Fund (£17.67 per member), but the overall charge increased due to increased member numbers. The cost included additional system development costs for the McCloud remedy, and further costs associated with the McCloud remedy will be charged to the Fund in future years.

- **Investment Management Expenses:** Investment management fees are lower than the original budget as the Fund has moved more assets into Border to Coast where fees are lower than with previous managers. In addition, the fee with the private markets manager was renegotiated, which reduced costs further. Performance related fees are mainly paid to the Private Markets manager, where the higher spend reflected the positive performance. This element is very hard to predict as it varies year on year. The other fees element increased due to the transaction costs involved in transitioning assets between managers.
- **Oversight and Governance Costs:** Costs relating to contracted services were lower than originally budgeted for as the cost of the actuarial work was lower than expected, but less of the work was recharged to employers as it related to the triennial valuation.

Employer Contribution Rates

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	231	15	246
Admitted Body	25	26	51
Total	256	41	297

The employers' contribution rates (including deficit cash or percentage of payroll amounts where applicable) applying in the year ended 31 March 2023, for all employers are set out below, alongside actual cash contributions received from both the employer and the employees for each body.

Scheduled and Admitted Bodies Contributing to the Fund as at 31 March 2023:

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
SCHEDULED BODIES				
County and District Councils				
LCC (non-Schools)	17.5%	£10,890k	33,090	10,609
LCC (Schools)	17.5%	9.4%	13,073	459
Boston Borough Council	17.7%	£745k	1,783	389
City of Lincoln Council	17.3%	£2,147k	5,084	1,094
East Lindsey District Council	17.5%	£1,067k	2,942	704
North Kesteven District Council	17.6%	£1,010k	3,161	813
South Holland District Council	17.4%	£894k	2,405	590
South Kesteven District Council	17.5%	£1,566k	4,145	953
West Lindsey District Council	17.2%*	£1,119k	2,397	559
Internal Drainage Boards				
Black Sluice Internal	18.2%*	£66k	220	66
Lindsey Marsh Internal	18.5%*	£30k	345	137
North East Lindsey Internal	20.7%	£1k	11	3
South Holland Internal	19.3%	9.4% + £150k	254	24
Upper Witham Internal	19.7%	£54k	130	27
Welland and Deeping Internal	19.2%	£118k	275	57
Witham First Internal	20.5%	-1.2%	56	20
Witham Fourth Internal	19.4%	£80k	275	69
Witham Third Internal	18.9%	£27k	195	67
Parish and Town Councils				
Nettleham Parish Council	21.1%	1.4%	8	2
Ingoldmells Parish Council	21.1%	1.4%	4	1
Sleaford Town Council	21.1%	1.4%	66	18
Crowland Parish Council	21.1%	1.4%	2	-
Sudbrooke Parish Council	21.1%	1.4%	2	-
Cherry Willingham Parish Council	21.1%	1.4%	5	1
Horncastle Town Council	21.1%	1.4%	22	6
Skegness Town Council	21.1%	1.4%	67	18
Washingborough Parish Council	21.1%	1.4%	13	4
Deeping St James Parish Council	21.1%	1.4%	14	4
Stamford Town Council	21.1%	1.4%	36	10

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
North Hykeham Town Council	21.1%	1.4%	15	4
Louth Town Council	21.1%	1.4%	16	4
Mablethorpe & Sutton Town Council	21.1%	1.4%	25	9
Bourne Town Council	21.1%*	1.4%	21	6
Market Deeping Town Council	21.1%	1.4%	11	3
Skellingthorpe Parish Council	21.1%	1.4%	8	2
Woodhall Spa Parish Council	21.1%	1.4%	7	2
Gainsborough Town Council	21.1%	1.4%	32	9
Welton-by-Lincoln Parish Council	21.1%	1.4%	8	2
Greetwell Parish Council	21.1%	1.4%	1	-
Billinghay Parish Council	21.1%	1.4%	4	1
Bracebridge Heath Parish Council	21.1%	1.4%	13	3
Gedney Parish Council	21.1%	1.4%	5	1
Sutton Bridge Parish Council	21.1%	1.4%	8	2
Pinchbeck Parish Council	21.1%	1.4%	7	2
Thorpe On The Hill Parish Council	21.1%	1.4%	3	1
Langworth Parish Council	21.1%	1.4%	2	1
Scotter Parish Council	21.1%	1.4%	3	1
Fiskerton Parish Council	21.1%	1.4%	1	-
North Thoresby Parish Council (joined 01/05/2022)	21.1%	1.4%	3	1
Further Education Establishments				
Bishop Grosseteste University	23.5%*	£76k	1,006	272
Boston College	23.8%	-	974	244
Grantham College	23.8%	£44k	696	175
Lincoln College	24.5%	£278k	1,200	225
Other Scheduled Bodies				
Acorn Free School Ltd	19.5%	-3.0%	37	11
Public Sector Partnership Services Ltd	19.9%	£96k	1,445	439
Police Chief Constable and Police & Crime Commissioner (pooled rates also with Mitie)	17.5%	-1.2% & £1,874k	6,565	1,883
ACADEMIES				
Aegir Specialist Academy	21.0%	£39k	183	41
Alford Queen Elizabeth Selective Academy	21.2%*	-	97	29
All Saints Academy Waddington	21.1%	£9k	100	24
Anthem Schools Trust Central (joined 01/02/2022)	20.2%	20.2%	31	10
Aspire Schools Trust (joined 01/10/2022)	22.9%	-	2	1
Bassingham Primary School	22.0%	£8k	45	10
Beacon Primary Academy	19.1%	-	59	18
Bingham Primary Academy	19.9%	See Ambergate	13	4
Boston Grammar School	20.1%	£8k	158	44
Boston High School	21.2%*	£30k	173	44
Boston St Mary's RC Primary Academy	20.3%	£4k	58	15
Boston West Academy	21.0%	-1.8%	86	25
Bourne Abbey C of E Academy	20.9%	£10k	355	97
Bourne Academy	21.1%	£14k	327	95
Bourne Grammar	21.3%	£31k	248	65
Bracebridge Infant and Nursery School	20.7%	£2k	35	9
Branston C of E Infants School	20.8%	£2k	32	8
Branston Community Academy	20.9%	-	267	73

Employer	Primary Rate %	Secondary Rate (% or £k)	Contributions received Employer (£k)	Employee (£k)
Branston Junior Academy	21.9%	£14k	52	10
Browns Church of England Primary School	21.9%	£3k	34	8
Caistor Grammar	21.0%*	-	129	32
Caistor Yarborough Academy	20.0%	£3k	138	39
Carlton Academy	19.8%	£4k	138	40
Caythorpe Primary	19.9%	See Ambergate	34	10
Chapel St Leonards Primary School	19.9%	See Ambergate	59	18
Cherry Willingham Primary School	20.3%	-	45	12
David Ross Educational Trust	20.4%	£118k	758	183
Donington Thomas Cowley High School	20.8%	£19k	191	51
Eastfield Infant and Nursery School (Academy)	19.4%	See Springwell	104	31
Edenham Church of England School	21.8%	£6k	24	5
Ermine Primary Academy	20.3%	£10k	157	42
Fosse Way Academy	20.7%	-	156	42
Foxfields Academy (joined CIT pool 01/04/2021)	19.9%	See Ambergate	96	29
Friskney All Saints CofE (Aided) Primary Academy	22.3%	£1k	40	9
Frithville Primary School	20.2%*	See Banovallum	17	5
Gainsborough Benjamin Adlard Community School	20.4%	-1.8%	91	28
Gainsborough Hillcrest Early Years Academy	19.4%	£12k	100	26
Gainsborough Parish Church Academy	20.3%	£12k	104	26
Gedney Church End Primary Academy (joined 01/09/2021)	22.4%*	-	29	8
Giles Academy	19.5%	£7k	125	35
Gipsey Bridge Academy	20.9%	£4k	26	6
Gosberton House Academy	18.9%	£22k	137	36
Grantham Ambergate School	19.9%	£271k	546	88
Grantham Huntingtower Primary Academy	20.3%	-	129	36
Grantham Isaac Newton Primary School	19.9%	See Ambergate	116	33
Grantham Kings School	21.6%*	£2k	181	55
Grantham National CofE Junior School	20.6%*	£18k	85	20
Grantham Sandon School	19.9%	See Ambergate	141	41
Grantham Walton Girls	21.2%	£10k	178	46
Greenfields Academy	19.9%	See Ambergate	79	23
Harbour Learning Trust – Central Office	21.2%	-	37	13
Harrowby Church of England Infant School	20.6%*	£2k	21	5
Hartsholme Academy	17.8%	£10k	80	22
Heighington Millfield Primary Academy	20.3%	-	70	20
Holbeach Academy	20.4%	£12k	121	31
Holbeach Bank Academy	20.7%	£2k	29	7
Holy Trinity Church of England Primary	21.2%	£6k	31	7
Horncastle Banovallum	20.2%*	£70k	165	30
Horncastle Community Primary Academy (joined 01/09/2021)	19.4%	£1k	100	29
Horncastle Education Trust (Head Office)	20.2%*	See Banovallum	191	67
Horncastle Queen Elizabeth Grammar School	20.2%*	See Banovallum	45	15
Huttoft Primary School	19.7% / 20.2%	See Banovallum	47	13

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
Infinity Academies Trust (Joined 01/10/2021)	20.1%	-	32	12
John Spendluffe Technology College	20.7%	£21k	233	60
Keelby Primary Academy	21.4%	£14k	65	13
Kesteven & Sleaford High School Selective Academy	21.2%*	£18k	152	41
Kesteven and Grantham Academy	21.4%	£35k	269	64
Keystone Academy Trust	21.2%*	£3k	217	64
King Edward VI Grammar School (Louth)	21.3%	£58k	222	47
Kirkby La Thorpe	20.0%	£2k	40	10
Lacey Gardens Junior School (Academy)	19.4%	See Springwell	114	34
Leadenham Primary Academy	19.6%	-	14	3
Linchfield Community Primary School	19.9%	See Ambergate	95	27
Lincoln Anglican Academy Trust	17.7%	-1.3%	170	82
Lincoln Castle Academy	21.1%	£20k	135	29
Lincoln Christs Hospital School (Academy)	21.2%	£35k	328	84
Lincoln Manor Leas Infants School	21.0%	-	40	10
Lincoln Our Lady of Lincoln Catholic Primary School	20.6%	-	52	14
Lincoln St Giles Academy	19.5%	£30k	138	32
Lincoln St Hugh's Catholic Primary School	21.5%	£7k	91	22
Lincoln UTC	18.7%	£7k	70	28
Lincoln Westgate Academy	20.5%	£3k	95	26
Little Gonerby Church of England Infants School	21.2%	£3k	65	17
Long Bennington Church of England Academy	21.6%*	£10k	73	18
Long Sutton Primary School	24.8%*	£13k	161	36
Louth Academy	20.5%	£45k	173	36
Louth Kidgate Academy	19.6%	£12k	115	30
Lutton St. Nicholas Primary Academy	22.6%*	-	40	11
Mablethorpe Primary Academy	20.8%	£14k	124	31
Manor Farm Academy	18.7%	-	43	13
Manor Leas Junior	21.3%	£7k	56	13
Market Rasen De Aston School (Academy)	20.7%	-	225	65
Morton Church of England Primary School	21.0%	£12k	63	14
Mount Street Academy	20.2%	£10k	107	27
Nettleham Infants School	19.9%	£12k	63	15
New York Primary School	20.2%*	See Banovallum	29	9
North Hykeham Ling Moor Academy	20.3%	-	102	28
North Kesteven School	21.6%*	£62k	216	47
North Thoresby Primary School	20.6%	-	26	7
Pinchbeck East CofE Primary Academy (joined 01/03/2021)	22.8%	£4k	99	24
Poplar Farm School	19.9%	See Ambergate	86	24
Priory Federation of Academies	20.3%	-	1,413	413
Rauceby Church of England Primary School	22.2%	£6k	51	12
Redwood Primary School	20.3%	-	68	19
Ruskington Chestnut Street C of E Primary School	20.6%	£24k	85	16
Scothern Ellison Boulters Church of England Academy	20.3%	£2k	72	19

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
Seathorne Primary Academy	24.6%	£17k	129	26
Sir Robert Pattinson Academy	20.6%	£26k	272	71
Skegness Academy	20.0%	£16k	360	105
Sleaford Carres Grammar School (Academy)	21.2%*	£38k	226	59
Sleaford Our Lady of Good Counsel	19.9%	-2.0%	34	10
Sleaford St Georges Academy	20.9%	-	457	130
Sleaford William Alvey	20.4%	£2k	146	40
Somercotes Academy	18.7%	£29k	113	25
South Witham Academy	21.5%*	£8k	21	4
Spalding Grammar School	21.1%	£29k	188	46
Spalding Parish C of E Day School	24.6%	£11k	161	35
Spalding Primary Academy	21.7%	£6k	113	29
Spalding Sir John Gleed School	21.7%	£66k	336	74
Spilsby Primary School	21.2%	£26	118	25
Springwell City Academy	19.4%	£39k	394	108
St Bernards School (Louth)	19.7%	£58k	264	60
St Lawrence School (Horncastle)	19.3%	£29k	204	53
St Mary's Catholic Primary Voluntary Academy Grantham	21.2%	£7k	72	17
St Michaels Church of England Primary School	20.1%	£15k	88	21
St Nicholas Primary Academy, Boston	25.5%	£7k	75	15
St Norberts Catholic Primary School (Academy)	20.5%	£3k	48	12
St Paul Community Primary School	19.9%	See Ambergate	72	21
St Peter and St Paul Catholic Voluntary Academy	20.8%	£13k	157	40
St Thomas C E Primary Academy	20.1%	£15k	115	29
St. John's Primary Academy	21.1%	£14k	133	33
Stamford Malcolm Sargent Primary	20.8%	-	246	67
Stamford St Augustines	20.1%	£2k	46	12
Stamford St Gilberts Church of England Primary School	21.0%	£11k	78	18
Stamford The Bluecoat School	21.9%	£5k	90	22
Surfleet Seas End Primary Academy	22.8%*	£1k	27	7
Tall Oaks Academy Trust	20.3%	£11k	245	67
The Deepings Academy	21.1%	-1.4%	268	83
The Gainsborough Academy	20.5%	-	106	31
The Garth School, Spalding	19.9%	See Ambergate	45	13
The Ingoldmells Academy	20.1%	£2k	54	14
The John Fielding Special School, Boston	19.9%	See Ambergate	199	57
The Marton Academy	21.4%	£6k	30	6
The Priory Pembroke	20.3%	-	132	37
The Priory School, Spalding	19.9%	See Ambergate	57	17
The Skegness Infant Academy	20.4%	£12k	106	26
The Skegness Junior Academy	20.9%	£7k	114	30
Theddlethorpe Primary School	21.2%	£3k	41	10
Thurlby Community Primary School	23.8%*	£1k	46	11
Tower Road Academy (Primary)	20.3%*	£5k	157	46
Tulip Academy	19.9%	See Ambergate	160	46
University Academy Holbeach	20.9%	£41k	370	98

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
University Academy Long Sutton	20.7%	£22k	183	47
Utterby Primary School	21.7%	£2k	27	6
Voyage Education Partnership	19.4%	£29k	1,019	310
Wainfleet Magdalene C of E Academy	20.6%	£14k	87	20
Warren Wood Specialist Academy	20.5%	£26k	140	31
Washingborough Academy	21.0%	£6k	87	23
Welbourn Sir William Robertson Academy	21.0%	£21k	245	65
Welland Academy, Stamford	21.7%	-1.1%	122	35
Welton St Marys Church of England Primary Academy	21.3%	£6k	73	18
Welton William Farr CE Comprehensive School	21.4%	£36k	337	80
West Grantham Federation	20.2%	£15k	275	77
Weston St Marys Primary School	20.2%	£1k	7	2
Whaplode Drove C of E Primary School	20.6%	£6k	45	11
William Lovell Church of England Academy	21.0%	£29k	109	22
Willoughby School	20.3%	-	222	64
Witham St Hughs Academy	20.3%	£2k	93	26
Woodhall Spa St Andrews Church of England Academy	20.4%	£1k	84	23
Woodlands Academy	19.9%	See Ambergate	94	28
Wyberton Primary Academy	20.0%	£12k	75	18
ADMITTED BODIES				
Active Lincolnshire	21.6%	-	6	2
Active Nation	33.1%	-	7	1
Adults Supporting Adults	31.1%	-2.0%	5	1
Balfour Beatty	17.5%	9.4%	128	32
Carlton Cleaning (Kidgate Academy)	19.6%	-	2	1
Caterlink - DRET (joined 01/04/2022)	31.6%	-	14	2
Caterlink (South Witham) (left Fund 29/09/2022 – contributions are refund)	32.0%	-	-8	-
Caterlink (Walton Girls High School)	28.8%	-	10	2
Danfo UK Ltd	30.3%	-	6	1
Easy Clean Contractors (Linchfield)	31.7%	-	2	-
Edwards and Blake Ltd	32.7%	£5k	18	2
Future Cleaning Services	32.8%	-	3	1
GLL	17.5%	9.4%	386	88
Independent Cleaning Services (Caistor Grammar)	26.1%	-	2	-
Lincolnshire Housing Partnership	29.7%	£143k	217	23
Lincolnshire Road Car Company Ltd. (Stagecoach)	17.3%	-	4	1
Magna Vitae Leisure Trust	21.1%	-4.6%	170	71
Mellors Catering Services (left Fund 31/08/2022)	25.7%	£1k	2	-
Mellors Catering (Lincoln Castle)	21.1%	-	3	1
Mitie (Lincolnshire Police) (joined April 2022)	16.3%	-	64	25
Nightingale Cleaning Limited	32.3%	-	2	-
Outspoken Training	35.5%	-	2	-
Platform Housing Group	28.2%	£392k	578	43
Reef Cleaning (Bourne Academy) (joined April 2022)	25.0%	-	3	1

Employer	Primary Rate	Secondary Rate	Contributions received	
	%	(% or £k)	Employer (£k)	Employee (£k)
SERCO	17.5%	9.4%	619	151
Taylor Shaw (Branston Academy)	33.9%	-	8	1
Vertas (Walton Academy) (joined May 2022)	19.8%	-	23	7
Vinci Construction UK Limited	35.2%	-	13	2

* indicates employer has ill health insurance with Legal and General therefore the actual rate paid is reduced by 1.75% for the insurance premium

Contribution payments are paid by the employers directly into the Lincolnshire Pension Fund bank account, and monthly data submissions are sent to the Fund's administrator, WYPF, through a secure portal.

The timely receipt of contribution payments and data submissions is monitored closely. Late submissions (either in paying cash or in submitting data after the Funds deadline of the 19 of the month following payroll, or where the two elements do not agree) are reported quarterly to both the Pensions Committee and the Pension Board.

A policy is in place to fine employers where they are late in three of any six months over a rolling period to cover additional administrative costs. However, the Fund and its administrator work closely with employers to ensure that employers understand their responsibilities and the processes required to meet them. Over the year to 31 March 2023 there were eight fines raised to employers (one in 2021/22). The Fund has not opted to levy interest on overdue contributions.

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).

New guidance from the Department of Levelling Up, Housing and Communities (DLUHC) has been awaited since a consultation in 2019 but has still not been received. It is now expected to be issued for further consultation in 2023/24.

Lincolnshire Pension Fund's Solution

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

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

The new entity was created by the partner funds, with experts appointed to ensure the structure would meet the needs of the Funds, the requirements of the Financial Conduct Authority (FCA) and the criteria set by Government.

Border to Coast Pensions Partnership

Border to Coast Pensions Partnership Ltd (Border to Coast) went live in July 2018 as a fully regulated asset management company, jointly owned by eleven partner funds' administering authorities, with each Fund having an equal share in the company. Border to Coast's role is to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions.

Border to Coast is based in Leeds and has 138 employees. This includes a large team to directly manage assets, alongside a team to select external managers. As an FCA regulated company, Border to Coast must comply with the same requirements as any other asset manager and is subject to company legislation. At the end of March 2023, Border to Coast had £28.3bn under management across nine collective investment vehicles, and £12bn of Private Market commitments from partner funds.

Oversight and Governance

Border to Coast has eleven LGPS partner funds – Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire. The Chairs of the Pensions Committees of these funds sit on a Joint Committee to exercise oversight of the investment performance of the company and report back to, and take feedback from, the various Pensions Committees. In addition, there is a scheme member representative that has a non-voting seat on the Joint Committee, who is nominated by the eleven Partner Funds' Local Pension Boards. The Joint Committee represents the Funds as investors in Border to Coast. As Border to Coast 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 Border to Coast to ensure that the company provides the investment vehicles the funds need to implement their investment strategies.

Asset Transitions

As at 31 March 2023, the Lincolnshire Fund had transitioned assets into four sub-funds.

The first transition took place in October 2019, when approximately £420m was transferred from three global equity managers (Columbia Threadneedle, Morgan Stanley and Schroders) to the Border to Coast Global Equity Alpha sub-fund. In February 2020, the second wave of assets was transitioned, with approximately £190m transferring from a passive bond portfolio managed by Blackrock to the Border to Coast Investment Grade Credit sub-fund.

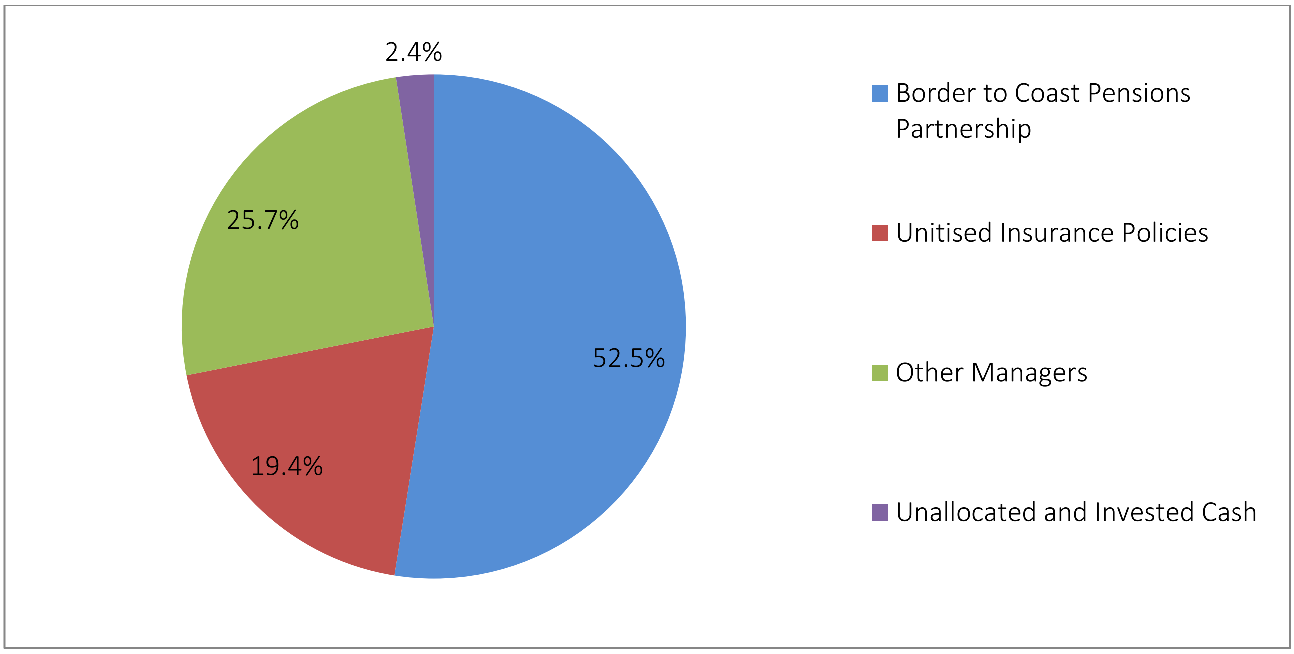
In July 2020, approximately £380m was transferred from a passive UK equity mandate managed by Legal and General into the Border to Coast UK Equity sub-fund. In February 2021, an additional investment of approximately £196m was made into the Global Equity Alpha sub-fund, following the termination of Invesco's global equity mandate.

In October 2021, the Fund transitioned its multi asset credit assets from PIMCO to the Border to Coast Multi Asset Credit sub-fund, with additional investment through redeeming the overweight positions in Global Equity Alpha and the UK Equity funds.

Work continues on the property solutions.

The chart and table below show the proportion of the Fund that has now been invested into Border to Coast vehicles as at 31 March 2023, at 52.5%. This compares to 51.6% invested at 31 March 2022, and shows the positive direction of travel. Further detail on this can be found in the Accounts section of this report at note 12C.

Asset Class	Market Value £m	%
Border to Coast Pensions Partnership	1,591.4	52.5
Unitised Insurance Policies	588.8	19.4
Other Managers	780.5	25.7
Unallocated and Invested Cash	73.0	2.4
Net Investment Assets	3,033.7	100.0



Assets under management, costs and savings prior to 2018/19 are shown as a cumulative value, as Border to Coast Pensions Partnership went live in July 2018.

Border to Coast Assets Under Management (AUM) for Lincolnshire Pension Fund	Cumulative to 2018/19	2019/20	2020/21	2021/22	2022/23
Border to Coast (£m)	0	525	1,350	1,564	1,591
Passive/Other (not to be pooled) (£m)	574	585	564	614	589
Other (£m)	1,770	1,092	833	875	854
Total AUM £m	2,344	2,202	2,748	3,053	3,034
Border to Coast	0%	24%	49%	51%	52%
Passive / Other (not to be pooled)	24%	27%	21%	20%	19%
Other	76%	49%	30%	29%	28%
Total AUM %	100%	100%	100%	100%	100%

Total pooled assets

Total assets pooled in line with the Government Directive, which includes assets not directly managed by Border to Coast but also passive funds with a manager where fees have been negotiated by the pool, stood at **£2,055.3m or 67.3%**. This includes all assets managed in Border to Coast funds and the investment with LGIM.

Assets not managed directly by Border to Coast

There are four areas that are currently not managed by Border to Coast, as set out below, with the reasons as to why they have not been transitioned at this time.

Passive Bonds – managed by Blackrock (5% allocation)

As these are passively managed, there is no suitable product available within Border to Coast. However, a decision was made as part of the strategic asset allocation review in March 2023 to sell out of this position and to invest the proceeds into the Border to Coast Sterling Investment Grade Fund. This transaction was undertaken in April 2023.

Passive Equities – managed by LGIM (15% allocation)

As these are passively managed, there is no suitable product available within Border to Coast. Border to Coast negotiated a pool rate for this investment, therefore it is included under the total pooled asset figure.

Property – managed across a number of funds (10.5% allocation)

Border to Coast are still developing their property offerings for global and UK property. Once these are available, investments will be made and transition of legacy assets will take place where appropriate.

Alternatives – managed by Morgan Stanley (14% allocation)

A decision was made by the Pensions Committee at its meeting in June 2022 to retain Morgan Stanley for the management of the private markets investments for the medium term. This was due to a number of reasons:

- The holistic approach Morgan Stanley offered in managing all cash-flows and administration within the private markets allocation, currently unavailable with Border to Coast.
- The ability for the Fund to direct the focus of investments made, rather than it being reached by consensus across the eleven partner funds at Border to Coast.
- Higher expected returns than Border to Coast funds.
- Access to smaller/mid-sized areas of the market that Border to Coast are unable to access due to their larger commitment size.

In agreeing to retain Morgan Stanley, a fee reduction was agreed and the mandate tilted to be more private market focused than originally set-up, with an expectation that 50% of new investments would be targeted to positive social/environmental impact, with no negative impact on potential returns.

Legacy Infrastructure – managed across a number of funds (2.5% allocation)

These are closed ended vehicles that were invested in prior to Border to Coast's vehicles being available. New infrastructure investments are made through Morgan Stanley's private market allocation.

Border to Coast costs and savings for Lincolnshire

Border to Coast have worked with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting against this key metric going forward. This supports one of the original objectives of pooling, i.e. to reduce costs and deliver value for money.

Savings from future launches are not included and the level of savings should grow as we develop and include other funds.

The table below details the net savings to date.

Border to Coast Costs and Savings	Cumulative to 18/19 Actual £m	2019/20 Actual £m	2020/21 Actual £m	2021/22 Actual £m	2022/23 Actual £m
Implementation Costs – pre-incorporation	0.19	-	-		
Implementation Costs – post-incorporation	0.24	-	-		
Share Purchase/Subscription	0.83	-	0.35		
Share Purchase/Subscription (adj.)	-	-	-		
Governance Costs	0.17	0.19	0.23	0.30	0.30
Development Costs	0.01	0.06	0.05	0.07	0.04
Project Costs	-	0.09	0.14	0.18	0.20
Total Set-up and Operating Costs	1.44	0.34	0.78	0.55	0.54
Transition Costs	-	0.42	(0.01)	0.03	0.0
Fee savings due to pooling	0.06	0.05	0.21	0.10	-
Fee Savings – Private Markets	-	-	-	-	-
Fee Savings – Public Markets	-	0.35	0.91	1.40	1.56
Fee Savings – Public Markets (add. costs)	-	-	(0.06)	(0.05)	(0.06)
Fee Savings – Real Estate UK	-	-	-	-	
Fee Savings – Real Estate Global	-	-	-	-	
One Offs (Crossing deals)	-	-	3.28	-	
Other Savings	-	-	-	-	
Total Fee Savings	0.06	0.40	4.34	1.44	1.85
Net Position	(1.38)	(0.36)	3.57	0.87	0.96
Cumulative Net Position	(1.38)	(1.74)	1.82	2.69	3.65

Border to Coast contact details:

Border to Coast Pensions Partnership
5th Floor, Toronto Square, Leeds, LS1 2HJ

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

Annual Report of the LGPS Local Pension Board 2022/2023

Introduction

I am pleased to present the report of the Local Pension Board of Lincolnshire County Council (LCC) for the year 2022/2023.

Pension Boards were introduced into 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 Pensions 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; and
- 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
- **Two Employer Representatives** (both voting)
  Councillor Mark Whittington (Lincolnshire County Council)
  Gerry Tawton (Boston College)
- **Two Member Representatives** (both voting)
  David Vickers
  Kim Cammack

Four meetings were held within the period – 14 July, 22 September and 1 December 2022, and 16 March 2023.

All the Board Members have completed the Pension Regulator's Public Service toolkit. In addition, Board Members have either completed, or part completed, the six modules of the Hymans LGPS Online Learning Academy. Board Members have also attended a variety of externally organised conferences and seminars throughout the year as well as internal training sessions on Asset Classes, Shared Service Administration and Investment Strategy.

The Work Programme

The Board has an annual work programme. At each of the four meetings, the Board considered several standard reports, including:

Service Provision – a report from WYPF on current administration issues within the Lincolnshire Pension Fund. The Key Performance Indicators (KPIs) are an important consideration. Throughout the year, the Board has been comfortable with the performance of WYPF and most of the KPIs have been in the 95% range.

At alternative meetings during the year, the representative from WYPF was questioned on the data scores as reported to the Pensions Regulator (TPR). At the December 2022 meeting the reported scores were Common data 95.97% and Scheme Specific data 86.04%. Both scores showed only marginal changes to those recorded six months previously. The target is 100%, particularly for Common data. At the December meeting, the PB received a further update from WYPF on the data scores for the improvement plan. Much of the missing data is historic and therefore currently it is not reported in the data fields. The pensions team face immense pressure in actioning this work alongside the work relating to the McCloud ruling. WYPF is expecting a significant improvement in the Scheme Specific scores in 2023. The PB will continue to monitor WYPF's progress against the data improvement plan.

The Board also noted that around 99% of the Annual Benefit Statements had been issued to members by the statutory deadline. This was considered to be an excellent achievement. However, the Board expressed continuing concern at the apparent low number of members who had accessed the statements. WYPF stated that a report was being developed to identify the number of scheme members viewing annual benefit statements.

At the December meeting, the PB received a comprehensive presentation on services to members approaching retirement. Although there was a view that the letters sent to members could be simplified and made clearer, the PB concluded that WYPF offers a good service for members approaching retirement.

The PB also received a report and presentation on "Freedom and choice, pension scams and transfers". The PB obtained comfort that WYPF was on top of these issues and acting appropriately. The PB members undertook to study TPR's latest module on transfer scams as part of their own training needs.

Although there is a concern over meeting the TPR's targets on data quality, overall, the Board's conclusion was that the administration of the scheme continues to be sound.

Employer monthly submissions and contribution monitoring – at each meeting, the Board considered a report from the Head of Pensions on any current issues within the fund including investment matters and the employers' monthly submissions and contribution monitoring. As regards the latter, for the vast majority of employers, the payment of contributions and the data submissions are made on a timely basis but there are a few outliers. During the year, there were 37 cases of the late payment of contributions (approx. 3,300 received in the year) and 68 cases of the late submission of monthly returns (approx. 2,200 received in the year). This is both disappointing and unacceptable but there is a recognition that it is important to work with the employers to attempt to resolve issues before taking further action. Even so, during the financial year, eight fines were issued. Efforts will therefore continue to remind employers/payroll providers of their duties and responsibilities through individual contacts either in person, by email or telephone. The Board will keep this issue under close review.

Annual Report & Accounts and External Audit - At the July meeting, consideration was given to the Pension Fund's draft Annual Report & Accounts for 2021/2022. A progress report on the external audit work outstanding and findings from the work completed was considered at the September meeting. Staffing issues were cited by Mazars as contributing to the delay in the sign off of the Accounts. At the December meeting, the PB was informed that the external auditor was expected to give an unqualified audit opinion on the Pension Fund Statement of Accounts. This was however delayed because of national issues impacting the Council's accounts, which have to be signed off in conjunction with the Pension Fund Accounts, on the treatment of infrastructure and the impact of triennial valuations being completed ahead of the accounts sign off. The Board congratulated the Head of Pensions on producing an excellent document. At the time of writing this report, the Council's accounts, and therefore the Pension Fund Accounts, were still awaiting sign-off.

There is still a concern that the low level of audit fees for the external audit might compromise the quality of the audit. Discussions continue at national level to try and improve both the quality and speed of the external audit provision for public sector organisations generally.

Internal audit activity - the Board reviewed an exempt report by Bradford Council's Internal Audit Team on the internal audit of several aspects of the pensions service, including Shared Service Partner Administration and New Pensions and Lump Sums for deferred members. Both topics received a good rating. There were a few recommendations which management accepted and have been actioned. In addition, LCC's Internal Audit Team had undertaken two reviews, the first covering various aspects of the pensions administration service and the second covered Key Control Testing. The overall conclusion of the review was that LCC's Internal Audit Team continue to be able to place reliance on robust nature of the audits completed by Bradford's Internal Audit Team and therefore provided a high assurance opinion.

The pension regulator's code of practice - Lincolnshire's compliance to the Code is regarded as a very important report.

The eleven elements of the Code are:

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; and

k) Scheme advisory board.

A checklist of 99 items covering the above was produced in a traffic lights format. It is pleasing to report that Lincolnshire was largely compliant throughout the year. As at March 2023, there were 94 green and one not relevant. There were four partially compliant – one related to knowledge and understanding. Whilst all Board members have completed this training, two new members had recently been appointed to the Pensions Committee and they have a period of six months to complete their training. The other three related to certain aspects which are outside direct control. The Board considered that the compliance to tPR's Code was very good.

Conclusion

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 2021/2022 was an excellent document and there was an unqualified audit report. The Board will continue to monitor various national initiatives if any proposals unfold.

The Board would like to express its thanks to Jo Kempton, Head of Pensions, her Team and the staff of 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. In particular, I would like to thank Gerry Tawton who retires in July at the end of his four year term, for his substantial contribution and support.

Roger Buttery
Pension Board Chair
May 2023

Any questions regarding the Pensions Board or its work can be addressed through the Head of Pensions.

Jo Kempton, Head of Pensions
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
Tel: 01522 553656 | email: jo.kempton@lincolnshire.gov.uk

Information on Board membership and meetings can be found on the Council's website:
http://lincolnshire.moderngov.co.uk

Investment Background

Returns for Major Markets

The twelve months to 31 March 2023 produced a range of returns across the asset classes.

Equity market returns were mixed, with the laggard being Emerging Markets at a negative 3.9% and European (ex UK) Equities leading the pack at 8.5%.

Bond asset returns were all negative, ranging from -10.6% to -26.7%.

UK Commercial Property also suffered, with returns of -26.4%.

Investment Returns to 1 April 2022 to 31 March 2023

The table below shows index returns that investors could have achieved, based in sterling.

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	2.9
Global Equities	FTSE World	(0.9)
United States	S&P 500	(1.7)
Europe ex UK	FTSE Developed Europe	8.5
Japan	TOPIX	2.7
Emerging Markets	FTSE Emerging	(3.9)
Fixed Interest		
UK Gilts	FTSE UK Gilts	(16.3)
UK Index Linked Gilts	FTSE Index–Linked	(26.7)
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	(10.6)
UK Commercial Property	MSCI/AREF UK Property Fund Index - All Balanced Fund Index	(26.4)
Cash	12 Month SONIA	4.6

Asset Class Performance Narrative

Global Overview

Global stock and bond markets fell in local-currency terms after a tough 12 months for financial markets and the global economy. The pound's weakness, particularly against an initially strong US dollar, translated into a more modest fall in global bonds and a marginally negative return from global equities when viewed in sterling terms.

Inflation dominated the period. Central banks in Western economies raised interest rates faster and further than previously anticipated in response to multi-decade-high inflation, caused in large part by soaring energy prices after Russia's invasion of Ukraine. Stock markets fell heavily in the first half of 2022 amid fears of a sharp economic slowdown. Meanwhile, the combination of high inflation and rising rates was a major headwind for bond markets after years of falling interest rates (and rising bond prices) — the sell-off in bond markets over the first half of 2022 was one of the largest on record.

The gloom began to clear from late summer. US and eurozone inflation peaked in the autumn, prompting hopes that an end to interest-rate rises might be in sight. The new year started on a highly positive note amid expectations that rates had indeed reached the top for this cycle. However, robust economic data in February, including strong US employment numbers, caused investors to consider whether rates may have to remain higher for longer. The collapse of two regional US banks and the forced sale of Credit Suisse to rival UBS in March evoked fears of a banking crisis. Stock markets recovered after an initial sell-off, while bond markets benefited from a flight to safety and a reduction in expectations for peak interest rates.

UK Equities

The UK stock market, as represented by the FTSE All-Share Index, rose in sterling terms over the period. The FTSE 100 Index, home of multinational companies that often benefit from a weak pound, held up well in the initial global market sell-off. In contrast, the FTSE 250 Index, which contains smaller companies typically more focused on the domestic UK economy, fell markedly and finished lower over the 12-month period.

Several factors explained the FTSE 100's relative resilience. As well as benefiting from currency effects, it is home to many so-called defensive shares that tend to hold their value better when the stock market falls. It also contains several energy and mining companies. These were boosted by high commodity prices, particularly after the outbreak of war in Eastern Europe.

Inflation loomed large on the UK economic landscape. The annual consumer inflation rate increased steadily, hitting a 41-year high of 11.1% in October, before it began to recede. The Bank of England (BoE) reacted to surging inflation with successive interest rate rises, taking its base rate from 0.25% at the start of 2022 to 3.50% by the calendar year's end. In 2023, the Bank increased its base rate by 0.50% in February and 0.25% in March. In part due to surging food prices, UK inflation has remained stubbornly high, despite 11 straight interest-rate rises.

US Equities

US share prices, as measured by the broad S&P 500 Index, fell in US dollar terms over the 12-month period; the dollar's strength and the pound's weakness led to a more modest fall in sterling terms.

A combination of higher interest rates and surging inflation – due in part to a booming jobs market – caused US share prices to fall sharply in the first half of 2022. Growth-focused stocks, such as technology companies, which had been among the strongest stock market performers in the years leading up to 2022, were particularly hard hit. These stocks are more sensitive to higher interest rates.

As US inflation touched a 40-year high, the Federal Reserve (Fed) became increasingly aggressive in its response. The Fed implemented a series of 0.75% rate hikes from June to November. Signs of progress in the inflation fight emerged in November, when the annual consumer inflation figure showed an unexpected drop to 7.7%. Further falls in inflation increased investor confidence that price pressures were subsiding, and the Fed eased the scale of rate rises. However, faced with an economy that maintained its good momentum despite rate hikes, the central bank continued to raise rates in 2023. The latest 0.25% increase in March 2023 took the target range for the fed funds rate to 4.75-5.00%, its highest level since 2007.

US stock markets began to recover from July onwards, even shaking off turmoil in the banking sector in March, when two regional banks, Silicon Valley Bank and Signature Bank, collapsed.

European Equities

Continental Europe's stock markets, as measured by the FTSE World Europe ex UK Index, rose over the 12-month period in both euro and sterling terms. The region's equity markets were buffeted in 2022 by surging inflation, higher interest rates and the shock of the Russia-Ukraine war. European share prices were already under pressure before Russia invaded Ukraine, sending energy prices surging and casting a shadow over the likes of the German and Italian economies, which were previously heavily reliant on Russia for their energy supplies. European indices continued to trend downward over the first half of 2022.

European equities recovered some ground in the final quarter of 2022. Share prices climbed in November, as global markets were buoyed by better-than-expected US inflation data. European markets then outperformed other major developed markets in the first quarter of 2023, recording a double-digit gain in euro terms. The new year brought increased optimism amid falling inflation, lower energy prices and dwindling fears of economically disruptive energy shortages across the continent.

On the economic front, soaring inflation proved a major challenge for European policymakers. The eurozone annual inflation rate reached its highest level since the introduction of the euro, hitting a peak of 10.7% in October before it began to drop. The European Central Bank (ECB) kept its main interest rate unchanged for longer than the Fed and BoE, finally reacting to elevated prices with a 0.50% hike in July, its first rate rise in over 11 years. The central bank followed with a series of rate rises in 2022 and 2023, as it strived to bring the annual inflation rate down to its 2.0% target.

Asian Pacific Equities

Stock markets in the Asia Pacific (excluding Japan) region fell over the 12-month period in both local-currency and sterling terms, although they recovered some ground from late summer. Early stock market falls occurred against a backdrop of high inflation globally, with fears that the world economy may be tipped into a recession by interest-rate hikes. Higher commodity prices and uncertainty caused by Russia's invasion of Ukraine added to investor fears.

Within the region, Chinese stock markets suffered large initial losses as the Chinese economy stumbled in 2022, in part due to the government's strict 'zero-Covid' policy. Ongoing virus flare-ups continued to affect investor sentiment, while investors also fretted over pressures in the country's highly indebted property sector, tensions with the US and an ongoing regulatory crackdown.

December saw the Chinese government effectively drop the 'zero-Covid' policy in a major policy shift. Chinese stock markets rose sharply in January amid greater optimism after the reopening of the Chinese economy and signs that the latest wave of Covid-19 infections may have peaked. Chinese markets suffered from profit-taking in February but made further gains in March amid signs that China's economic reboot was gathering momentum. These positive developments in the crucial Chinese economy helped other Asian stock markets enjoy a strong first quarter of 2023.

Japanese Equities

Bucking the trend in global stock markets, the Japanese stock market, as measured by the Topix Index, rose in yen terms over the 12-month period; it increased more modestly in sterling terms due to the depreciation of the yen.

The Bank of Japan (BoJ) faced milder inflationary pressures than the world's other major central banks. Consequently, it left its key interest rate unchanged at -0.1% over the period. Consumer inflation remained relatively subdued for most of 2022. However, it did climb to elevated levels by Japanese standards, hitting its highest rate since 1981. The reasons for rising inflation included the weakness of the yen, which made imports more expensive, and rising energy costs.

The BoJ left interest rates unchanged in Governor Kuroda's final meeting in March, as annual inflation fell to 3.3% in February from 4.3% in January. Annual core inflation fell to 3.1% in February from 4.2% in January but exceeded the BoJ's 2.0% target for the 11th consecutive month. Japanese financial stocks sold off in March after the failure of two US regional banks, but the market still finished higher.

Fixed Interest

Corporate Bonds

Corporate bond prices fell in a particularly tough period for bond investors, with investment-grade bonds underperforming riskier high-yield bonds. A backdrop of sharply rising interest rates, stubbornly high inflation and a worsening economic outlook created challenging market conditions. Credit spreads — the yield premium received by investors in return for the typically greater risk of lending to companies rather than governments — widened until autumn as the economic environment deteriorated. Spreads then tightened until March as investors' appetite for riskier assets began to return.

In September, UK corporate bonds suffered a particularly difficult month after a badly received mini-Budget from the short-lived Truss cabinet. In October, the speedy reversal of the mini-Budget and Rishi Sunak's subsequent appointment as prime minister created calmer bond market conditions.

Growing expectations that global inflation pressures may be peaking, leading to hopes that the current cycle of interest-rate rises may be nearing its end, helped corporate bonds to perform better in the second half of the period. Turbulence in the global banking sector in March caused credit spreads to widen to levels last seen at the start of 2023. However, the negative effect of wider credit spreads was offset by lower government bond yields amid a flight to safety. Consequently, investment-grade corporate bonds enjoyed gains in March, although riskier UK and European high-yield bonds fell.

Government Bonds

Global government bonds recorded a highly disappointing 12- month performance. After years of record-low interest rates, many central banks raised rates, often faster and further than expected, as they tried to contain soaring inflation. This caused a major sell-off in government bonds.

Faced with the highest inflation level in the US in decades, the Fed adopted an increasingly tough approach to its interest-rate policy. Having started its programme of rate rises with a 0.25% increase in March 2022, its first rate hike since 2018, the central bank soon followed with a 0.50% increase in May and (previously uncommon) 0.75% rises in June, July, September, and November. Drawing encouragement from lower inflation readings, the Fed hiked rates by a less aggressive 0.50% in December. The central bank then increased its main rate by a further 0.25% in February and March, as the strong momentum in the US economy continued.

The BoE increased its base rate eight times over the course of 2022 and three more times in the year to date as inflation in the UK continued to climb, hitting a 41-year-high annual rate of 11.1% before slowly receding. In October, UK government bond (Gilt) prices fell sharply after an ill-fated mini-Budget from the short-lived Truss government. October's swift reversal of the mini-Budget and Rishi Sunak's appointment as prime minister settled investor nerves and caused Gilt prices to recover some ground.

Despite soaring inflation also affecting European economies, the ECB kept its main interest rate unchanged for longer than the Fed and BoE. It finally raised rates by 0.50% in July. The central bank followed with back-to-back 0.75% hikes in September and October, before implementing a more modest 0.50% rate rise in December on signs of easing inflationary pressures in the region. The ECB continued to raise rates in early 2023, with further 0.50% increases in February and March.

In contrast, the Japanese central bank maintained its ultra-loose monetary policy, marked by a negative base rate, arguing that underlying demand in the Japanese economy remained too weak for it to begin raising rates. However, in a major policy development in December, the BoJ announced a surprise increase in its cap on Japanese government bond yields. This effectively tightened monetary conditions and caused the yen to strengthen after its weakness earlier in 2022.

UK Commercial Property

Total returns for UK commercial real estate were -14.7% over the 12 months to the end of March (the latest data available). The industrials sector was the weakest, returning -21.2%, while residential was the strongest, with a return of 3.9%.

It was a year of two halves in 2022. The positive performance that UK real estate recorded at the start of the year was unwound in the second half, as capital value declines weighed on performance given a weaker macroeconomic environment and rising debt costs. Yields moved out across all sectors, particularly in lower-yielding areas of the market (such as industrials). Given the magnitude and speed of correction seen in some sectors – including supermarkets, industrial and logistics, and areas of the long-income market – market pricing for these areas was likely to find a floor much quicker than in previous cycles. A recovery in performance was expected in the first half of 2023 as UK real estate once again looked attractive on a relative pricing basis and the Bank of England halting its monetary policy hiking cycle. Given a weakening UK economy, investors are likely to focus on occupational strength and the resilience of income within portfolios. Tight supply levels in many areas of the market will continue to support prospects for rental value growth. However, any rental growth is likely to be restricted to the prime end of the market, where fundamentals for best-in-class space remain more supportive. Income is expected to be the predominant driver of real estate returns in the near term.

Administration of Benefits

The shared service arrangement with West Yorkshire Pension Fund (WYPF) to provide Pensions Administration services for the Lincolnshire Pension Fund began in April 2015. This arrangement was made to improve efficiency and reduce costs in the provision of the Pensions Administration service, and this is being seen.

A satellite office for the WYPF administration team 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 can 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, some 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 page 34) on all aspects of the administration service.

The Head of Pensions attends the bi-monthly shared service meetings, with all shared service partners. In addition, as part of the overall governance of the service, the Head of Pensions sits on the Collaboration Board of the shared service, alongside the senior management of WYPF and other shared service partners, to ensure that the original aims of the partnership with WYPF are met.

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 been met. Performance is reported quarterly to the Pensions Committee and Pension Board, and regular meetings are held with WYPF to understand and manage any performance issues. The critical business areas impacting on pensioners and their family take priority, these being members requiring immediate payment for retirements, redundancies, dependants' pensions, and death grants.

Key Service Performance Indicators and Direction of Travel

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken	Travel
Age 55 Increase to Pension	3	20	3	85	100.00	1.33	ÁÂ
AVC In-house (General)	169	20	168	85	99.41	2.28	Ç
Change of Address	876	20	840	85	95.89	1.98	Ç
Change of Bank Details	313	20	299	85	95.53	2.96	Ç
Death Grant to Set Up	156	10	142	85	91.03	9.21	Ç
Death In Retirement	587	10	498	85	85.00	11.4	Ç
Death In Service	23	10	19	85	82.61	19.19	È
Death on Deferred	47	10	40	85	85.11	5.91	Ç
Deferred Benefits Into Payment Actual	982	5	940	90	95.72	3.36	Ç
Deferred Benefits Into Payment Quote	1,161	35	822	85	70.80	61.16	È
Deferred Benefits Set Up on Leaving	1,963	20	1,283	85	65.36	49.49	È
Dependant Pension To Set Up	312	5	295	90	94.55	4.89	Ç
Divorce Quote	155	40	149	85	96.13	9.19	Ç
Divorce Settlement Pension Sharing order Implemented	7	80	7	100	100.00	19.71	ÁÂ
DWP request for Information	2	20	2	85	100.00	2	Ç
Estimates for Deferred Benefits into Payment	25	10	22	90	88.00	12.88	È
General Payroll Changes	394	20	391	85	99.24	1.94	ÁÂ
Initial letter Death in Retirement	587	10	583	85	99.32	1	Ç
Initial Letter Death in Service	23	10	23	85	100.00	1	ÁÂ

Event	No. Cases	Target Days to Complete	Cases Target Met	Minimum Target %	Target Met %	Average Days Taken	Travel
Initial letter Death on Deferred	47	10	47	85	100.00	3.66	Ç
Interfund Linking In Actual	148	35	96	85	64.86	131.18	È
Interfund Linking In Quote	246	35	171	85	69.51	62.51	Ç
Interfund Out Actual	458	35	332	85	72.49	14.11	Ç
Interfund Out Quote	457	35	416	85	91.03	14.52	Ç
Life Certificate	39	10	39	85	100.00	2.58	Ç
Monthly Posting	3,203	10	3,005	95	93.82	3.88	È
NI adjustment to Pension at State Pension Age	50	20	50	85	100.00	12.51	ÁÂ
Pension Estimate	477	10	352	90	73.79	14.57	È
Pension Saving Statement	1	20	1	100	100.00	1	ÁÂ
Phone Call Received	4,111	3	3,980	95	96.81	2.08	Ç
Refund Actual	562	10	559	90	99.47	2.93	Ç
Refund Quote	824	35	666	85	80.83	38.3	È
Retirement Actual	606	10	594	90	98.02	3.35	Ç
Transfer In Actual	166	35	160	85	96.39	18.17	Ç
Transfer In Quote	287	35	285	85	99.30	8.56	Ç
Transfer Out Payment	53	35	51	85	96.23	14.98	Ç
Transfer Out Quote	474	35	428	85	90.30	18.23	Ç
Update Member Details	2,457	20	2,162	100	87.99	23.33	È

As can be seen from the table above, overall performance has generally met or exceeded targets (green direction of travel arrow).

There are some areas that have a red direction of travel arrow, where the performance target has not been met and that has declined over the year.

KPI’s are brought to the Committee and Board quarterly and any areas that do not meet the standard required are discussed. The Fund understands the reasons behind any underperformance and what is being done to rectify the situation, and this does not provide the Fund with any cause for concern.

Industry standard performance indicators

The service is also monitored against industry standards. These are not directly comparable to the figures above as they are measured at different points, but they do provide a useful indicator of the overall level of service for comparison to other Funds.

Industry Standard Performance Indicators	Target days	Achieved %
Letter detailing transfer in quote	10	99.3
Letter detailing transfer out quote	10	86.0
Process and pay refund	5	98.6
Letter notifying estimate of retirement benefit	10	90.1
Letter notifying actual retirement benefit	5	97.1
Process and pay lump sum retirement grant	5	96.0
Letter acknowledging death of a member	5	96.0
Letter notifying amount of dependants' benefit	5	75.5
Calculate and notify deferred benefit	10	55.9

New Pensions Paid

New pensions paid over the financial year are shown below, both from an active member status and a deferred member status. This is split across the various types of events that can cause a retirement:

- Normal – retirement at normal retirement age (NRA)
- Early – retirement before NRA – generally with reduced benefits
- Late – retirement after NRA – generally with increased benefits
- Ill health – release of pension through certified ill health
- Redundancy – release of pension from age 55 when made redundant

New pensions paid	2022/23 Member numbers
Active Status	
Normal	277
Early	341
Late	109
Ill health	26
Redundancy	30
Total active	783
Deferred status	
Normal	382

Early	400
Late	18
Ill health	6
Total deferred	806

Pension Overpayments

Occasionally, pensions are paid in error. When this happens, processes are in place to recover the overpayments. The table below shows a summary of the value of the overpayments involved. Every effort is made to recover these, whilst managing the financial impact on the overpaid pensioners.

Overpayments	2022/23 £'000
Annual payroll	89,597
Overpayments value	54
Overpayments written off	0
Overpayments recovered (incl. bf recovered)	54

The table below shows a summary of transactions processed during the year:

Analysis of overpayments	2022/23 Number of payments
Pensions paid during period	279,855
Cases overpaid	46
Cases written off	0
Cases recovered (incl. bf recovered)	46

Fraud Prevention – National Fraud Initiative

Lincolnshire Pension Fund, West Yorkshire Pension Fund, Hounslow Pension Fund and Barnett Pension Fund are in shared service arrangement hosted by West Yorkshire Pension Fund. The Funds participate twice a year in the National Fraud Initiative (NFI). The data that is submitted includes pensioners, beneficiaries and deferred member information for the Local Government Pension Scheme.

A summary of the latest NFI results for the **whole shared service** is shown below:

Pensioners, beneficiaries and deferred members	No. of records sent	No. and percentage of mismatches		Over payments identified	Possible frauds	Mismatches carried forward at 31 March
2022/23	329,082	2,379	0.7%	24	0	10
2021/22	288,636	1,685	0.6%	15	0	22

2020/21	286,429	963	0.3%	4	0	1
2019/20	277,293	3,845	1.4%	17	2	10
2018/19	260,387	3,339	1.3%	3	2	2
2017/18	229,994	518	0.2%	35	2	10

Value for money - Cost per member

The latest published data (2021/22) for all LGPS funds administration costs shows that LPF pensions administration cost per member is £15.01, the 5th lowest cost amongst 86 LGPS funds and well below the national average of £26.68.

In 2021/22 LPF had a below average total cost per members (administration, investment and oversight & governance) at £179.14, the national average for LGPS in 2021/22 was £320.21.

Cost per member 2020/21	Position	Lincolnshire Pension Fund	LGPS Lowest*	LGPS Highest*	LGPS Average
Administration	5th	£15.01	£0.00	£121.01	£26.68
Investment	18th	£154.02	£18.02	£1,023.22	£282.32
Oversight and governance	33rd	£10.11	£0.00	£58.94	£11.21
Total Cost per member	11th	£179.14	£34.06	£1,088.82	£274.33

* the lowest and highest costs at each category are individual funds, and at the total level are the overall lowest and highest costs funds

The 2022/23 annual cost of managing the Lincolnshire Pension Fund per member, as summarised in note 10 in the accounts, is set out below:

- Administration cost per member is £17.42;
- Investment management cost per member is £143.83;
- Oversight and governance cost per member is £11.49; and
- Total management cost per member is £172.74.

Staffing

The table below identifies the numbers of staff across the areas of the shared service providing the administration service.

Shared service staff full time equivalent (FTE)	2018/19	2019/20	2020/21	2021/22	2022/23
Service Centre	59.5	54.8	52.4	57.7	65.3
Payroll	17.6	16.1	17.3	21.4	22.4
ICT	14.4	15.4	14.4	12.6	14.6
Finance	14.5	12.0	11.8	15.8	19.8
Business support	28.8	28.4	27.4	35.1	39.1
Technical	4.9	4.9	5.0	5.6	5.6
Total	139.7	131.6	128.3	148.2	166.8

Key activities undertaken during the year

Employer training

This year the workshops were delivered virtually in bite size webcasts by the shared service WYPF staff and are designed to give employers a good understanding of the pension scheme. Feedback from participants on these events has been very positive.

The webcasts this year have covered:

- Final pay – 'the deep dive'
- Understanding CPP (Care pay)
- Ill Health
- Annual Allowance
- Introduction to the LGPS
- Roles and Responsibilities
- Employer Discretions
- Internal Dispute Resolution Process
- Authorised Contacts and Outsourcing your Payroll
- March return: 'steps to success'
- Understanding Final Pay
- Understanding Assumed Pensionable Pay
- Authorised Contacts and Year-end Responsibilities

Workshop on 'Planning for a positive retirement'

The workshops, run by Affinity Connect, to support and guide members who are considering what retirement might mean to them, continue to be well attended.

The workshops raise awareness of key issues to consider and the decisions that members need to make as they approach this new stage in their life. It is especially useful for members thinking of retiring in the next couple of years, but valuable even if they're not yet sure when they want to retire.

Pension Increase

Each year, LPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred member's benefits are also increased by CPI. For the 2022/23 year an increase of 3.1% was applied on 11 April 2022.

Pension administration and cost

As in previous years, the workload for pension administrators continued to increase and member numbers continue to rise across the shared service with WYPF.

The shared service delivery continues to be underpinned by its accreditation to the International Organisation for Standardisation - ISO 9001:2000. The quality management systems ensure that the shared service is committed to providing the best possible service to customers and will continue to ensure that it delivers best value to all stakeholders. The latest published data for all LGPS fund administration costs shows that LPF pensions administration cost per member is £15.01, this is the 5th lowest cost amongst 86 LGPS funds and well below national average of £26.68.

Communications

The contact centre hosted in Lincoln and in Bradford continues to be a popular way for members to communicate with the Fund about their pensions.

All annual pension benefit statements for active and deferred members were produced on time giving members information on their benefits accrued to date and what their potential benefits will be at retirement age, as well as other useful information. Positive feedback was received from members with the inclusion of information on pensions payable at ages 55, 60, 65 and state pension age, which included any reduction for early payment. Statements were issued electronically through the member secure portal.

Regular newsletters continue to be produced to keep members informed of important pensions news.

The shared service has Facebook and Twitter accounts to encourage members of all ages to engage more with the Fund through social media.

MyPension

With the shared services 'MyPension' service (accessible on the shared website) members can view their pension record and statements, and update personal details. Members are being encouraged to sign up as the service moves to more online communications.

Data quality

LGPS Funds are required to report on their data quality to the Pensions Regulator as part of the annual scheme returns. The Pensions Regulator has set a target of 100% accuracy for new common data received after June 2010.

Current data quality figures for LPF are shown below:

Common data field	Data score %
Forename	100.0
Surname	100.0
Membership status	100.0
Date of birth	100.0
NI number	99.9
Address	96.1
Postcode	100.0

Much work is being undertaken to improve address data and this work will continue over the next twelve months and beyond.

Disaster recovery and risk management monitoring

The shared service partnership systems are hosted by WYPF which is administered by Bradford Council. Bradford Council uses a pair of geographically separated data centres. Both purpose-built data centres are protected by redundant power, UPS, a backup generator and cooling.

In the event of WYPF office accommodation becoming unavailable, staff will be relocated to other council offices or work remotely, including the remote office in Lincoln. WYPF is covered by Bradford Council's comprehensive disaster recovery plan for all services they deliver for the shared service.

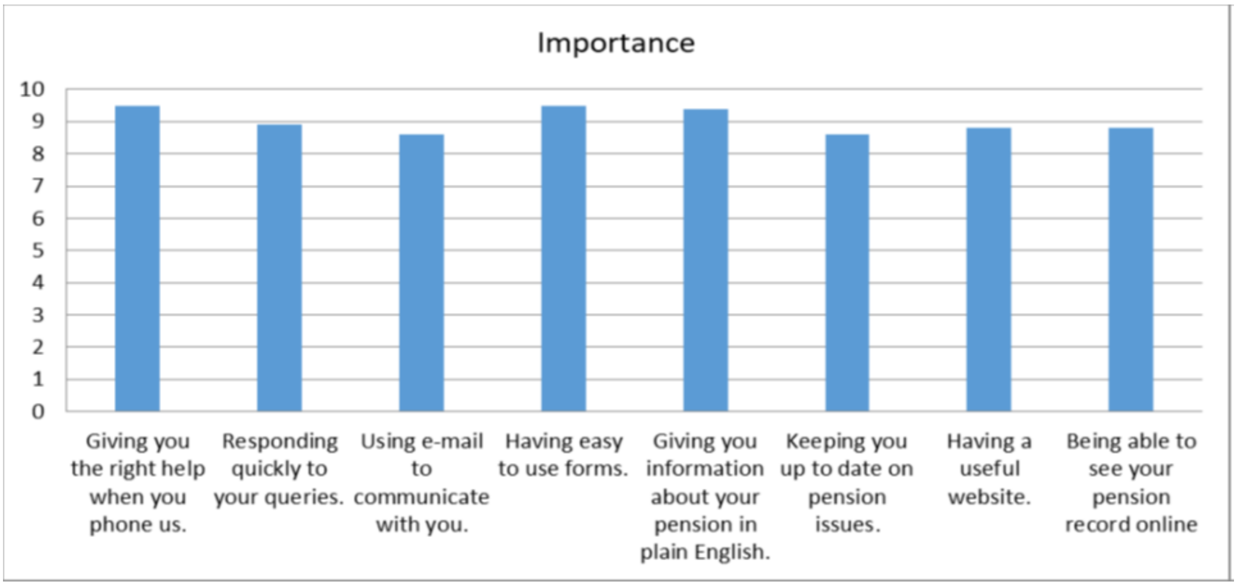
Customer satisfaction

Customer surveys are regularly sent to a sample of scheme members that have contacted the service centre or been involved in an event (e.g. retirement). In addition, the website has an online form for completion to obtain feedback.

The quarterly scores are presented to the Pensions Committee and Pension Board to monitor satisfaction with the shared service by the end users. The table below shows the scores for the year.

April – June 2022	July - Sept 2022	Oct - Dec 2022	Jan - March 2023
80.2%	90.4%	81.3%	89.9%

The charts below show how members rate the importance of and satisfaction with the various services described below:



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 1 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 1 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 Department for Levelling Up, Housing and Communities. The bands, as they stood at 31 March 2023, are shown below.

Full Time Equivalent Pay	Contribution Rate
Up to £15,000	5.5%
More than £15,000 and up to £23,600	5.8%
More than £23,600 and up to £38,300	6.5%
More than £38,300 and up to £48,500	6.8%
More than £48,500 and up to £67,900	8.5%
More than £67,900 and up to £96,200	9.9%
More than £96,200 and up to £113,400	10.5%
More than £113,400 and up to £170,100	11.4%
Over £170,100	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 1/49 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. The three tiers are explained below:

Tier 1 – The member is unlikely to be capable of gainful employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus the pension that would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 2 – The member is unlikely to be capable of gainful employment within three years of leaving but is likely to be capable of undertaking such employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus 25% of the pension that would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 3 – The member is likely to be capable of gainful employment within three years of leaving, or before Normal Pension Age if earlier. Benefits are based on the pension already built up at leaving. Payment of these benefits will be stopped after three years, or earlier if the member is in gainful employment or becomes capable of such employment, provided Normal Pension Age has not been reached by then.

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 5 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 1 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 1/160 accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £7,579 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 1 April 2008 to 31 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 14 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 1/60 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 are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two. The three tiers are explained below:

Tier 1 – The member is unlikely to be capable of gainful employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus the pension that would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 2 – The member is unlikely to be capable of gainful employment within three years of leaving but is likely to be capable of undertaking such employment before Normal Pension Age. Benefits are based on the pension already built up at the date of leaving the scheme, plus 25% of the pension that would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until reaching Normal Pension Age.

Tier 3 – The member is likely to be capable of gainful employment within three years of leaving, or before Normal Pension Age if earlier. Benefits are based on the pension already built up at leaving. Payment of these benefits will be stopped after three years, or earlier if the member is in gainful employment or becomes capable of such employment, provided Normal Pension Age has not been reached by then.

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 5 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 1/160 accrual of the member's membership.

Supplementary Pensions

Scheme members could purchase additional pension of up to a maximum amount 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 31 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 14 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 1/80 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 Kempton, Head of Pensions Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 | Email : jo.kempton@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 regarding 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 attendance at 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 Head of Pensions. All Committee members are also required to complete the Pension Regulator's Public Sector Toolkit, to further extend their knowledge.

The Executive Director - Resources is the delegated officer responsible for ensuring that policies and strategies are implemented.

Activity in 2022/23

A full training plan was taken to Pensions Committee in July 2022 to identify training requirements over the coming year. The training plan was linked to specific areas within the CIPFA Knowledge and Skills Framework, which was last updated in 2021.

The eight areas within the Knowledge and Skills Framework are:

1. Pensions legislations and guidance
2. Pensions Governance
3. Funding strategy and actuarial methods
4. Pensions administration and communications
5. Pensions financial strategy, management accounting, report and accounts
6. Investment strategy, asset allocation, pooling, performance, and risk management
7. Financial markets and products
8. Pensions services procurement, contract management and relationship management

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)
9 June 2022		
Reports	External Manager Presentations - Morgan Stanley Alternatives - Border to Coast Fixed Income Funds	6,7
14 July 2022		
Reports	Independent Advisor Market Update	7
	Pension Board Report	2
	Fund Update	2,6,8
	Responsible Investment Update	6
	Pensions Administration Report	1,4
	McCloud Paper and Presentation	1,4
	Employer Monthly Submissions Report	4
	2022 Valuation Assumptions	3
	Risk Register Annual Review	6
	Annual Training Plan and Policy	1,2
	Draft Annual Report and Accounts	2,5
	Annual Property and Infrastructure Report	6,7
	Investment Performance Report	6,7
22 September 2022		
Reports	Independent Advisor Market Update	7
	Pension Board Report	2
	Fund Update	2,6,8
	Responsible Investment Update	6
	Pensions Administration Report	1,4
	Employer Monthly Submissions Report	4
	Performance Measurement Annual Report	6
	2022 Valuation – Whole Fund Results	3
	Investment Performance Report	6,7
13 October 2022		
Training	Hymans Robertson – Investment Strategy	6
	Introduction to LGPS Online Learning Academy	2
1 December 2022		
Reports	Independent Advisor Market Update	7
	Pension Board Report	2
	Fund Update	2,6,8
	Responsible Investment Update	6
	Pensions Administration Report	1,4
	Data Quality Report	1,4
	Employer Monthly Submissions Report	4
	Committee Meetings and Delegations	2

Date	Subject matter	KSF area(s)
	Border to Coast RI and Corporate Governance Voting Policies	2,6
	Border to Coast Governance Review	2
	Funding Strategy Statement	3
	External Audit Completion Report	5
	Investment Performance Report	6
5 January 2023		
Reports and Training	External Manager Presentation - Border to Coast Equity Funds	6,7
	Training - Hymans Robertson – Investment Products (ARB, ABS, MAC, Private Debt)	6,7
9 February 2023		
Training	WYPF – Shared Administration Service	4
	Hymans Robertson – Investment Strategy	6
16 March 2023		
Reports	Independent Advisor Market Update	7
	Pension Board Report	2
	Fund Update	2,6,8
	Responsible Investment Update	6
	Pensions Administration Report	1,4
	Employer Monthly Submissions Report	4
	2022 Valuation and Funding Strategy Statement	3
	Fund Policies Review	1,2
	LPF Business Plan 23/24	2,5,6
	Annual Accounting Policies Review	5
	Investment Performance Report	6
	Investment Strategy Review	6
	Pensions Administration Service Provider	4,8

As the officer responsible for ensuring that the training policies and strategies are implemented, the Executive Director - Resources 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.

Committee Meeting Attendance 2022/23

All meetings were held in person, however on occasion Committee members attended virtually as observers. The table below shows attendance of each of the twelve members at each Committee meeting and training meeting held over the year. Actual attendance is shown with a black tick and virtual attendance is shown with a red tick. Members that are either no longer on the Committee or had not been members of the Committee at that time are marked with a dash (-). Non-attendance is shown with an X.

There was some change to the Committee over the year, with the sad passing of Cllr Newton in August, Cllr Parkin leaving the Committee in October, Cllr Griggs leaving the Committee in February and being replaced by Cllr Ashleigh-Morris, and Cllr Thompson resigning as a Councillor in March. One new position was created on the Committee for an Academy Sector representative and was approved at Full Councill in December 2022. Tom Hotchin, from Market Rasen De Aston School, was appointed in February 2023. The March meeting was the last for Cllr Waller, the District Councils representative, who was not standing as a Councillor at the May local elections. His replacement will be appointed in May 2023, following the district council's AGM.

As at 31 March 2023, there were three County Councillor vacancies.

	June 22	July 22	Sep 22	Oct 22	Dec 22	Jan 23	Feb 23	Mar 23
Cllr E W Strengiel (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Cllr P E Coupland (Vice Chairman)	✓	X	✓	✓	✓	X	✓	✓
Cllr M G Allan	✓	✓	✓	✓	✓	✓	✓	✓
Cllr P Ashleigh-Morris	-	-	-	-	-	-	-	X
Cllr M Griggs	X	X	X	X	X	X	X	-
Cllr Mrs A M Newton MBE	✓	X	-	-	-	-	-	-
Cllr S Parkin	X	X	X	-	-	-	-	-
Cllr T Smith	X	✓	✓	✓	✓	✓	✓	✓
Cllr Dr M E Thompson	✓	✓	✓	✓	✓	✓	X	X
Cllr R Waller	✓	✓	✓	✓	X	✓	X	✓
S Larter	X	✓	✓	✓	✓	✓	X	✓
T Hotchin	-	-	-	-	-	-	-	✓
A Antcliff	✓	✓	✓	✓	✓	✓	X	X
Total Attendance	7	7	8	8	7	7	4	7
Total Committee size	11	11	11	11	11	11	11	12

All members of the Pensions Committee have full voting rights.

Fund Account – Year Ended 31 March 2023

	See note	2021/22 £000	2022/23 £000
Contributions and Benefits			
Contributions Receivable	6	(120,601)	(135,108)
Transfers In from other Pension Funds	7	(7,977)	(10,049)
		(128,578)	**(145,157)**
Benefits Payable	8	101,369	105,863
Payments To and On Account of Leavers	9	6,236	8,661
		107,605	**114,524**
Net (additions)/withdrawals from dealings with Fund Members		**(20,973)**	**(30,633)**
Management Expenses	10	14,191	13,745
Net (additions)/withdrawals including Management Expenses		**(6,782)**	**(16,888)**
Returns on Investments			
Investment Income	11	(8,372)	(15,170)
(Profit)/Loss on Disposal of Investments and Change in the Value of Investments	12A	(295,668)	12,511
(Profit)/Loss on Forward Foreign Exchange	13	17,444	30,180
Net Returns on Investments		**(286,596)**	**27,521**
Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(293,378)	10,633
Opening Net Assets of the Fund		(2,777,535)	(3,070,913)
Closing Net Assets of the Fund		**(3,070,913)**	**(3,060,280)**

Net Asset Statement as at 31 March 2023

	See note	31 March 2022 £000	31 March 2023 £000
Long Term Investment Assets	12	1,182	1,182
Investment Assets	12	3,053,018	3,033,643
Investment Liabilities	12	(1)	-
Total Net Investments		**3,054,199**	**3,034,825**
Current Assets	19	24,038	28,682
Current Liabilities	20	(7,324)	(3,227)
Net Assets of the Fund Available to Fund Benefits at the end of the Reporting Period		**3,070,913**	**3,060,280**

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 in Pension Note 18.

Notes to the Pension Fund Accounts

Note 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 Local Government Pension Scheme (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, which is a committee of Lincolnshire County Council.

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 of the Fund; and
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the relevant employer. Admitted bodies include charitable organisations and similar not-for-profit bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 256 contributing employer organisations in the Fund including the County Council and just over 79,500 members, as detailed below (information reported based on March processed data):

	31 March 2022	31 March 2023
Number of Employers with Active Members	**260**	**256**
Number of Employees in the Fund		
Lincolnshire County Council	9,525	10,140
Other Employers	14,897	16,551
Total Active Members	**24,422**	**26,691**
Number of Pensioners		
Lincolnshire County Council	15,483	17,813
Other Employers	8,053	9,418
Total Pensioner Members	**23,536**	**27,231**
Number of Deferred Pensioners		
Lincolnshire County Council	16,731	16,659
Other Employers	8,919	8,992
Total Deferred Pensioners	**25,650**	**25,651**
Total number of Members in the Scheme:	**73,608**	**79,573**

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. Rates paid by employers during 2022/23 were determined at the 2019 Valuation, or when a new employer joins the scheme. Rates paid during 2022/23 ranged from 16.3% to 35.5% of pensionable pay. In addition, the majority of employers are paying monetary amounts to cover their funding deficit.

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 between April 2008 and March 2014
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, ill-health pensions and death benefits.

Note 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position at year end as at 31 March 2023.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code), which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounting policies set out below (at Note 3) have been applied consistently to all periods presented within these financial statements.

The accounts report the net assets available to pay pension benefits. The accounts do not take into account obligations to pay pensions and other benefits that fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the account, or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 18.

The accounts have been prepared on a going concern basis.

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

On an annual basis, the Code requires the Pension Fund to consider the impact of accounting standards that have been issued but have not yet been adopted and disclose information relating to the impact of these standards. For 2023/24 the Code introduces the following changes to the accounting standards:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021; and
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

It is not thought that any of these changes will have a significant impact on the Pension Fund Accounts for 2023/24.

Note 3. Significant Accounting Policies

Fund account - revenue recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate issued to the relevant employing body.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustments certificate.

Additional employers' contributions, for example in respect of early retirements, are accounted for in the year the event arose.

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 and are calculated in accordance with the LGPS Regulations 2013:

- Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

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.

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) Changes in the net market value of investments
Changes in the net market value of investments are recognised as income/expense 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 part of the overall cost of transactions (e.g. purchase price).

f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the headings shown below. All items of expenditure are charged to the Fund on an accruals basis.

i) Administrative expenses

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.

ii) Oversight and Governance

All staff costs associated with the governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

iii) Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

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.

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 Morgan Stanley Investment Management Ltd (for the Private Markets Portfolio) that an element of their fee will be performance related.

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.

g) Financial assets

All investment 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 and are classified as Fair Value through Profit and Loss (FVPL). Any amounts due or payable in respect of trades entered into, but not yet completed at 31 March each year are accounted for as financial instruments held at amortised cost.

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 14). 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).

Alternatives, private equity, property venture and infrastructure valuations are based on the most recent valuations provided by managers at the year-end date. Where more up-to-date valuations are received during the accounts preparation or audit period, their materiality, both individually and collectively will be considered, and the accounts revised to reflect these valuations if necessary. If valuations are not produced by the manager at 31 March, then the latest available valuation is used, adjusted for purchases and sales which occur between the valuation date and 31 March.

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as Fair Value through Other Comprehensive Income (FVOCI) rather than FVPL as the investment is a strategic investment and not held for trading.

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. Any gains or losses arising from these transactions are treated as part of the change in the value of investments in the Fund Account.

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.

Future value of forward currency contracts are based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using Northern Trust closing spot/forward foreign exchange rates on 31 March.

j) Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. All cash balances 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

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is formally assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. At each year end, the promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation. 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 (see Note 18).

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 for information (see Note 21).

Note 4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies the Fund is required to make judgements about complex transactions and the value of assets and liabilities where there is an element of uncertainty. Those with the most significant effect include:

- No investments are impaired (further detail on how the Fund manages risk are set out in Note 16: Nature and Extent of Risks Arising from Financial Statements).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 3: Significant Accounting Policies.

Note 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 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are set out in the table below:

Item	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to: the discount rate used; salary and pension increases; changes in retirement ages; mortality rates; and expected returns on Fund assets. Details about the actuarial method and assumptions selected by the Fund's actuary, Barnett Waddingham, are set out in Note 18. At 31 March 2023 the present value of the total obligation was estimated by the actuary to be £2,849m.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would reduce future pension liabilities by c. £219m. 2) a 0.25% increase in earnings inflation would increase the value of liabilities by c. £9m. 3) a 0.25% increase in the pension increase rate would increase the value of liabilities by c. £114m. 4) a one-year increase in assumed life expectancy would increase the liability by c. £113m.
Hedge Funds (Note 14)	Some hedge fund investments are not regularly traded and as such there is a degree of estimation involved in the valuation.	A fund manager estimates that the sensitivity of the valuation of these assets included at level 3 in the fair value hierarchy is +/-8%. This equates to a +/- £9.7m on a carrying value of £120.7m.
Level three investments (including Private Markets, Infrastructure, Other Property and Private Equity) (Note 14)	Private markets, infrastructure, other property and private equity are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018) and the Special Guidance issued in March 2020 concerning the impact of Covid-19 on valuations. These investments are not publicly listed and as such there us a degree of estimation involved in the valuation.	Level three investments at 31 March 2023 are valued at £450.3m in the financial statements. There is a risk that these investments may be under or overstated in the accounts. Private markets by +/-15% or £50.2m on a carrying value of £334.5m. Infrastructure by +/-15% or £10.3m on a carrying value of £68.5m. Property Venture by +/-18% or £7.4m on a carrying value of £41.2m. Private Equity by +/-23% or £1.4m on a carrying value of £6.1m.

Note 6. Contributions Receivable

Contributions receivable are analysed by category below:

	2021-22 £000	2022-23 £000
Employers		
Normal	68,777	77,979
Deficit Recovery Funding	26,595	29,532
Additional – Augmentation	1,498	823
Members		
Normal	23,651	26,661
Additional Years	80	113
Total Contributions Receivable	**120,601**	**135,108**

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

	2021-22 £000	2022-23 £000
Lincolnshire County Council - Administering Authority	51,573	57,232
Scheduled Bodies	65,305	75,111
Admission Bodies	3,723	2,765
Total Contributions Receivable	**120,601**	**135,108**

Note 7. Transfers In From Other Pension Funds

	2021-22 £000	2022-23 £000
Individual Transfers from Other Schemes	7,940	10,049
Group Transfers from Other Schemes	37	-
Total Transfers In from Other Pension Funds	**7,977**	**10,049**

During 2021/22 Foxfields Academy, a member of C.I.T. Multi-Academy Trust transferred from the Leicestershire Pension Fund into the Lincolnshire Pension Fund. All assets and liabilities relating to Foxfields Academy have been transferred into the Lincolnshire Pension Fund.

There were no material outstanding transfers due to the Pension Fund as at 31 March 2023.

Note 8. Benefits Payable

Benefits payable are analysed by category below:

	2021-22 £000	2022-23 £000
Pensions	82,895	87,322
Commutations and Lump Sum Retirement Benefits	16,177	15,688
Lump Sum Death Benefits	2,297	2,853
Total Benefits Payable	**101,369**	**105,863**

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

	2021-22 £000	2022-23 £000
Lincolnshire County Council - Administering Authority	52,274	55,296
Scheduled Bodies	43,918	45,767
Admission Bodies	5,177	4,800
Total Benefits Payable	**101,369**	**105,863**

Note 9. Payments To and On Account of Leavers

	2021-22 £000	2022-23 £000
Individual Transfers to Other Schemes	5,302	8,347
Group Transfers to Other Schemes	667	-
Refunds to Members Leaving Service	267	315
Total Payments To and On Account of Leavers	**6,236**	**8,662**

During 2020/21 Stamford New College merged with Peterborough College. All assets and liabilities relating to Stamford New College have been transferred to the Cambridgeshire Pension Fund. The original asset transfer was based on estimated performance at 31 March 2021 and took place in 2020/21. The final transfer value, based on actual 31 March 2021 performance was made during 2021/22.

There were no material outstanding transfers due from the Pension Fund as at 31 March 2023.

Note 10. Management Expenses

	2021-22 £000	2022-23 £000
Administrative Costs	1,189	1,386
Investment Management Expenses	12,201	11,445
Oversight and Governance Costs	801	914
Total Management Expenses	**14,191**	**13,745**

The statutory audit fee for the year was £0.023m (£0.019m in 2021/22). Known audit fee variations amounted to £0.006m (£0.006m in 2021/22)

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

2022/23	Total £000	Management Fees £000	Performance Related Fees £000	Transaction Costs £000
Managed by Border to Coast	4,126	3,879	-	247
Unitised Insurance Policies	706	706	-	-
Unit Trusts	1,233	882	20	331
Other Managed Funds	5,103	2,924	1,869	310
Cash	1	-	-	1
	11,169	**8,391**	**1,889**	**889**
Custody Fees	276			
	11,445			

2021/22	Total £000	Management Fees £000	Performance Related Fees £000	Transaction Costs £000
Managed by Border to Coast	3,421	3,105	-	316
Unitised Insurance Policies	533	533	-	-
Unit Trusts	1,846	1,742	(19)	123
Other Managed Funds	6,179	4,301	1,768	110
Cash	-	-	-	-
	11,979	**9,681**	**1,749**	**549**
Custody Fees	222			
	12,201			

Note 11. Investment Income

	2021-22 £000	2022-23 £000
Equities	339	179
Managed by Border to Coast		
Bonds	68	-
Unitised Insurance Policies		
Global Equities	60	-
Unit Trusts:		
Property	2,199	2,455
Other Managed Funds:		
Property	294	703
Infrastructure	2,891	4,199
Private Markets	2,287	5,293
Interest on Cash Deposits	233	2,341
Total Investment Income	**8,372**	**15,170**

Note 12. Investments

	2021-22 £000	2022-23 £000
Unquoted Equity Holding in Border to Coast Pensions Partnership	1,182	1,182
Total Long Term Investment	**1,182**	**1,182**
Investment Assets		
Pooled Investment Vehicles:		
Managed by Border to Coast:		
Global Equities	743,227	763,782
UK Equities	477,827	462,066
Multi Asset Credit	138,224	146,217
Bonds	204,927	219,309
Unitised Insurance Policies:		
Global Equities	464,046	463,892
Bonds	150,282	124,858
Unit Trusts:		
Property	193,810	140,502
Other Managed Funds:		
Private Markets	465,138	466,582
Infrastructure	61,136	68,498
Private Equity	7,593	6,123
Property	25,427	86,653
Total Pooled Investment Vehicles	**2,931,637**	**2,948,482**
Other Investment Assets:		
Derivatives:		
Open Forward Foreign Exchange (FX)	2,758	7,545
Cash Deposits	115,609	75,666
Investment Income Due	2,011	1,950
Amount Receivable for Sales	1,003	-
Total Other Investment Assets	**121,381**	**85,161**
Total Investment Assets	**3,053,018**	**3,033,643**
Investment Liabilities		
Investment Income Payable	(1)	-
Total Investment Liabilities	**(1)**	**-**
Total Net Investment Assets	**3,054,199**	**3,034,825**

Note 12A. Reconciliation of Movements in Investments

2022/23	Market Value at 31 March 2022 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in value during the year £000	Market Value 31 March 2023 £000
Long Term Investments					
Unquoted Equity Holding in Border to Coast Pensions Partnership	1,182	-	-	-	1,182
Total Long Term Investment	**1,182**	**-**	**-**	**-**	**1,182**
Investment Assets Pooled Investment Vehicles					
Managed by Border to Coast	1,564,205	47,500	(51,055)	30,724	1,591,374
Unitised Insurance Policies	614,328	29,151	(29,845)	(24,884)	588,750
Unit Trusts	193,810	1,156	(20,668)	(33,796)	140,502
Other Managed Funds	559,294	246,982	(193,865)	15,445	627,856
Total Pooled Investment Vehicles	**2,931,637**	**324,789**	**(295,433)**	**(12,511)**	**2,948,482**
Other Investments:					
Derivatives:					
Open Forward Foreign Exchange (FX)	2,758	4,061,063	(4,026,096)	(30,180)	7,545
Total Other Investments	**2,758**	**4,061,063**	**(4,026,096)**	**(30,180)**	**7,545**
Other Investment Balances:					
Cash Deposits	115,609				75,666
Amount Receivable for Sales	1,003				-
Investment Income Due	2,010				1,950
Amount Payable for Purchases	-				-
Total Other Investments	**3,053,017**				**77,616**
Total Net Investment Assets	**3,054,199**	**4,385,852**	**(4,321,529)**	**(42,691)**	**3,034,825**

2021/22	Market Value 31 March 2021 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2022 £000
Long Term Investments					
Unquoted Equity Holding in Border to Coast Pensions Partnership	1,182	-	-	-	1,182
Total Long Term Investment	1,182	-	-	-	1,182
Investment Assets					
Pooled Investment Vehicles:					
Managed by Border to Coast	1,350,277	164,023	(42,957)	92,862	1,564,205
Unitised Insurance Policies	564,378	5,623	(6,278)	50,605	614,328
Unit Trusts	179,603	933	(34,037)	47,311	193,810
Other Managed Funds	566,026	77,661	(189,283)	104,890	559,294
Total Pooled Investment Vehicles	2,660,284	248,240	(272,555)	295,668	2,931,637
Other Investments:					
Derivatives:					
Open Forward Foreign Exchange (FX)	(1,964)	3,135,252	(3,113,086)	(17,444)	2,758
Total Other Investments	(1,964)	3,135,252	(3,113,086)	(17,444)	2,758
Other Investment Balances:					
Cash Deposits	97,725				115,609
Amount Receivable for Sales	-				1,003
Investment Income Due	2,023				2,010
Amount Payable for Purchases	(10,464)				-
Total Other Investments	89,287	-	-	-	118,622
Total Net Investment Assets	2,748,786	3,383,492	(3,385,641)	278,224	3,054,199

Note 12B. Investments analysed by Fund Manager

Fund Manager	31 March 2022 £000	%	31 March 2023 £000	%
Investments managed by Border to Coast:				
Global Equity Alpha	743,227	24.3	763,782	25.2
Listed UK Equity	477,827	15.7	462,066	15.2
Multi-Asset Credit	138,224	4.5	146,217	4.8
Investment Grade Credit	204,927	6.7	219,309	7.2
Unitised Insurance Policies				
Legal and General (Future World Fund)	464,046	15.2	463,892	15.3
Blackrock (Bond Portfolio)	150,282	4.9	124,858	4.1
Investments managed outside of the asset pool:				
Morgan Stanley (Private Markets)	485,548	16.0	477,535	15.7
Morgan Stanley (Legacy Private Equity)	8,240	0.3	6,891	0.2
Internally Managed (Property Unit Trusts)	194,136	6.4	140,579	4.7
Internally Managed (Infrastructure)	61,377	2.0	68,852	2.3
Internally Managed (Property)	25,577	0.8	86,656	2.9
Internally Managed (Cash managed by LCC Treasury Management Team)	53,000	1.7	58,000	1.9
Unallocated Cash	46,606	1.5	15,006	0.5
Total	3,053,017	100.0	3,033,643	100.0

Note 12C. Fund Assets exceeding 5%

The following table sets out where there is a concentration of investments which exceeds 5% of the total value of the net assets of the scheme (excluding holdings in Government Securities).

Fund Manager	31 March 2022		31 March 2023	
	£000	%	£000	%
Border to Coast (Global Equity Alpha)	743,227	24.2	763,782	25.0
Border to Coast (Listed UK Equity)	477,827	15.6	462,066	15.1
Border to Coast (Investment Grade Credit)	204,927	6.7	219,309	7.2
Legal and General (Future World Fund)	464,046	15.1	463,892	15.2
Morgan Stanley (Private Markets)	465,138	15.1	466,582	15.2

Note 13. Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the Fund. The use of any derivatives is managed in line with the investment management agreements 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. The Fund's alternative investment manager uses forward foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates.

Open Forward Currency Contracts

Settlement	Currency Bought	Local Value '000	Currency Sold	Local Value '000	Asset Value £'000	Liability Value £'000
Up to one month	None					
Over one month	GBP	1,788	AUD	3,255	23	
	GBP	12,691	CAD	21,103	83	
	GBP	12,536	EUR	14,152	67	
	GBP	445,832	USD	542,843	7,433	
	USD	13,658	GBP	11,091		(61)
Total					**7,606**	**(61)**
Net Forward Currency Contracts at 31 March 2023						**7,545**

Prior Year Comparative		
Open forward currency contracts at 31 March 2022	**3,089**	**(331)**
Net Forward Currency Contracts at 31 March 2022		**2,758**

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 2022/23 this was a loss of £30.180m (£17.444m loss in 2021/22).

Note 14. Fair Value – Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level One – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

Level Two – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level Three – where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

The basis of the valuation of each class of investment asset is set out below.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level One			
Quoted equities and pooled fund investments	The published bid market price ruling on the final day of the accounting period.	Not required	Not required
Quoted fixed income bonds and unit trusts	Quoted market value based on current yields.	Not required	Not required
Cash and cash equivalents	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	Not required	Not required
Level Two			
Unquoted equity investments	Average of broker prices.	Evaluated price feeds	Not required
Unquoted fixed income bonds and unit trusts	Average of broker prices.	Evaluated price feeds	Not required
Unquoted pooled fund investments	Average of broker prices.	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
Pooled property funds where regular trading takes place	Closing bid price where bid and offer process are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level Three			
Pooled property funds and hedge funds where regular trading does not take place	Valued by investment managers on a fair value basis each year using PRAG guidance.	NAV-based pricing set on a forward pricing basis.	Valuations are affected by any changes to the value of the financial instrument being hedged against.
Other unquoted and private equities (inc. private markets, infrastructure and private equity)	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple; Revenue multiple; Discount for lack of marketability; and Control premium.	Valuations could be affected by material event 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.
Shares in Border to Coast Pensions Partnership	Shareholdings in Border to Coast have been valued at cost i.e. transaction price as an appropriate estimate of fair value.	No market for shares held in Border to Coast. Disposal of shares is not a matter in which any shareholder can make a unilateral decision. Company is structured so as not to make a profit.	Valuation could be affected by future funding models, post-balance sheet events, or changes current operating procedures.

Sensitivity of assets valued at level 3

The Fund has determined that the valuation methods described above for level three investments are likely to be accurate within the following ranges, and has set out in the table over the page the consequent potential impact on the closing value of investments held at 31 March 2023.

	Potential variation in fair value (+/-)	Value as at 31 March 2023 £'000	Potential value on increase £'000	Potential value on decrease £'000
Hedge Funds	8%	120,715	130,372	111,058
Infrastructure	15%	68,498	78,773	58,223
Private Markets	15%	334,534	384,714	284,354
Property Venture	18%	41,187	48,601	33,773
Private Equity	23%	6,123	7,531	4,715

Note 14.A Fair Value Hierarchy

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.

Values as at 31 March 2023 – Observable Fair Value	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss:				
Pooled Investment Vehicles:				
Managed by Border to Coast		1,591,374		1,591,374
Unitised Insurance Policies	588,750			588,750
Unit Trusts		140,502		140,502
Other Managed Funds	11,332	45,466	571,058	627,858
Derivatives: Forward Foreign Exchange		7,545		7,545
Cash	4,390			4,390
	604,472	1,784,887	571,058	2,960,417
Financial liabilities at fair value through profit and loss:				
Derivatives: Forward Foreign Exchange				
	-	-	-	-
Financial assets at fair value through other comprehensive income and expenditure:				
Unquoted Equity Holding in Border to Coast Pensions Partnership			1,182	1,182
	-	-	1,182	1,182
Net Investment Assets	604,407	1,784,887	572,240	2,961,599

Values as at 31 March 2022 – Observable Fair Value	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss:				
Pooled Investment Vehicles:				
Managed by Border to Coast		1,564,205		1,564,205
Unitised Insurance Policies	614,328			614,328
Unit Trusts		193,810		193,810
Other Managed Funds	65,211	45,590	448,493	559,294
Derivatives: Forward Foreign Exchange		2,758		2,758
Cash	17,666			17,666
	697,205	**1,806,363**	**448,493**	**2,952,061**
Financial liabilities at fair value through profit and loss:				
Derivatives: Forward Foreign Exchange				
	-	-	-	-
Financial assets at fair value through other comprehensive income and expenditure:				
Unquoted Equity Holding in Border to Coast Pensions Partnership			1,182	1,182
	-	-	1,182	1,182
Net Investment Assets	**697,205**	**1,806,363**	**449,675**	**2,953,243**

Note 14B. Reconciliation of Fair Value Measurements within Level 3

2022/23 Observable Fair Value	Market value at 31 March 2022 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains / (losses) * £'000	Realised gains / (losses) * £'000	Market value at 31 March 2023 £'000
Infrastructure	61,136	5,359	(3,241)	4,452	792	68,498
Private Equity	7,593	-	(1,621)	(1,152)	1,303	6,123
Private Markets	368,397	114,982	(45,911)	8,129	9,653	455,250
Property Venture	11,367	31,622	(493)	(576)	(733)	41,187
Unquoted Equity Holding in Border to Coast Pensions Partnership	1,182	-	-	-	-	1,182
Total	**449,675**	**151,963**	**(51,266)**	**10,853**	**11,015**	**572,240**

2021/22 Observable Fair Value	Market value at 31 March 2021 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains / (losses) £'000 *	Realised gains / (losses) £'000 *	Market value at 31 March 2022 £'000
Infrastructure	50,793	7,190	(2,187)	4,941	399	61,136
Private Equity	13,712	5	(5,887)	(3,903)	3,666	7,593
Private Markets	306,562	58,179	(79,752)	68,864	14,544	368,397
Property Venture	6,878	7,751	(2,625)	(637)	-	11,367
Unquoted Equity Holding in Border to Coast Pensions Partnership	1,182	-	-	-	-	1,182
Total	**379,127**	**73,125**	**(90,451)**	**69,265**	**18,609**	**449,675**

** 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.*

Note 15. Financial Instruments

Note 15A. 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 2023			
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership				1,182
Pooled Investment Vehicles				
Managed by Border to Coast	1,591,374			
Unitised Insurance Policies	588,750			
Unit Trusts	140,502			
Other Managed Funds	627,856			
Derivatives: Forward Foreign Exchange	7,545			
Cash	4,390	95,199		
Other Investment Balances		1,950		
Sundry Debtors		26		
	2,960,417	**97,175**	**-**	**1,182**
Financial Liabilities				
Derivatives: Forward Foreign Exchange	-			
Other Investment Balances			-	
Sundry Creditors			(2,459)	
			(2,459)	
Grand Total	**2,960,417**	**97,175**	**(2,459)**	**1,182**

	31 March 2022			
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership				1,182
Pooled Investment Vehicles				
Managed by Border to Coast	1,564,205			
Unitised Insurance Policies	614,328			
Unit Trusts	193,810			
Other Managed Funds	559,294			
Derivatives: Forward Foreign Exchange	2,758			
Cash	17,666	113,674		
Other Investment Balances		3,014		
Sundry Debtors		248		
	2,952,061	**116,936**	**-**	**1,182**
Financial Liabilities				
Derivatives: Forward Foreign Exchange			-	
Other Investment Balances			(1)	
Sundry Creditors			(5,868)	
	-	-	(5,869)	-
Grand Total	**2,952,061**	**116,936**	**(5,869)**	**1,182**

15B Net Gains and Losses on Financial Instruments

	2021/22 £000	2022/23 £000
Financial Assets		
Fair Value through Profit and Loss	295,668	(12,511)
Total	**295,668**	**(12,511)**

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

Note 16. 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). 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 whole fund portfolio. The Fund achieves this 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 Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies have been established to identify and analyse the risks faced by the pension fund's operations. These are reviewed regularly to reflect changes in activity and market conditions.

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. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

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.

Other Price Risk

Other 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.

Other Price Risk - Sensitivity Analysis

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 2023/24; assuming that all other variables, in particular foreign exchange rates and interest rates remain the same (prior year comparatives are shown below):

Asset Type	Value at 31 March 2023 £000	Potential market movements (+/-)	Value on Increase £000	Value on Decrease £000
UK Equities	462,066	16%	535,997	388,135
Overseas Equities	1,227,674	16%	1,424,102	1,031,246
Bonds	344,167	7%	368,259	320,075
Multi Asset Credit	146,217	7%	156,452	135,982
UK Property	181,462	18%	214,125	148,799
Overseas Property	45,693	18%	53,918	37,468
Infrastructure	68,498	15%	78,773	58,223
Private Equity	232,951	23%	286,530	179,372
Private Debt	57,058	13%	64,476	49,640
Private Real Assets	49,694	16%	57,645	41,743
Other Alternatives	12,285	15%	14,128	10,442
Hedge Funds	120,717	8%	130,374	111,060
Total Assets Available	**2,948,482**		**3,384,779**	**2,512,185**

Asset Type	Value at 31 March 2022 £000	Potential market movements (+/-)	Value on Increase £000	Value on Decrease £000
UK Equities	477,827	14%	544,723	410,931
Overseas Equities	1,207,273	14%	1,376,291	1,038,255
Bonds	355,209	6%	376,522	333,896
UK Property	204,848	21%	247,866	161,830
Overseas Property	14,389	18%	16,979	11,799
Alternatives – Hedge Funds	88,884	8%	95,995	81,773
Alternatives - Other	376,254	10%	413,879	338,629
Multi Asset Credit	138,224	10%	152,046	124,402
Infrastructure	61,136	14%	69,695	52,577
Private Equity	7,593	20%	9,112	6,074
Total	**2,931,637**		**3,303,108**	**2,560,166**

Interest rate risk

The Fund recognises that interest rates can vary and can affect both income to the Fund and carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A Fund Manager, and experience, suggests that a movement of less than +/- 100 basis points (+/- 1%) in interest rates from one year to the next is likely.

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. 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.

Assets Exposed to Interest Rate Risk:

Exposure to Interest Rate Risk	Value at 31 March 2023 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	75,666	-	75,666	75,666
Cash balances	23,923	-	23,923	23,923
Bonds	344,167	3,442	347,609	340,725
Total	**443,756**	**3,442**	**447,198**	**440,314**

Exposure to Interest Rate Risk	Value at 31 March 2022 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	115,609	-	115,609	115,609
Cash balances	15,731	-	15,731	15,731
Bonds	355,209	3,552	358,761	351,657
Total	**486,549**	**3,552**	**490,101**	**482,997**

Income Exposed to Interest Rate Risk	Interest Receivable 2022/23 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	2,341	23	2,364	2,318
Bonds	-	-	-	-
Total	**2,341**	**23**	**2,364**	**2,318**

Income Exposed to Interest Rate Risk	Interest Receivable 2021/22 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	233	2	235	231
Bonds	-	-	-	-
Total	**233**	**2**	**235**	**231**

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data and in consultation with an investment manager, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 7%, as measured by one standard deviation (7% in 2021/22). A

7% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net asset available to pay benefits as follows:

Currency risk – sensitivity analysis

Assets Exposed to Currency Risk	Value at 31 March 2023 £000	Percentage Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas Hedge Funds	120,716	8,450	129,166	112,266
Overseas Infrastructure	15,245	1,067	16,312	14,178
Overseas Other Alternatives	12,285	860	13,145	11,425
Overseas Private Debt	55,949	3,916	59,865	52,033
Overseas Private Equity	232,951	16,307	249,258	216,644
Overseas Property	45,693	3,199	48,892	42,494
Overseas Private Real Assets	49,359	3,455	52,814	45,904
Total	**532,198**	**37,254**	**569,452**	**494,944**

Assets Exposed to Currency Risk	Value at 31 March 2022 £000	Percentage Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas Alternatives	433,316	30,332	463,648	402,984
Overseas Infrastructure	12,176	852	13,028	11,324
Overseas Private Equity	7,593	532	8,125	7,061
Overseas Property	14,389	1,007	15,396	13,382
Total	**467,474**	**32,723**	**500,197**	**434,751**

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. Assets potentially affected by this are investment assets and cash deposits. 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 its daily treasury activities. Credit risk may also occur if an employing body, not supported by central government, does not pay its contributions promptly, or defaults on its obligations.

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. At 31 March 2023 the balance at Barclays was £80.423m (£67.731m at 31 March 2022).

The Pension Fund closely monitors employer contributions each month. All contributions from employers due to the Fund for March 2023 were received by the beginning of May 2023. The Fund's current policy for all new employers into the scheme is to obtain a guarantee that will ensure all pension obligations are covered in the event of that employer facing financial difficulties.

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 Fund takes steps to ensure that it 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 assets (equities and bonds), instruments that can be liquidated at short notice, normally three working days. As at 31 March 2023, these assets totalled £2,033.907m (£2,040.309m as at 31 March 2022), with a further £99.589m held in cash (£131.340m as at 31 March 2022).

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.

Note 17. 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 2022 and the next valuation is due to take place as at 31 March 2025.

Description of Funding Policy

Details of the funding policy are set out in the Funding Strategy Statement (FSS), in summary, the key points are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and

- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

Further details are contained in the Fund's FSS.

Actuary's Statement

The last full triennial valuation of the Lincolnshire Pension Fund (the Fund) was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 30 March 2023.

Asset value and funding level

The results for the Fund at 31 March 2022 were as follows:

- The market value of the Fund's assets as at 31 March 2022 was £3,071m; and
- The Fund had a funding level of 101% i.e. the value of assets for valuation purposes was 101% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £18m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- Plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 24.1% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2023.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 5 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2022 are summarised below:

Financial Assumptions	Assumptions used for the 2022 Valuation
Market Date	31 March 2022
CPI inflation	2.9% p.a.
Long-term salary increases	3.9% p.a.
Discount rate	4.0% p.a.

Demographic Assumptions	Assumptions used for the 2022 Valuation
Post-retirement mortality:	
Base tables	S3PA tables
Projection model	CMI 2021
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements:	0.0% p.a.
2022/21 weighting parameter	5%

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2022 valuation report.

Updated position since the 2022 valuation

Assets

In the 12 months to 31 March 2023 the investment return on the Scheme's assets is estimated to have been -0.8% per annum. As the Fund has a positive cash flow the market value of assets at 31 March 2023 are unchanged since the formal valuation.

Liabilities

Inflation over the year to 31 March 2023 was higher than the long-term average assumed at the 2022 valuation. However, the projection for the future rate of long-term inflation from 31 March 2023 has reduced since the previous valuation.

Future investment returns from 31 March 2023 are expected to have increased slightly since the previous actuarial valuation, mainly due to a significant increase in bond yields.

Therefore, the actuary estimate that the liabilities are broadly similar to that at the formal valuation.

Overall position

The funding position as at 31 March 2023 is similar to the funding level at the previous valuation.

The Fund can continue to monitor the funding level using LGPS Monitor on a regular basis.

Barry McKay FFA
Partner, Barnett Waddingham LLP

Note 18. Actuarial Present Value of Promised Retirement Benefit

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the pension fund liabilities adopting methods and assumptions that are consistent with IAS19 on an annual basis.

Pension Account Disclosure as at 31 March 2023 (prepared in accordance with IAS26)

Introduction

Pension expense calculations have been undertaken in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2023. The calculations take into account current LGPS Regulations, as amended, as at the date of this report.

The LGPS is a defined benefit statutory scheme administered in accordance with the regulations and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website here and the Fund's membership booklet.

This report is prepared in accordance with the actuary's understanding of IAS26 and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). In calculating the disclosed numbers, they have adopted methods and assumptions that are consistent with IAS19.

This report should be read in conjunction with the post accounting date briefing note for disclosures as at 31 March 2023. A copy of this can be requested from the Fund.

Valuation Data

Data Used

The following items of data have been used in the calculations:

- 31 March 2022 - results of the latest funding valuation;
- 31 March 2022 - results of the previous IAS26 report;
- 31 March 2023 - actual Fund returns to;
- 31 March 2023 - Fund asset statement;
- 31 March 2023 - Fund income and expenditure items to; and
- 31 March 2023 - details of any new unreduced early retirement payments out to.

The data is provided by the administering authority and has been checked for reasonableness by the actuary and is sufficient for this purpose. Although some of these data items have been estimated, the actuary does not believe that they are likely to have a material effect on the results of this report. There have not been any material changes or events since the data was prepared.

Employer Membership Statistics

The table below summarises the membership data, as at 31 March 2022.

Member Data Summary	Number	Salaries/Pensions £000	Average Age
Active Members	24,013	397,111	46
Deferred Members	28,653	30,628	49
Pensioners	25,949	85,232	72

Payroll

The total estimated pensionable payroll for the employers in the Fund is £432,477,000 for the year to 31 March 2023 (£383,142,000 for year to 31 March 2022)

Unfunded benefits

Unfunded benefits are excluded from the calculations as these are liabilities of employers rather than the Fund.

Early retirements

The calculations include 46 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £254,000 (49 in the previous financial year totalling £413,300).

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2023 is calculated to be -0.8% based on the Fund asset statements and cashflows as set out in the data section above. The estimated asset allocation for Lincolnshire Pension Fund as at 31 March 2023 is as follows (noting that due to roundings they may not total 100%):

Asset Breakdown	31 March 2022		31 March 2023	
	£000	%	£000	%
Equities	2,223,948	72	1,689,740	56
Bonds	385,387	13	400,202	13
Property	322,305	10	228,002	8
Cash	139,274	5	96,506	3
Infrastructure	-	0	114,236	4
Absolute Return Fund	-	0	497,064	16
Total	**3,070,915**	**100**	**3,025,750**	**100**

Infrastructure and Absolute return fund were previously not identified separately in the 31 March 2022 report and were included within the other asset classes.

Actuarial methods and assumptions

Details of the actuarial methods and derivation of the assumptions used can be found in the 31 March 2023 briefing note issued alongside this report unless noted otherwise below. The key assumptions used are set out below.

Financial Assumptions	31 March 2021 % p.a.	31 March 2022 % p.a.	31 March 2023 % p.a.
Discount Rate	2.00	2.60	4.80
Pensions Increases	2.80	3.20	2.85
Salary Increases	3.10	4.20	3.85

In addition, actual pension increases up to and including the 2023 Pension Increase Order have been allowed for. This is reflected in the experience loss/(gain) on defined benefit obligation figure in the results. Actual CPI inflation experienced from September 2022 to March 2023 has also been allowed for.

The demographic assumptions adopted are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2022. These assumptions have been updated from those adopted at the last accounting date. Details of the post-retirement mortality assumption are set out below; further details of the demographic assumptions adopted can be found in the briefing note corresponding to this report, and the Fund's actuarial valuation report.

Post Retirement Mortality	31 March 2022	31 March 2023
Base table	S3PA	S3PA
Multiplier (MF)	130%/120%	130%/120%
Future Improvements model	CMI 2021	CMI 2021
Long term rate of improvement	1.25% p.a.	1.25% p.a.
Smoothing parameter	7.0	7.0
Initial additional parameter	0.0% p.a.	0.0% p.a.
2020 weight parameter	5%	5%
2021 weight parameter	5%	5%

The assumed life expectancies, based on the assumptions set out above, are set out in the table below:

Life Expectancy from age 65 years	31 March 2022	31 March 2023
Retiring Today		
Males	19.8	19.8
Females	22.9	22.9
Retiring in 20 years		
Males	21.0	21.1
Females	24.3	24.4

Fund Duration

The estimated duration of the Fund as at the accounting date, using the assumptions set out above is 17 years.

Results

The net surplus as at 31 March 2023 is estimated to be £211.497m.

Net Pension Asset in the Statement of Financial Position as at:	31 March 2022 £000	31 March 2023 £000
Present value of the defined benefit obligation	(4,1692,460)	(2,848,783)
Fair value of Fund assets (bid value)	3,070,915	3,060,280
Net liability in balance sheet	**(1,091,545)**	**211,497**

The present value of the defined benefit obligation consists of £2,814,706,000 in respect of vested obligation and £34,077,000 in respect of non-vested obligation (in the previous financial year present value of the defined benefit obligation consisted of £4,099,161,000 in respect of vested obligation and £63,299,000 in respect of non-vested obligation).

The figures presented in this report are prepared on an IAS19 basis and therefore will differ from the results of the 2022 triennial funding valuation (as Note 17) because IAS19 stipulates the discount rate applied.

Note 19. Current Assets

	31 March 2022 £000	31 March 2023 £000
Short Term Debtors		
Contributions due - Employers	5,614	3,172
Contributions due - Employees	1,442	727
Debtors relating to Members	704	719
VAT Debtor	299	115
Sundry Debtors	248	26
Total Short Term Debtors	**8,307**	**4,759**
Cash Balances	15,731	23,923
Cash Balances	**15,731**	**23,923**
Total Current Assets	**24,038**	**28,682**

Note 20. Current Liabilities

	31 March 2022 £000	31 March 2023 £000
Creditors		
Contributions – paid in advance	(42)	(34)
Creditors relating to Members	(1,414)	(734)
Sundry Creditors	(5,868)	(2,459)
Total Current Liabilities	**(7,324)**	**(3,227)**

Note 21. 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 £7.789m (£8.360m in 2021/22). Member contributions of £0.836m (£0.792m in 2021/22) were received by the Prudential in the year to 31 March and £1.971m (£1.590m in 2021/22) 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.

Note 22. Related Party Transactions

Lincolnshire County Council

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. During the reporting period, the council incurred costs of £0.267m (£0.258m in 2021/22) 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 £46.164m (£41.404m in 2021/22) to the Fund in 2022/23. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the 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 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 £67.390m (£69.945m in 2021/22) and interest of £1.579m (£0.199m in 2021/22) was earned over the year.

Pensions Committee

Each member of the Pension Fund Committee is required to declare their interests at each meeting and also is asked to sign an annual declaration disclosing any related party transactions. Three Committee members: A Antcliff (Employee Representative), S Larter (Small Scheduled Bodies Representative) and T Hotchin (Academy Sector Representative) were contributing members of the Pension Fund during 2022/23. Cllr R Waller's daughter and partner (District Council Representative) were also contributing members of the scheme during 2022/23. S Larter (Small Scheduled Bodies Representative) is also a deferred member of the scheme and Cllr M Allan is in receipt of a pension from the Fund.

Border to Coast Pensions Partnership

Lincolnshire Pension Fund is a minority shareholder in Border to Coast Pensions Partnership. It holds a £1 A share which gives the Fund one vote. The Fund also holds £1.182m (£1.182m in 2021/22) of regulatory share capital (B shares). These are included within long term investments in the net asset statement. At 31 March 2023 the Fund had invested in four sub-funds managed by Border to Coast Pensions Partnership: Global Equity Alpha, UK Listed Equities, Investment Grade Credit and Multi-Asset Credit (details shown in Note 12). During 20222/23 the Fund paid Border to Coast £4.126m (£3.421m in 2021/22) to manage these assets and the company.

Note 23. Key Management Personnel

The key management personnel of the Fund are the Executive Director of Resources, Assistant Director Finance, Head of Pensions, and Accounting, Investment and Governance Manager. The Fund does not employ any staff directly. Lincolnshire County Council employs the staff involved in providing the duties of the Administering Authority for the Fund. The proportion of employee benefits earned by key management personnel relating to the Pension Fund are: £0.137m short term benefits (£0.136m in 2021/22) and £0.024m post-employment benefits (£0.024m in 2021/22).

Note 24. Contractual Commitments

At 31 March 2023 the fund had outstanding capital commitments (investments) to fourteen investment vehicles, amounting to £37.755m (£79.172m as at 31 March 2022). These commitments relate to outstanding call payments due on unquoted limited partnerships making investments in private equity, property or infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over the lifetime of the funds.

Note 25. Events After the Balance Sheet Date

There have been no events after the balance sheet date that requires adjustment or disclosure within the accounts.

Glossary of Terms

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure and property, and financial assets such as private equity and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Asset Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: 'significantly reducing costs whilst maintaining investment performance'.

Auto Enrolment – UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria, and repeat this process every three years to re-enrol any employees that have opted out of the pension scheme.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Consumer Price Index (CPI) – The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Counterparty – The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to complete. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of assets, income collection and settlement of trades for a portfolio, independent from the asset management function.

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes are defined benefit schemes.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Fiduciary Duty – A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – One type of defined benefit pension scheme where employee benefits are based on the person's final salary when they retire. The LGPS Scheme has moved from this to a CARE (career average revalued earnings) scheme in 2014.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Infrastructure – The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – The investor's long-term distribution of assets across various asset classes taking into consideration their objectives, their attitude to risk and timescale.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pensions benefits and payments that are due to be paid when someone retires.

Market Value – The price at which an investment can be bought or sold at a given date.

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Portfolio – Block of assets generally managed under a single mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or designating bodies that have an automatic right and requirement to be an employer within the LGPS.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance, such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Lincolnshire Fund and produces a report on the Fund's financial position.

Audit Opinion

Independent auditor’s statement to the members of Lincolnshire County Council on the pension fund financial statements included within the Lincolnshire Pension Fund annual report.

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2023 included within the Lincolnshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements included within the Lincolnshire Pension Fund annual report are consistent with the audited financial statements of Lincolnshire County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Respective responsibilities of the Executive Director of Resources and the auditor

As explained more fully in the Statement of the Executive Director of Resources’ Responsibilities, the Executive Director of Resources is responsible for the preparation of the Pension Fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Lincolnshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Lincolnshire County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Lincolnshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor’s statement

This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Lincolnshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lincolnshire County Council and Lincolnshire County Council’s members as a body, for our audit work, for this statement, or for the opinions we have formed.

Cameron Waddell (Key Audit Partner)
for and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1 DF

20 December 2023

Additional Information Available

Additional information regarding the Pension Fund and the scheme is available by going to the Council's website.

The following documents are also included in this report.

Funding Strategy Statement

This document is prepared in collaboration with the Fund's actuary and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years as part of the triennial valuation process.

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. There have been no changes made over the year.

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.

Pensions Administration Strategy

This document details how the Pension Fund is administered within the shared service. It outlines the processes and procedures to allow the Funds and employers to work together in a cost-effective way to administer the LGPS, whilst maintaining an excellent level of service to members. There have been no changes over the year.

Lincolnshire Pension Fund Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the Lincolnshire Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Lincolnshire County Council's strategy, in its capacity as administering authority, for the funding of the Lincolnshire Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Lincolnshire County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

2022 valuation results	
Surplus (Deficit)	£18m
Funding level	101%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 24.1% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the **Deficit recovery/surplus amortisation periods** section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate. The minimum primary rate for employers is set at 10%.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and

The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. This discount rate is referred to as the "ongoing" discount rate.

A summary of the financial assumptions adopted for the 2022 valuation is set out in the table below:

Financial assumptions as at 31 March 2022	
CPI inflation	2.9% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on during 2022/23 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sergeant judgment can be found below in the **Regulatory risks** section.

Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

The 2022 valuation approach for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount depending on group.

Where the valuation for an employer discloses a surplus, the preferred approach is for contribution rates to be set as the calculated primary rate as a minimum rate. However, the level of required employer contributions may include an adjustment to amortise the surplus but must be permitted by the administering authority. This will be considered, as appropriate, on a case-by-case basis.

The deficit recovery period or amortisation period that is adopted for any employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

As part of the 2022 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). Where the review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer.

Type of employer	Examples	Maximum recovery period	Deficit paid as
Major scheduled bodies	County and district councils, police and fire bodies	17 years	Monetary amounts, other than maintained schools where percentage of payroll applies
Small scheduled bodies	Town and parish councils	17 years	Percentage of payroll
Further education bodies	Colleges, universities	12 years	Monetary amounts
Academies	Academies, free schools	17 years	Monetary amounts
Community admission bodies	Charities	Remaining contract length, subject to a maximum of 12 years	Monetary amounts
Drainage boards	Internal drainage boards	17 years	Monetary amounts
Transferee admission bodies	Contractors	Remaining contract length, subject to a maximum of 12 years	Monetary amounts
Resolution bodies	Other employers who are able to join the LGPS by making a resolution under Schedule 2 Part 2 of the regulations.	17 years	Monetary amounts

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Lincolnshire County Council Pool	Past and future service pooling	All employers in the pool pay the same total contribution rate. Some employers participate in the pool on a pass-through basis
City of Lincoln Council	Past and future service pooling	All employers in the pool pay the same total contribution rate. Some employers participate in the pool on a pass-through basis
Police and Crime Commissioner for Lincolnshire & Mitie	Past and future service pooling	All employers in the pool pay the same total contribution rate
Small scheduled bodies	Past and future service pooling	All employers in the pool pay the same total contribution rate
Academies	Past and future service pooling by multi-academy Trust	Some multi-academy trusts are pooled. This means that all academies in the pool pay the same total contribution rate. This includes: o Voyager Education Partnership o CIT Academies o David Ross Education Trust o Horncastle Education Trust o Cambridge Meridian Trust o Priory Federation of Academies o Our Lady of Lourdes Catholic Multi-Academy Trust o Tall Oaks Academy Trust o Tollbar MAT o Wellspring Academy Trust o Abbey Academies Trust
Ill-health and death-in-service	Ill-health and death-in-service risk only	Applies to all employers in the Fund apart from the Lincolnshire County Council pool

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

Contribution payments

Employers pay contributions monthly. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. The frequency of monetary amounts payable are agreed with the Fund and must be received by 31 March of each relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate, but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority.

No discount will be offered in exchange for early payment of either primary or secondary contributions.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

The default approach (which took effect from September 2020) is for admission bodies to join the Fund under a pass-through arrangement. Under a pass-through arrangement, the letting authority retains the pensions risk. The admission body is responsible for paying the agreed contribution rate and also additional costs as set out in each admission agreement e.g. redundancy and early retirement costs.

Before September 2020, the default approach was a full risk transfer. Under a full risk transfer the admission body becomes responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. The administering authority may consider requests for a full risk transfer from new admission bodies.

Funding at start of contract

For pass-through and full transfer of risk arrangements, it may be appropriate for the new admission body to be allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

For pass-through employers the funding position will be re-set at 100% at each triennial valuation, with the balancing assets moved to/from the letting authority's section of the Fund as required. No such re-set is carried out under a full transfer of risk arrangement.

There may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The default approach for a new admission body with a pass-through arrangement will be for a simple fixed rate to apply The minimum acceptable rate payable by a pass through employer is the primary rate certified at the previous valuation for the letting authority. Consideration will be given to a variable rate in line with the cost of benefit accrual where the contract is for a long period.

- The simple fixed rate will be fixed at the outset and not re-calculated during the remainder of the contract. This will usually be set out as part of the commercial contract between the letting authority and the contractor. Where this rate differs from the cost of future benefits calculated by the actuary, the balance will be incorporated into the letting authority's certified rate.
- The variable rate would initially be set as the simple fixed rate, in line with the ceding employer's contribution rate, and then adjusted at each valuation in line with the change in the ceding employer's cost of future benefit accrual calculated by the actuary. The contribution rate may therefore change as a result of changes in the membership profile of the ceding employer and updated assumptions, such as future investment returns, inflation and life expectancy. The letting authority retains much of the market risk (e.g. asset performance) and experience (e.g. if inflation has been higher between the valuation periods than assumed).

For a full-risk transfer, the contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Accounting

Under the simple fixed rate pass-through arrangement, for accounting purposes, the contractor's obligation is simply to pay the agreed contribution rate. The contractor would not be expected to include any liability in respect of their LGPS pension participation on their balance sheet. Instead, the letting authority would include it in their disclosures. The contractor may report its participation in the LGPS as if it were a defined contribution scheme.

Under the variable rate pass-through arrangement, it is less clear whether the contractor needs to include a liability on their balance sheet, they are subject to some pensions risk but they never have the possibility of a past service funding deficit so it could be argued that they have no accounting balance sheet obligation. In these cases, the contractor and letting authority should check with their auditors what their requirements are.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although pass-though is the default approach, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that the pensions risk is shared between the letting authority and the new admission body.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution rate

Where an academy joins an existing multi-academy trust in the Fund which is pooled, the contribution rate payable will be in line with the contribution rate certified for the existing academies in that pool at the 2022 valuation.

Where an academy joins an existing multi-academy trust in the Fund which is not in a pool, the new academy may be provided an individual contribution rate.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next Rates and Adjustments Certificate.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund

Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

If there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a prudent "ongoing" basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Exit credit policy

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the administering authority, the exiting employer and the guaranteeing employer (if relevant). Please see Appendix 1 for more information.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document here. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the timing of future actuarial valuations. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the **Regulatory risks** section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. The Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The administering authority is currently implementing an ill-health/death-in-service self-insurance pool within the Fund whereby a portion of all employers' contributions paid into the Fund are allocated to a segregated ill-health/death-in-service section of the Fund. This will cover ill-health retirement benefits and death-in-service benefits for all employers, excluding employers participating in the Lincolnshire County Council pool, and will be effective from 1 April 2023. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the **Regulatory risks** section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control mechanism and HMT believed that all public sector scheme should have the cost control test happen at the same time.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Appendix 1 – Exit Credit Policy

The below sets out the general guidelines that the Lincolnshire Pension Fund ("the Fund") will follow when determining the amount of an exit credit payable, if any, to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). **Please note that these are guidelines only and the Fund will also consider any other factors that are relevant, or presented to them, on a case-by-case basis.**

Admitted bodies

a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph c) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund, and those admissions who joined the Fund after September 2020 and chose to become admitted through the Funds former standard admission route.

a) No exit credit will be payable to any admission body who participates in the Fund via the default pass through approach (effective from September 2020) as set out in this Funding Strategy Statement. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph c) below.

b) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Administering Authority) of the admission body ceasing participation in the Fund.

c) In the absence of this information or if there is any dispute from either party with regards to the interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.

d) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

e) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies), the total assets of the employer and the size of any cessation surplus.

f) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

g) The decision of the Fund is final in interpreting how any arrangement described under c), e), f) and g) applies to the value of an exit credit payment.

Scheduled bodies and resolution bodies

a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.

d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

e) If a scheduled body or resolution body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

General

a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

b) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

c) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

d) The final decision will be made by the Head of Pensions, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

e) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

f) Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the administering authority and the exiting employer may agree. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

g) The guidelines above at point e) in the 'Admitted Bodies' section, and at points a) and b) in the

‘Scheduled bodies and resolution bodies’ section, make reference to the Fund ‘considering the approach to setting contribution rates during the employer’s participation’. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in the Funding strategy section of this document. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined in the **Funding strategy** section of this report). Equally, a shorter than usual funding time horizon or lower than usual likelihood of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Investment Strategy Statement

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 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 Head of Pensions.

The ISS, which was last approved by the Committee on 18 March 2021, 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, which was last approved by the Pensions Committee on 18 March 2021, complies with these Regulations.

INVESTMENT STRATEGY

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

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 Beliefs

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken. It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

Belief 1:

The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.

It is recognised that investment risk is needed in the Fund to generate the required returns, however this needs to be considered on an on-going basis to ensure it is appropriate (i.e. not too high or too low) given the Fund's objectives

Belief 2:

Funding, contribution requirements, and investment strategy are linked; as the funding position and contribution requirements change, the level of investment risk should be adjusted accordingly.

The Committee's aim is to strike a reasonable balance between 1) building up a pool of assets to meet members' benefits when they fall due, 2) maintaining contribution requirements at a reasonable and affordable level, and 3) minimising investment risk.

Belief 3:

Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.

The Committee accepts that by "locking away" funds for longer periods of time, the Fund should expect to be compensated for the lack of liquidity in the form of higher expected returns. However it is understood that this is not suitable for all the assets in the Fund. The Fund's investments should be diversified by combining assets with different risk, return and liquidity characteristics, whilst maintaining realistic expectations about the potential for sources of return to become correlated under market stress. The Committee believes an appropriate portion of the Fund should be invested in non-core asset classes, i.e. alternative assets, to provide diversification and reduce overall volatility of returns.

Belief 4:

Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.

The Committee believes that active managers can add a return premium over investment markets, over the longer term, but accept that this has a cost. Therefore this is balanced with allocations to passive management to produce market returns at a very low cost.

Belief 5:

Although fees and costs matter, it is the expected return net of all fees and costs that should be the Committee's focus, however it is important that the value provided by an investment is commensurate with its cost.

The cost of accessing different asset classes and different management styles must be understood to ensure that the Fund is obtaining value for money, however the expected net return is the most important consideration when assessing investment opportunities and monitoring investment performance. The Fund expects its managers to have signed up to the Cost Transparency Code, and it also participates in fee benchmarking to assess the fees being paid relative to other pension schemes.

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 approved 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. The current allocation may differ in the interim as assets are transferred to the sub funds within Border to Coast.

Asset class	Strategic allocation	Range	Maximum
Equity Assets	55%	+/- 7%	62%
UK equities	15%	+/- 2%	17%
Global equities	40%	+/- 5%	45%
Diversifying Growth Assets	31.5%	+/- 4.5%	36%
Diversified Alternatives (incl. infrastructure and multi asset credit)	21%	+/- 3%	24%
Property	10.5%	+/- 1.5%	12%
Protection Assets	13.5%	+/- 2%	15.5%
Fixed Income	12.5%	+/- 1.5%	14%
Cash	1%	+/- 0.5%	1.5%

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 regularly reviews the suitability of the asset allocation, 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, alongside 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
Equity Assets	
UK Equities	FTSE All Share
Global Equities	MSCI All Countries World Index
Diversifying Growth Assets	
Alternatives	SONIA +0.1193% +4%
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Multi Asset Credit	SONIA +3.5%
Protection Assets	
UK Gilts	FTSE UK Gilts All Stocks Index
Corporate Bonds	iBoxx £ Non-Gilts Index
UK Index Linked	FTSE UK Gilts Index-Linked Over 5 Years Index
Cash	SONIA – 10bps (three month average)

The suitability of particular investments and types of investments

The actuarial valuation, undertaken by Hymans Robertson at 31 March 2019, was prepared on the basis of an expected investment return of 4% p.a., based on a 71% likelihood of that return being achieved over the next 20 years, and assuming inflation (CPI) to be 2.3%. 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 on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of overall fund performance.

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.

Investment Pooling

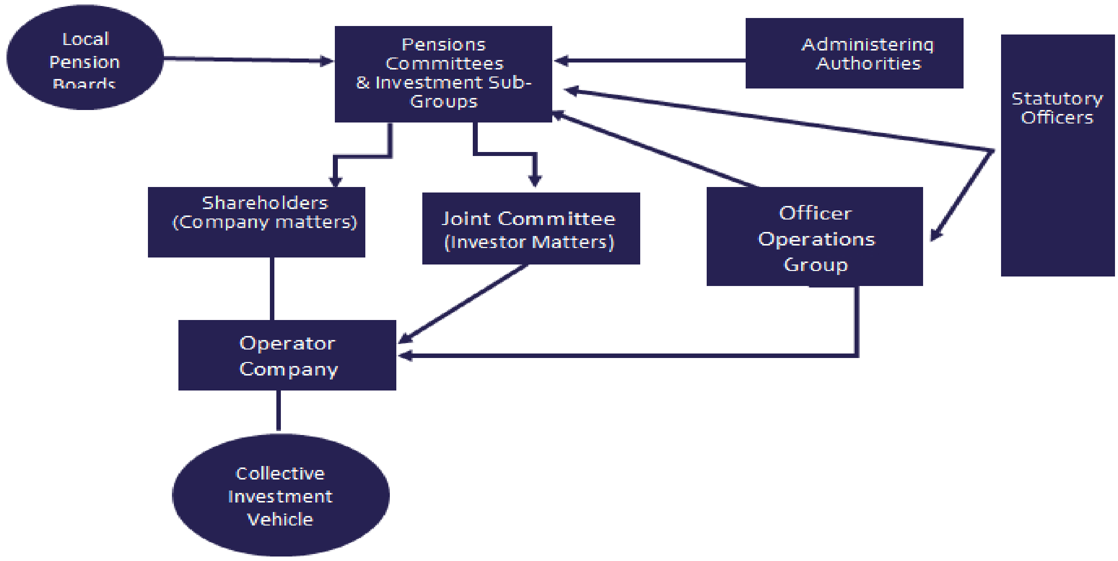
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, the Pension Fund elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border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

Border to Coast 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
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The governance structure of Border to Coast is set out in the diagram below:



The Fund holds Border to Coast 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 Border to Coast.
- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund retains the decision making powers regarding asset allocation and delegates the investment management function to Border to Coast.

A significant proportion of the Fund's investments are already made through Border to Coast, however 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 legacy unquoted investments such as limited partnerships. Whilst these assets may not to be transferred, once these investments mature the proceeds will be reinvested into Border to Coast sub-funds. At the current time it is estimated that c. 70% of the Fund's assets will be invested in Border to Coast, subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are held outside of the pool, to ensure that it continues to demonstrate value for money. As required, the Fund will submit reports 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, taking ESG matters very seriously and monitoring the investment managers' approach to ESG.

Responsible Investment Beliefs

The objective of the statement is to set out the Fund's key responsible investment (RI) beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they will be used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

Belief 1:

Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.

The Committee believes that companies that have well developed ESG policies will generally provide better long term performance than those companies that have not considered ESG factors in their business.

Belief 2:

The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered. Disinvestment on a whole sector basis is not within the Committee's beliefs.

Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails.
While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

Belief 3:

Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes.

The Committee believes that climate change risk and the transition to a low carbon economy should be factored into asset allocation decisions and also investment decisions by managers to reduce the long term financial risk, but also to take advantage of the opportunities that may be available.

Belief 4:

The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

The main objective of the Pension Fund is to ensure that it is able to pay benefits to its members as and when they fall due. Therefore financial considerations will be at the forefront of any investment or asset allocation decisions.

Belief 5:

The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.

The Committee believes that the consideration of ESG factors when making investment decisions should not be an add-on but should be embedded into the whole investment selection process. Any active managers appointed by the Fund will be expected to evidence this.

Belief 6:

The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

The Committee believes that the Fund has a stronger voice when working with others, be it Border to Coast Pensions Partnership, Local Authority Pension Fund Forum (LAPFF) or any other organisations. The Fund will work with them and the investment managers to ensure that it understands the ESG risks and how best to address them. It is considered that the Pensions Committee represents the views of the Fund membership and, in addition, the views of the Local Pension Board are taken into account as part of their review of this document.

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

The Fund has published its Responsible Investment Policy and Voting Guidelines on the Council's website.

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long term value for shareholders. The Fund believes that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believes that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), should 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. The Fund has successfully met the Financial Reporting Councils standards in its Stewardship Code Statement, which reflects on the activities and outcomes of the Fund against the 12 principles of the code in the financial year 2020/21.

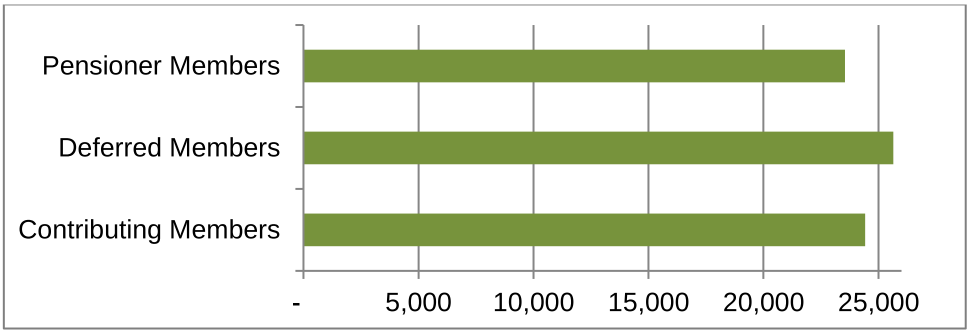
Lincolnshire County Council Pension Fund Stewardship Code 2021/22

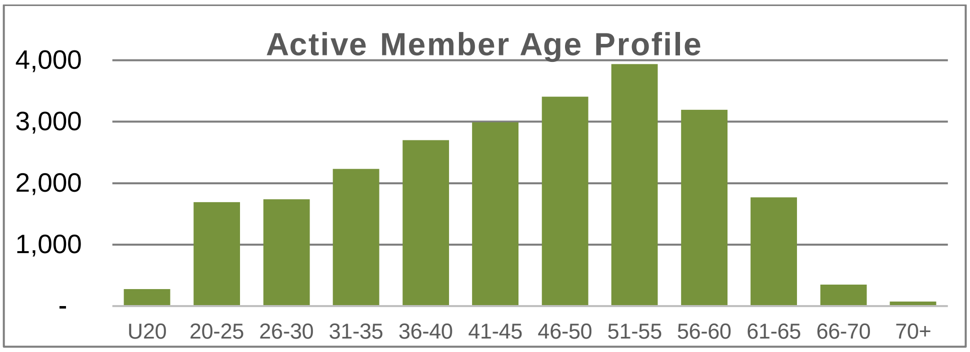
"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

Background and Context

Fund Facts (as at 31 March 2022)

Membership: 73,608



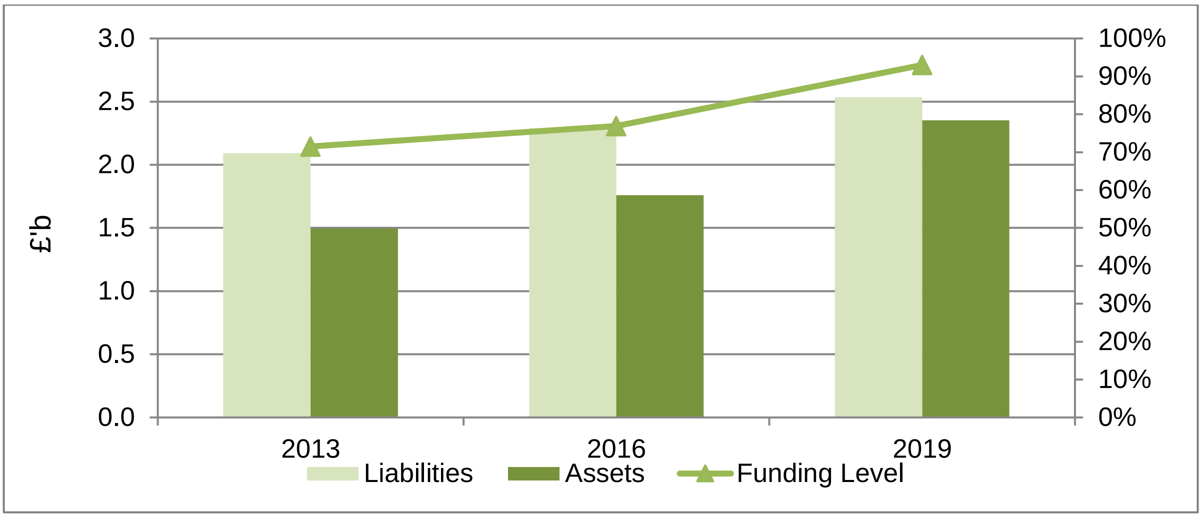


Employers: 260

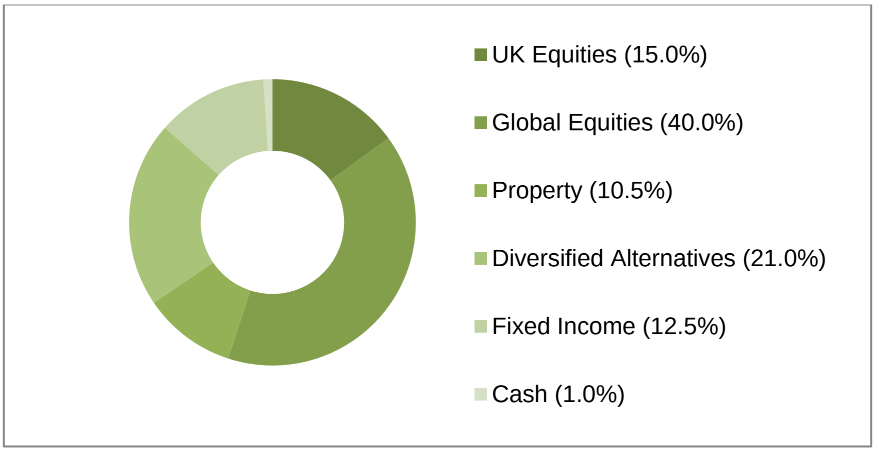
Contributing employers, either in Lincolnshire, or providing services to these employers, include:

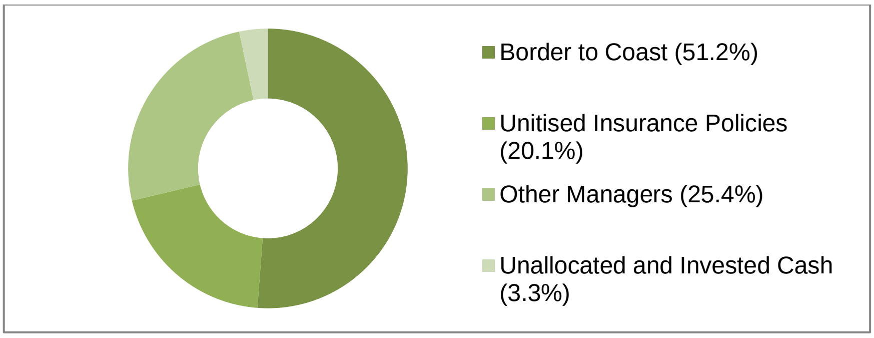
Employer Type	Number
Councils and Police	10
Academies	175
Community Admission Bodies	4
Further Education Bodies	4
Internal Drainage Boards	9
Resolution Bodies	2
Small Scheduled Bodies	30
Transferee Admission Bodies	26

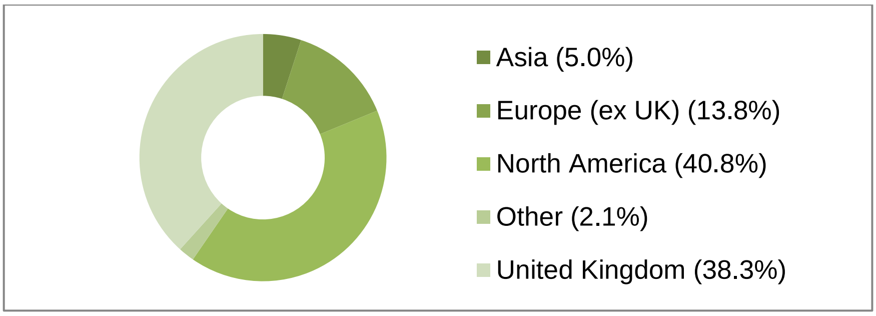
Funding Position



Invested Assets: £3.1bn







Lincolnshire Pension Fund

Lincolnshire Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers. The LGPS is a multi-employer scheme which is open to new membership. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid.

As the scheme is well funded and open to new members, with the majority of its employers being secure, tax-backed employers, the Fund is able to take a long-term view on investments and generally looks over a twenty year plus period when assessing its investment strategy. A young scheme member joining today may not be entitled to take their pension for another 50 years, so all investment decisions are made with a long-term focus.

Scheme regulations are set on a national basis, but individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but has a committee made up of elected Councillors and other interested parties, representing other employers in the Fund and scheme members. The Fund's Pensions Committee performs similar duties to Trustees, under the administering authority of Lincolnshire County Council, and is the decision-making body responsible for the investments and the administration of benefits under the scheme.

The Fund has oversight and scrutiny from a Local Pension Board, established under the PSPA 2013. The Board's role is to assist the Committee in securing good governance and administration of benefits for the scheme members and employers.

The purpose of the Fund is to provide pensions and other associated benefits to Lincolnshire's LGPS members when they fall due. In order to do this, it seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. More information on the Fund can be found in its Annual Report and Accounts.

Fund Governance Structure

Lincolnshire County Council, as Administering Authority for the Fund, has delegated the investment arrangements of the Pension Fund to the Pensions Committee (the "Committee"), who decide on the investment policy most suitable to meet the liabilities of the Fund. Terms of Reference for the Committee are set out in the Council's Constitution (on page 48).

The Committee is made up of County Councillors, and employer and scheme member representatives as detailed in the table below. This ensures that both employers, who bear the financial risk of the Fund, and scheme members who will be, or are, receiving benefits from the scheme, are involved in the decision-making process. All members of the Committee have full voting rights. All councillors are required to follow the code of conduct set out within the constitution.

Body/category of bodies represented:	Membership
Lincolnshire County Council (elected Councillors)	8
District Council Representative (West Lindsey District Council)	1
Small Scheduled Body Representative (Witham Internal Drainage Boards)	1
Scheme Member Representative (Unison)	1
Total:	**11**

The Committee meet quarterly to provide oversight and challenge across all areas of the Fund. In addition to this, a further two meetings are held for manager presentations and there are two training meetings each year.

The Committee has a fiduciary duty to its employers and members and is required to take account of financially material considerations, whatever their source, and this includes environmental, social and governance considerations, including climate change. It recognises the vital role of being a responsible asset owner to meet its requirements to be a long-term sustainable investor.

In order to effectively carry out their role, the Committee obtain professional advice as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The Fund's principle professional advisors are summarised in the table below:

Investment Consultant:	Hymans Robertson
Independent Advisor:	Peter Jones
Main Asset Managers (managing over 5% of assets):	Border to Coast Pension Partnership (Border to Coast) Legal and General Investment Management BlackRock Investment Management Morgan Stanley
Voting and Engagement Advisor:	Local Authority Pension Fund Forum (LAPFF)

Internally, the Committee is supported by Officers of the Council including the Executive Director of Resources (S151 Officer to the Fund), Assistant Director – Finance, Head of Legal Services (Monitoring Officer), Head of Pensions, and Accounting, Investment and Governance Manager. The key officers involved in the day-to-day management of the Fund, are set out below, with relevant qualifications and experience:

Name and title	Experience	Relevant Qualifications	Years Relevant Experience
Jo Ray Head of Pensions	Jo started in the Pensions team in 1999, as an Investment Officer, and has worked through positions of Assistant Investment Manager, Investment Manager and has been Head of Pensions since 2008. She has covered every aspect including internal portfolio management, fund accounting and governance. Prior to the pensions team Jo worked in the accountancy and financial systems teams at the Council.	IMC	23
Claire Machej Accounting, Investment and Governance Manager	Claire joined the team in 2018, having previously worked as a Head of Finance for the Council in the Corporate team. She is a fully qualified accountant and has completed stage one of the IMC qualification and expects to complete the second stage in early 2023.	CPFA (studying IMC)	4

Additionally, the County Council established a Local Pension Board (the "Board") under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Pension Fund Committee. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager, as set out in the Board's Terms of Reference. Such assistance is to:

a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme, and;

b) Ensure the effective and efficient governance and administration of the Scheme.

The Board consists of four voting members; two representing Scheme Members and two representing Scheme Employers, and an Independent Chairman.

Pooling – Border to Coast Pensions Partnership

To meet the government's requirement to pool assets, the Fund joined Border to Coast Pensions Partnership ('Border to Coast') with 11 other like-minded Funds. Border to Coast was created in 2018 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM).

It is the Fund's intention to invest its assets via Border to Coast as and when suitable sub-funds become available. To date, the Fund has transitioned assets into four Border to Coast sub-funds: Global Equity Alpha, UK Listed Equity, Investment Grade Credit and Multi Asset Credit. This represented 51.2% of the Fund assets as at 31 March 2022. As Border to Coast will, overtime, be the main asset manager for the Fund's investments, a strong oversight and governance structure has been created.

The governance structure has been developed to allow Border to Coast to function efficiently and for Funds to control and hold it to account. Each member Fund has two roles with Border to Coast: that of shareholder and owner of the Company (at Lincolnshire this role is carried out by the Executive Director of Resources, the S151 Officer for the Council), and as an investor in the products managed by Border to Coast, which is the responsibility of the Pensions Committee. Oversight of the Company is undertaken through a Joint Committee, made up of the Chairs of the Partner Fund Pensions Committees. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds and provide continuous feedback to Border to Coast. The roles and responsibilities of Border to Coast, the Fund and its other stakeholders can be found in the Border to Coast Governance Charter.

Employers and Scheme Members

The Fund, as a participant in the LGPS, is a defined benefit scheme. The Lincolnshire Fund has around 74,000 members who will or do receive benefits from the scheme. The Fund also has 260 active employers contributing to the scheme at 31 March 2022.

As a defined benefit scheme, the benefits received by members are set out in statute, as are contribution rates for active members. Unlike a defined contribution scheme, employers, rather than scheme members, bear the investment risk and are responsible for making up any funding shortfall that arises because of poorly performing investments. Contribution rates for employers are calculated at the triennial valuation, alongside the overall funding position.

The Fund regularly engages with both employers and members to ensure they are aware of developments which may have an impact on them.

Funding Strategy Statement and Investment Strategy Statement

Within LGPS regulations, the Fund is required to have and publish a Funding Strategy Statement and an Investment Strategy Statement.

Funding Strategy Statement (FSS)

This document is prepared in collaboration with the Fund's actuary, and after consultation with the Fund's employers and investment adviser it is approved by the Pensions Committee. It sets out the process for the setting of employer contribution rates. The FSS is reviewed in detail at least every three years as part of the triennial valuation process.

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

- 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;
- 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.

Investment Strategy Statement (ISS)

This document sets out the primary objective of the Fund, which is to provide pension benefits for members and their dependents, as and when they fall due. It states how 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.

The ISS sets out the agreed investment beliefs, responsible investment beliefs, investment strategy, the approach to risk and how it will pool investments.

Round Up of the Year

The Covid-19 pandemic continued to impact markets during 2021, and the investment and administration teams slowly moved back to the office to work in a hybrid style, as much of the UK was moving to. Communication with employers and scheme members remained mainly virtual. The invasion of Ukraine by Russia in early 2022 caused much concern across the globe, and markets reacted accordingly. However, as an open defined benefit scheme, our focus is on the long term and the Funds investment strategy and approach were reviewed but unchanged. During the year meetings with the Committee and Board gradually moved back to in-person, as did some meetings with Border to Coast, Fund managers and other partners.

Key stewardship activity undertaken across the year:

- Working with the alternatives manager to increase the focus on private markets and include a specific bias towards investments in clean and renewable assets;
- Workshops with Border to Coast on Responsible Investment (RI) policies;
- Workshops with Border to Coast on achieving net zero within the investment vehicles;
- Approving the Border to Coast RI policies and aligning our own policies;
- Expansion of the standalone stewardship report, part of the quarterly suite of Committee reports; and
- Voting and engaging on key issues with a wide range of global companies, through our asset pool and LAPFF.

Areas for improvement in the stewardship activities undertaken by the Fund are highlighted in the action plan at appendix A.

PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society

Activity:
The Fund's policies are the mechanism through which it expresses and implements its investment beliefs, strategy, and culture. They provide the framework for effective governance and stewardship – both of Fund assets and of the Fund as a whole. The Fund considers that having investment beliefs clearly defined assists it to choose managers and other service providers whose approach is most closely aligned to our own. These beliefs were developed through facilitated decision-making which challenged Committee members to consider investment and RI beliefs, to develop a strategy for the long-term benefit of the Funds employers and members. The Fund formally reviews its Investment Strategy Statement and other policies annually in March to ensure that they remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements), and to provide an opportunity for the Committee to discuss and reflect on the current policy and consider if any changes are required. Details of the review of the policies in March 2021, in preparation for the year ended 31 March 2022, can be found at agenda item 12 in the Committee Papers. As a number of the Committee were newly appointed in May 2021, following Council elections, all new Committee members undertook induction training to ensure beliefs and culture are understood and embedded. In addition, the investment beliefs and the responsible investment beliefs were reviewed in a training session held in February 2022. This involved a three-hour session facilitated by the Investment Consultant, exploring in depth whether the current sets of beliefs were still representative of the Committee's views, and challenging them to ensure that they could be translated into investment strategy. Following this session, a paper was brought to the March 22 Committee to agree the final beliefs, which can be found at item 10 in the Committee Papers. The Pensions Committee, whilst being a political Committee under Local Government Regulations, is regularly reminded of its fiduciary duty to the scheme beneficiaries rather than to the Council or the elected members' constituents. The Committee monitors the responses to the members satisfaction surveys carried out by the administration provider, which are reported to each quarterly Committee meeting.

Outcome:

The five new members of the Pension Committee all received one-to-one training from the Head of Pensions before their first Committee meeting in July 2021. The training pack covered all aspects of managing the pension fund, including their fiduciary duty responsibilities. The training pack is attached here:

Committee and
Board intro - June 202

The Committee reviewed and updated its Investment Beliefs that are detailed in our ISS and, as part of the review, added an overarching statement across the investment beliefs stating:

It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

The full detail on the beliefs can be found at item 10 in the Committee Papers, however after much discussion and debate, only one amendment was made to the RI Beliefs which is set out below with reasoning:

Belief 2: The Committee considers that company engagement, rather than disinvestment, is the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered.

Disinvestment on a whole sector basis is not within the Committee's beliefs. Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails. While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

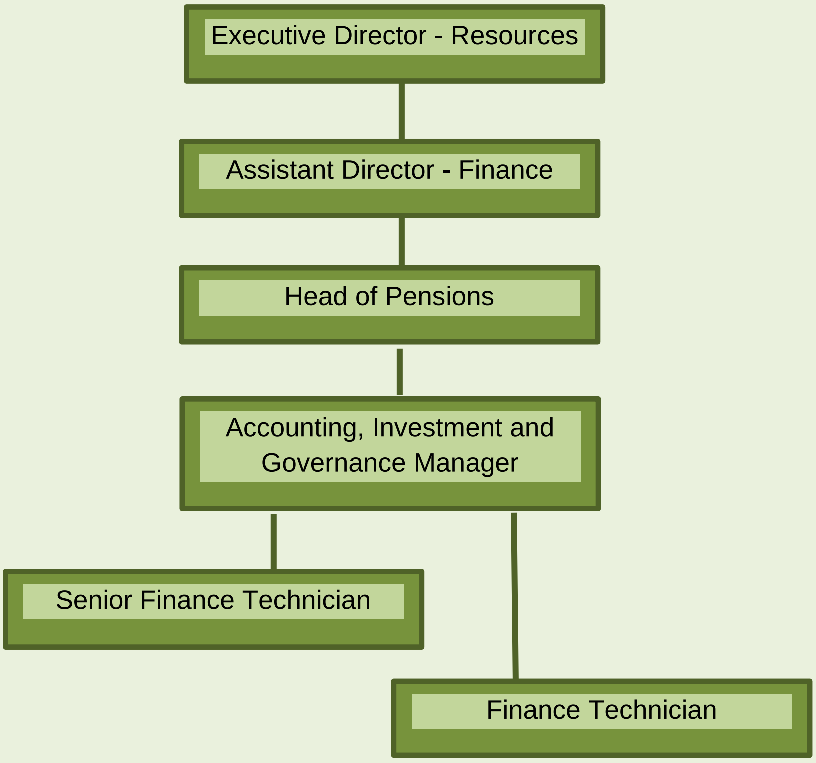
This has been amended to change "could" to "should" on the consideration of disinvestment in companies not responding to engagement. In addition, the line in the narrative on companies not complying with the Geneva convention has been added.

The Pensions administration service reports show that generally scheme members are happy with the service received. The 2021/22 Fund Annual report showed the satisfaction levels across the four previous survey periods, and is shown below:

April – June 2021	July – Sept 2021	Oct – Dec 2021	Jan – March 2022
81.7%	96.9%	91.5%	95.3%

PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship

Activity:
As is fully detailed in the background, Fund governance is the responsibility of the Pensions Committee, as set out within statute. To assist the Committee in discharging their responsibilities, quarterly meetings are held which provide various reports to enable them to have oversight and challenge across all areas of the Fund, including investments and responsible investment. The structure of the internal team responsible for the management of the Pension Fund is shown below:



The Head of Pensions is responsible for the day-to day management of the Fund, and the Accounting, Investment and Governance Manager works closely with her and is responsible for the stewardship monitoring and reporting. Details of the experience of the key personnel are shown in the background, under Fund Governance. There is no performance management or reward system in place at the Council.

The structure was reviewed in early 2022, and a new post was established to enable more time to be spent on monitoring managers and their stewardship activities, in addition to providing other support in the team.

As the internal team is very small, the Fund operates an external manager structure, with all assets managed externally and with the Fund using expert professional services to support its stewardship activities:

Border to Coast, the Fund's asset pool which invests on its behalf, who have a dedicated and growing team working on RI matters for all pooled investments, from tendering and selecting managers, to ongoing monitoring once a manager is selected and supporting industry wide initiatives. Border to Coast's Stewardship report can be found on its website at Responsible Investment - Border To Coast - Sustainable Pension Investments;

- Robeco, who are the pool's appointed voting and engagement specialist, provide professional stewardship services to the Fund for the investments held with Border to Coast; and

- The final source of support in this area for the Fund is provided by the Local Authority Pension Fund Forum (LAPFF). LAPFF is a sector wide group with membership from 86 local authority pension funds (with assets valued at £350bn) and six LGPS pooling companies. LAPFF acts for its members on engagement with companies, providing voting alerts, collaborating with others to increase the voice of shareholders and responds to consultations on behalf of its members.

The Fund has established annual RI processes which allow the Committee to have the opportunity to contribute to the direction of RI work for the Fund. Quarterly activity then allows the Committee oversight of activities undertaken. This starts in December with the review and approval of RI and Voting policies. The policies relate to all Fund investments and are aligned with Border to Coast policies to ensure a consistent application across all Fund assets. The Committee also reviews key policy documents in March to ensure they reflect the current views of the Fund. The fund then reports RI activity to the Committee on a quarterly basis to highlight the stewardship activity undertaken over that period, to provide assurance and give them the opportunity to review and challenge the work undertaken on the Fund's behalf.

The Pensions team within the Council is very small, made up of just four employees. These have all been appointed through the Council's recruitment process, which monitors diversity across the Council. The Council has a diversity and inclusion policy and encourages a supportive and inclusive culture. People from different backgrounds, cultures and experiences bring value to the workplace and we believe that diversity and inclusion bring benefits. We work better and improve services if we have a supportive environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued.

Within the Pensions team, there are two females and two males. The make-up of the Pensions Committee, as set out in the background, is taken from elected members, scheme employers and a scheme member representative. Diversity of backgrounds and opinions is brought into the Committee as Councillor members come from different political groups, with wide-ranging life and career experience. In addition, the co-opted members come from various backgrounds reflecting the views of employers and scheme members.

Outcome:
The Fund has a clearly defined and documented set of [RI policies] that it works to, which are published and available to all stakeholders. They are aligned with Border to Coast's policies so that we are all working towards the same aims and objectives. They were last approved by the Committee in December 2021. The quarterly [Stewardship Report] has continued to be developed to allow members of the Committee greater opportunity to review stewardship activity undertaken on its behalf and influence the work of the Fund. The reports from LGIM, an external manager covering 15% of the Fund's assets, is now included in the stewardship report. This is a public report to allow the Fund's stakeholders to be aware of what we are doing. In addition, carbon exposure, as reported by Border to Coast, is included in the quarterly Investment Management report, which is a private report. Work has been underway on 2021/22 to enable these reports to be included in the public stewardship report for 2022/23. The governance approach to support stewardship by using external professionals and the group weight of either Border to Coast partners or LAPFF ensures that maximum impact is achieved through the engagement and research done by professional experts. The Fund operates with a small internal team covering all Fund matters from investments to administration to governance. It believes that the use of external experts in this field provides the best use of resources for the Fund. It also allows the Fund to have a greater impact, as by working with others the Fund has a larger profile when approaching the market and individual companies. The Committee meeting structure is currently being reviewed to enable greater time for the Committee to discuss stewardship issues and actions and it is expected to be approved and implemented for the 2022/23 Council year. Recruitment to the new post identified as part of the structure review, a Principal Investment, Governance and Accounting Officer, was unsuccessful. A further review is being undertaken to create a career grade to grow someone into the role. It is expected that this will be recruited in 2023.

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Activity:
The make-up of the Pensions Committee is mainly County Councillors, who are elected to serve their constituents within Lincolnshire; however their role in managing the Pension Fund is to serve the beneficiaries and employers of the Fund. All members of the Committee undertake initial training when they join the Committee (see the training slides included in Principle 1). This training covers the Code of Conduct and Conflicts of Interest Policy and explains the role of the Committee to serve beneficiaries and employers. While making decisions for the Pensions Committee other political and county council considerations should be disregarded. This message is reinforced throughout the year at Committee meetings and as and when investment opportunities are discussed.

Outcome:
The Code of Conduct and Conflicts of Interest Policy is reviewed annually by the Committee and is published on the Fund's website. The policy explains what a conflict of interest is and provides examples for Committee Members of potential conflicts. The policy stipulates that all potential conflicts of interest must be declared initially on appointment and then at each meeting of the Committee as matters arise in the normal course of business. The policy also explains how conflicts will be dealt with and resolved. The Fund also maintains a register which captures potential and actual conflicts. Within the Conflicts of Interests Policy, Committee members are specifically required to have consideration of their stewardship responsibilities in managing the Pension Fund. There were five new members of the Committee during the year, and all undertook the training mentioned above. There may be a conflict of interest when making investment decisions if an opportunity arose in the local area. The investment might be beneficial to the local electorate, but not for the Fund. To avoid any potential conflict of interest, the Fund does not have any strategic commitment to local investment, and no local investments have been made in the 2021/22 financial year.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Activity:
Activity: The Fund conducts a full risk assessment of its activities which is reviewed annually by the Committee and Board, and is published as part of the Fund's Annual Report. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. In addition, the Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns. The Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Committee receives the appropriate training and that it commissions advice to be able to select from and monitor a wide variety of investments. The Fund has an appointed investment consultant for its strategic asset allocation, investment strategy and manager monitoring. Part of the work undertaken by LAPFF on behalf of Lincolnshire Pension Fund and other members, is at a market-wide level. During the year LAPFF continued its focus in this area on failure in the audit and accounting regime, where regulation is 'consumer' based, rather than offering protection to shareholders. They also addressed the concept of "Paris-aligned" accounts, to assist in emphasising the disclosure of climate change risks. One of the key market-wide risks they have been concentrating on is that of a just transition to a low carbon economy. With the Russian invasion of Ukraine, minds were concentrated on the geopolitical risks and the widespread impacts across the globe. The speed at which it happened and the shockwaves throughout global economies heightened the need to better understand and assess these risks. The Fund increased its communications with managers and requested regular reporting on Russian investments and activity in companies with high exposures to Russia. In addition, consideration has been given to where similar events could occur, and wider reporting of how geopolitical risks are considered by managers in their investment decision making process has been requested.

Outcome:
The Russian invasion brought geopolitical risks to the fore, and the Fund reported on a weekly basis initially to the Committee on direct and in-direct investment exposure to Russia, then moved to monthly reporting as markets stabilised. Communication with managers was increased to fully understand the impact on the Fund and any potential wider impact due to the sanctions or price moves as a result of the situation.

The Fund relies heavily on its managers to identify and respond to market-wide and systemic risks but plays a key role in challenging and questioning what they are doing, to seek assurance on their processes and procedures.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

Activity:

The Fund has a number of relevant policies that are reviewed as detailed below:

- The Investment Strategy Statement is reviewed annually or immediately after any significant change in investment policy and contains the Fund's RI beliefs. See principle 1 above.
- The Responsible Investment Policy and Corporate and Voting Policy is reviewed annually. This is reviewed and approved by the Committee in January in advance of the start of the voting season. It is aligned with the Border to Coast policies to ensure consistency of our policies across all holdings.
- The Conflicts of Interest Policy is reviewed annually. See principle 3 above
- The Training Policy is reviewed annually, and a training plan approved each year in July.
- The Risk Management Policy and Risk Register are approved annually and any changes to the risk register are reported to the Committee on a quarterly basis.

The Fund receives quarterly reports on stewardship activities undertaken by Border to Coast, Robeco and LAPFF, including voting activity, which are brought together in a report and presented to the Pensions Committee for discussion.

The Fund has been working with Border to Coast, in its advisory role, to provide an oversight report of the responsible investment and stewardship activity undertaken by LGIM, to provide an independent view.

The Fund sought assurance from the reporting it received from managers on their stewardship activity.

Outcome:

Policies have been reviewed at least annually. This ensures that they are kept up to date and are regularly considered by the Committee, which ensures that the policies continue to reflect their views on the direction of the Fund.

The Pension Board, as part of its regular consideration of the risk register at its September 2021 meeting, made recommendations to the Committee's December

2021 meeting, through the Board's quarterly report, to introduce a new risk to the risk register. The Committee considered the recommendations and approved the additions.

Work on RI and Stewardship policies starts in advance of their review and approval by the Committee in December. During the year Fund officers work with Border to Coast to identify what is important to each Fund and how this should shape the direction of the Pool and Fund RI policies. In addition to this, work is undertaken with the Joint Committee to identify their priorities. This information is important to ensure all Funds can support and will approve aligned RI policies. This streamlines the activities undertaken by Border to Coast.

Following the work the Fund had done with Border to Coast in their advisory role, the Committee received a report from Border to Coast in their oversight role of LGIM's stewardship activity for the year to March 2022. The report covered the areas of:

- Firm-level Policies and Resourcing;
- Investment Process and Research;
- Stewardship and Collaboration; and
- Climate Change

The oversight summary provided was that overall, LGIM was considered to meet the standards expected of an asset manager considered to be a leader in the responsible investment space.

The Fund has reviewed the Stewardship Code Statements from its key asset managers, Border to Coast and LGIM, to receive assurance that their reporting is fair, balanced, and understandable, which in turn enables the Fund to report that way. Both managers were successful in their submissions to the FRC for 2020/21.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Activity:

Communication and feedback from scheme members and employers are undertaken in a variety of ways:

- Annual employers meeting;
- Scheme member newsletters;
- Consultation with employers on key policy documents;
- All Committee and Board Meetings are open to members of the public and papers are published and available for review;

- The Fund publishes an Annual Report containing up to date details of investments and stewardship;
- Key policy documents are published on the Pension Fund website;
- Contact details for the Fund are also published for any comments from scheme members or employers;
- Direct contact with scheme members and employers; and
- Direct representation, with full voting rights, on the Committee and Board of scheme members and employers other than the County Council.

The Autumn 2021 Scheme member newsletter invited all our scheme members to contact us with their views, as set out in the extract below:

Stewardship and responsible investment are an integral part of the Fund's investment strategy and decision making, and the Fund works closely with Border to Coast to ensure that it invests in a sustainable way. Through Border to Coast, and also in its membership with the Local Authority Pension Fund Forum (LAPFF), the Fund engages with companies on key environmental, social and governance issues, such as carbon reduction, executive pay, human rights, and fair accounting. The Fund is always keen to hear its members' views on stewardship, so please contact us at pensions@lincolnshire.gov.uk with any comments you may have.

This was considered to be the most economical way of reaching out to all the 74,000 scheme members.

As detailed in the background, the investment time horizon is 20 plus years, and that is on a rolling basis, as the Fund is open to new members who may not be receiving their pension for another 50 years or more. Given the long-term relationship that scheme members have with the Fund, the Fund tries to ensure that members are aware of how their pension is invested and managed.

As is also stated, the risk of investment decisions sits solely with the employers, in that their contribution rates will rise if returns are below that required. Scheme members' benefits are set out in statute and fully guaranteed, so whilst consideration of their investment preferences is given, and the Fund communicates how it manages its stewardship responsibilities, the main objective is to ensure returns are sufficient to meet the long-term liabilities without large increases in employer contribution rates.

Outcome:

The annual employer meeting was held virtually on 2 March 2022. One of the presentations covered Stewardship and Responsible Investment specifically covering the Lincolnshire Fund and activities undertaken during that year. These are interactive meetings where all employers can question, challenge and input into the direction and activities of the Fund.

Over the year the Fund has responded to a number of requests from scheme employers on RI related matters proposals. An example of this was as part of a presentation to all district council employers held in March 2022, which covered the Fund's position on investments in Russia, updates on the Fund's RI related policies and sharing the quarterly stewardship reports with them. This included follow-up conversations as to how these employers could respond to queries from their employees on these areas.

Membership of the Committee and Board includes employer and scheme member representatives. Through the Committee and Board meetings held over the year, these representatives have had the opportunity to input into and comment on the fund's stewardship and investment approach.

The Fund is happy to engage with employers and scheme members on an ad hoc basis to provide additional information on Stewardship matters. Such responses are reflected on and used to consider the development of wider future communications.

Unfortunately, the request set out within the Autumn 2021 newsletter for views from scheme members received no responses, despite it being sent to all 74,000 scheme members. This has therefore not proved to be an effective method to encourage feedback. The Fund is working with its administrators to see what methods might encourage more engagement.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Activity:

The Fund's responsible investment beliefs and approach to assessing investments are included within the Investment Strategy Statement. This core policy document explains how the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities. The Committee believe that, as long-term investors, integrating environmental, social, and corporate governance considerations into the investment management process improves risk adjusted returns and creates long term sustainable investments.

To support this, the Committee reviewed its Investment and RI Investment beliefs, as set out in principle one. As part of this process the Committee undertook an in-depth consideration of its general investment beliefs and its RI beliefs, receiving training and completing a comprehensive survey to develop these principles.

The Fund invests in a wide variety of asset classes across a number of investment managers, but predominately with Border to Coast who currently manage all actively managed equities and bonds. The Fund has worked with Border to Coast and other partner funds to formulate the company's approach to responsible investment and to ensure that it is aligned to the policies of the partner funds (including Lincolnshire). The Fund's RI Policy states that when analysing potential investments (across all funds, asset classes and geographies), they expect investment managers to consider ESG factors, including climate change, as an integral part of the investment decision-making process. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value.

The Fund considers the ESG credentials, policies, and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed.

The monitoring of appointed managers by Border to Coast includes assessing stewardship and ESG integration into the investment process and on-going management of the investments held in accordance with the approved policies. The Committee requires that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative, and Climate Action 100+.

The Fund monitors Border to Coast to ensure that it is fully integrated through quarterly reporting, quarterly meetings, and the annual report. In addition partner funds are heavily involved in the development of new funds having sight of the appointment process for managers and the due diligence undertaken.

Outcome:

Border to Coast's work during the year included improving their process of ESG integration and investment stewardship alongside training for the Border to Coast Board, the Joint Committee and Partner Fund pension committees and officers on a range of RI and stewardship-related topics. More detail can be found in their RI and Stewardship Report for 2021/22.

Following the investment into LGIM's Future World Fund, the Fund appointed Border to Coast to provide an oversight service to monitor the effectiveness of the stewardship of LGIM and provided a report to the Fund as mentioned in principle 5.

Below are some examples of the outcomes from manager engagement with the companies in which they are invested on our behalf, showing how incorporating ESG factors into investment decisions and on-going monitoring can achieve positive benefits for the Fund and therefore its clients and beneficiaries:

Border to Coast – Engagement with a European Investment Bank (listed equity)

Reason for engagement: The company was involved in separate client-related incidents, suggesting risk management oversight failures. Losses were incurred, and some personnel changes were made as a result. Many investors were concerned about the strength of risk management processes, governance structures and board competence.

Objectives: The aim of the engagement was to ensure that appropriate changes were made to restore confidence in the bank's risk management capabilities.

Scope and process: Meetings were held with the bank's CEO, CFO, and board members to address perceived failures of risk management and responses. The company did not immediately address the chairmanship of the board's risk committee. Engagement expectations were not met, and several investors publicly stated that they would vote against this board member's re-election. Prior to the annual shareholder meeting, the risk committee chair announced his retirement from the board. Engagement continued as the bank further addressed its risk oversight processes.

Outcome: The departure of the risk committee chair represented a significant change in leadership in this area. Additional engagements also focused on the operational integration of risk management, with executives taking on key roles demonstrating relevant experience in the field. Engagement and voting played a significant role in the bank's risk management improvements.

Border to Coast – Engagement with BP plc (listed equity and fixed income)

Reason for engagement: Carbon data of portfolios is monitored on an ongoing basis; this helps understand the climate-related risks inherent in our portfolios. Adequate disclosure by companies is, therefore, an important part of this process. The Carbon Disclosure Project ('CDP') is a leading initiative for climate data management and as such BP, as a major emitter of greenhouse gas emissions, would be a welcome addition to the CDP carbon database.

Objectives: To seek enhanced carbon data and emissions disclosure from BP.

Scope and process: Engagement with the Company took place over a number of months, instigated initially by letter, with follow up meetings also held with the Company's Investor Relations team.

Outcomes: BP was open to engagement and emphasised that it aimed to be recognised as an industry leader in reporting transparency. The Company has made good progress in this space and is listening to feedback. Following increasing investor focus in this area, BP confirmed it would be responding to the CDP disclosure questionnaire.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers

Activities:
The Fund monitors its investment managers and service providers, to hold them to account in the following ways: • Asset managers provide monthly and quarterly performance reports which are received and reviewed by fund officers. Review here includes compliance with investment management agreements. • Quarterly investment performance is reported to the Pensions Committee, highlighting any concerns. Where a manager's performance raises concern more frequent information is shared with the Committee. • Annual presentations to the Pensions Committee and a three-year review period from all asset managers managing significant allocations in the fund, including an update of stewardship activities undertaken. • Quarterly stewardship report to the Committee combining information from managers' quarterly stewardship and voting reports, highlighting engagement activities and where investment managers have voted against company recommendations. In addition this report updates the Committee on work undertaken by LAPFF on our behalf. • Investment Consultant and Investment Advisor are monitored regularly against an agreed set of objectives. • Border to Coast provide an advisory service to monitor the engagement and voting activity of LGIM, as one of the Fund's investment managers. In addition to the above, as a partner fund within Border to Coast, further work is undertaken on our behalf in monitoring service providers to the pool. This includes: • Provision of responsible investment and engagement support across all pooled investments (for example review of carbon content within portfolios). • Analysis of voting records on a monthly basis and reporting of any variances to agreed policies by a third-party voting advisor. Border to Coast provide an advisory service on the investment with LGIM to ensure that they are meeting the requirements of the Fund's and Border to Coast's RI policies, as detailed in Principle 5. On a quarterly basis Border to Coast provide portfolios analysed against MSCI ESG Weighted Score and the MSCI ESG rating along with the ESG Rating Distribution (AAA to CCC). In its commentary, Border to Coast feature an investment each quarter to describe its nature, ESG rating risk, ESG impacts and direction of travel. This is presented to the Committee for discussion and challenge, where appropriate.

Outcomes:
The Committee were content that the service being delivered by the Independent Investment Advisor met their needs, and no changes to the objectives were required. The advisory agreement with LGIM was completed in 2021/22, with the first annual report received as of 31 March 2022. Border to Coast provided reassurance to the Committee that they were content with the quality of the processes and activity undertaken. The Committee has a better understanding of the ESG risks within the portfolios and how these are managed by Border to Coast and the underlying managers and can challenge the rationale of any investments that it deems a high risk. An example of this is from the January 2022 Pensions Committee, where Border to Coast Equity managers presented, and there was much discussion and questioning from the Committee on the investment case for China.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets

Activity:
All investment management activity is delegated to external investment managers. The Fund's RI policy sets out its expectations of managers, as shown below: • Assess their portfolios in relation to climate change risk where practicable. • Incorporate climate considerations into the investment decision making process. • Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD) recommendations. • Encourage companies to adapt their business strategy in alignment with a low carbon economy. • Support climate related resolutions at company meetings where they reflect our RI policy. • Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.

- Use the Transition Pathway Initiative (TPI) toolkit to assess companies and inform company engagement and voting.
- Vote against company Chairs in high emitting sectors where the climate change policy does not meet minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review their fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Report on the actions undertaken with regards to climate change on an annual basis.

Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Fund's officers, and by the Committee through the quarterly RI Update report.

Outcome:

Examples of stewardship activities that have been published and reported to the Committee are:

- During the quarter ended 31 December 2021, LAPFF undertook engagements with companies across the topics of environmental risk, audit practices, social risk, employment standards, governance, human rights, and climate change. The outcomes of these engagements are shown in the company progress report, included in their quarterly engagement report, and examples are:
    - **Mining and Human Rights Report**

      Objective: Over the last couple of years, LAPFF has engaged intensively with mining companies on their human rights practices. The engagement has focused on the participation of affected stakeholders in mining company activities and decision-making. Based on these engagements, LAPFF aimed to produce a report on its views regarding mining companies and human rights.

      Achieved: LAPFF engaged business and human rights expert, Professor Robert McCorquodale, to lead on drafting the report. As sections of the report were drafted, they went to the LAPFF Executive and Business meetings for approval. Although the reports were written from an investor perspective, they have been presented through a human rights lens.

The five sections were as set out below:

- the first covered the basics of the international human rights law framework.
- the second followed with an explanation of how this framework applies to the mining sector, with examples of how human rights can be violated by mining companies and case studies based on human rights related litigation in the mining sector.
- The third presented LAPFF's views on engagements with top holdings – Anglo American, BHP, Glencore, Rio Tinto, and Vale – including how LAPFF understands these companies to be engaging with affected stakeholders.
- The fourth set out examples of where LAPFF believes that the five companies mentioned have not met their human rights responsibilities.
- The fifth contains a conclusion and recommendations for LAPFF members and other investors, for companies, and for public officials.

In Progress: These five reports have also been consolidated into a single draft report that LAPFF has circulated for comment to the five companies addressed and to affected communities whose accounts have been included in the report. After comments have been received, they will be assessed and integrated as appropriate before the report is released publicly.

- **Standard Chartered**

  Objective: A meeting was held with Standard Chartered chair, José Viñals, to determine how the bank is progressing working with clients to reduce carbon emissions and align with the bank's net zero by 2050 policy. Member concerns had been relayed to the chair about the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows its activities to be aligned with an increase of 5-6°C in global warming.

  Achieved: The company issued a roadmap for its progress to net zero in October which included 2030 targets to reduce financed emissions for thermal coal mining and oil and gas power, as well as plans to mobilise US$300 billion in green and transition finance by 2030. There was further engagement in November, which confirmed an absolute target for coal, and that no investments would support any project expanding capacity.

  In Progress: We have remained in touch with NGO contacts who have considered filing a resolution to the 2022 AGM asking for commitments not yet evident in the company's current transition plans. The company confirmed it will put a Say on Climate/Transition plan to the vote at the 2022 AGM.

- Border to Coast publish a quarterly stewardship report detailing the activity undertaken on our behalf, and examples are:

- **Engagement Theme Update: Global Controversy**

  Events such as the war in Ukraine, the military regime in Myanmar, and the climate crisis have driven a renewed focus on the social responsibility of companies and their operations. In response to this, our voting and engagement partner, Robeco, has recently updated its approach to assessing the behaviour of companies through their enhanced engagement program. This new approach aims to ensure robust governance around oversight, alongside strengthened assessment of a company's behaviour with respect to commonly accepted international norms and ethical standards, such as the UN Global Compact (UNGC) and Organisation for Economic Co-operation and Development (OECD) Guidelines. Specifically, the updated approach includes:

  - A strengthened oversight through a newly established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications.
  - The sourcing of robust data on UN Global Compact and OECD Guidelines breaches
  - Onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

- **Engagement Theme Closure: Single-Use Plastics**

  In 2019, Robeco launched an engagement program with a focus on achieving a material shift towards a more circular plastic packaging model, with a view to addressing the waste issue of single-use plastics.

  Active dialogue was held with several companies, encouraging collaboration with each other, governments, NGOs, and other stakeholders along the plastic value chain on topics such as innovation, recycling and lobbying for regulatory change.

  Five of our portfolio companies were included in the scope of the engagement (Danone, Henkel, Nestle, PepsiCo, and Proctor & Gamble) and after three years of engagement, positive progress was seen in all five companies in a variety of areas, examples include:

  • Nestle: Made progress in its roadmap to eliminate harmful plastics and deforestation mitigation. The process is expected to complete in 2024 through fully eliminating products made up of a mix of plastics and papers, including laminates, caps, and PVC liners.

  • PepsiCo: Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.

Fund Officers have also received and monitored activity from other managers, examples are:

- LGIM, who manage approximately 15% of the Fund's assets in their Future World Fund, provide an annual active ownership report, highlighting their approach to active engagement and what they have done over the year.

In 2021, LGIM, on our behalf, had 312 meetings or calls with companies, had 461 written engagements, with the top four engagement topics being climate change, remuneration, LGIM ESG score and company disclosure and transparency.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

Activity:

As explained above and in the Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Fund's behalf.

Furthermore, through Lincolnshire's membership of the Border to Coast pool, the eleven partner funds have collectively pooled around £60bn of assets. Border to Coast is collaborating on RI activities through a unified RI policy and Corporate Governance and Voting guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the Border to Coast partner funds, to positively engage with the companies they invest with. Beyond the partner funds, Border to Coast collaborates with other investor groups to increase their influence.

In addition, the Fund's membership of LAPFF, representing around £350bn in assets under management, provides an effective means of collaboration. LAPFF itself is open to discussing any other forms of collective action with other investors and groups, expanding their reach.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- Border to Coast coordinates quarterly Responsible Investment workshops with partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the Partner Funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests.

- Border to Coast, on behalf of the partner funds, is partnered with a number of organisations including: LAPFF, on a range of issues; Climate Action 100+, the 30% Club which promotes board and senior management diversity; the Workforce Disclosure Initiative; the LGPS Scheme Advisory Board Code of Transparency; the Institutional Investor Group on Climate Change; and the Investor Mining and Tailings Safety Initiative.

- Border to Coast collaborated in the support for net zero aligned audits campaign. In November 2021, along with 22 other investors, they co-signed a letter to the 'Big 4' auditors: PwC, Deloitte, EY, and KPMG. The letter set out expectations for auditors to provide net zero aligned audits of financial statements and associated disclosures. This reflects the growing importance for investors to be able to understand whether companies are considering the material financial implications of the transition and providing appropriate disclosures. They also supported the equivalent letter to the French 'Big 4' auditors, sent in February 2022.

- Border to Coast have continued as a supporter of the Workforce Disclosure Initiative ('WDI'), and this year they have engaged with twelve companies as part of the annual survey to collect human capital management data, emphasising the importance of this type of data for investors and encouraged companies to respond. In Q2 2021, the WDI launched its findings report for its 2020 survey results. The survey covered topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered.

- LAPFF joined the Asia Collaborative Engagement Platform for Energy Transition. Co-ordinated by Asia Research and Engagement (ARE), this initiative has brought about engagement with the region's largest listed financial institutions, as well as buyers and producers of fossil fuels.

  The first AGM of note was that of Mitsubishi UFJ Financial Group, where members were advised to vote in favour of a resolution for disclosure of the group's strategy to align financing and investments with the goals of the Paris Agreement. LAPFF joined a collaborative investor call organised by ARE which sought further information on the strategy, and particularly on how the bank would address concerns over its provision of finance to fossil fuel expansion and deforestation. In May, the bank made a net zero declaration and joined the net zero banking alliance.

- LAPFF has also worked in collaboration with the Institutional Investor Group on Climate Change as part of its participation in Climate Action 100+ (CA100+) an investor collaboration to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

  LAPFF is joint lead investor on ArcelorMittal and National Grid under this initiative, as well as being part of wider collaborative groups with several other companies. One such company is Lyondell Basell, where LAPFF participated in the AGM, asking the chair to put the company climate strategy to a vote at the 2022 AGM and annually thereafter.

- LAPFF joined a collaborative engagement effort headed by the Access to Nutrition Index. Alongside a host of other investors, LAPFF has written to key companies in the food and beverage sector which featured on the Index. These engagements seek to provide better levels of governance and accountability by introducing remuneration metrics linked to nutrition targets and what marketing companies are doing to encourage better eating habits.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

Activity:

The Fund sets out in its RI Policy how it expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

The Fund has clear escalation expectations of its managers, should engagement not lead to the desired result. This is set out in its RI policy, which is aligned to that of Border to Coast. The Funds policy on escalation is:

The Fund (LPF) believes that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. LPF expects its appointed investment managers to monitor engagement activities and where progress is not made within a reasonable timeframe, then to escalate the process. This could be addressed in a number of ways: by conducting collaborative engagement with other institutional shareholders; registering concern by voting on related agenda items at shareholder meetings; attending a shareholder meeting in person and filing/co-filing a shareholder resolution. Where the investment case has been fundamentally weakened, LPF expects its appointed investment managers to sell the company's shares.

Examples of escalation from the Fund's managers are set out below.

- During 2021/22 Border to Coast engaged with an integrated mining company, which was highlighted for enhanced engagement due to several high profile environmental and health and safety issues. During the engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company. In response, Border to Coast:

  - assessed the materiality of the holding;
  - held internal meetings with the Portfolio Manager, research team, and RI team;
  - contacted other large shareholders, to understand their stewardship approach to monitoring and mitigating associated ESG risks to increase knowledge;
  - held a meeting with the company and finally discussed the findings at the Investment Strategy Committee meeting to determine the appropriate action.

  Following conclusion of the above escalation process, they recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager to reduce the position in the company.

- At Border to Coast, during the annual review of an external manager, the RI team downgraded a manager due to the identification of perceived weaknesses across both integration of ESG and stewardship. The outcome of the review was reported to their Investment Committee and escalated with the manager, with whom they held further calls to discuss the improvements needed. Following this, there has been a material increase in the quality of the manager's disclosures and Border to Coast have greater confidence in the integration of ESG factors.

- Where LGIM's concerns are severe, or repeatedly ignored by the company, they will escalate their vote to address directors' accountability for such failures by opposing their re-election. They have done so at Informa, where their concerns over inappropriately structured and generous pay were not addressed over the years, and at Cineworld, which introduced highly geared share incentives for directors while staff were laid off or furloughed. The rationale for any votes against management are disclosed on their website and at times may also be pre-declared as was the case for Informa and Cineworld.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

Activity:

Exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings but can be derived through other means. When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment managers from the outset.

As an indirect asset owner the Fund requires external managers to make best use of these rights so that its responsibilities are fulfilled to the greatest effect. As mentioned in previous principles, external managers are required to report on how they have actively exercised their rights and responsibilities.

The Border to Coast voting policy is reviewed each year considering developing corporate governance standards and evolving best practice. This review is led by Border to Coast with the eleven partner funds being heavily involved. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code, and the UN Principles for Responsible Investment as benchmarks.

As the Fund has aligned its policy to that of Border to Coast, the approaches are identical.

The Fund's Corporate Governance and Voting Guidelines sets out how it expects managers to approach supporting or opposing company management, depending upon the circumstances. This also sets out the expectations that the Fund has of its managers:

The Fund requires all appointed investment managers to vote on its behalf, in line with best practice guidelines. As both a shareholder and a client of Border to Coast, the Fund continues to monitor their voting policy and guidelines to ensure that they are aligned with the Fund's principles and reflect current best practice. Managers are required to report their voting and engagement activity on a quarterly basis.

Voting records where votes are cast against management, and additional wider voting activity provided by Border to Coast on the Fund's investments, is included in the quarterly RI Update Report to the Committee.

The managers of the Fund's equity holdings are Border to Coast and LGIM, and the Fund seeks assurance from them on the process of managing the voting rights for shares held. Border to Coast has a dedicated Responsible Investment team which sits within the Investment Team and acts as a centre of expertise and helps manage and co-ordinate our activities. This team is supported by Robeco, the voting and engagement provider and other strategic partners. This team is responsible for ensuring that all voting rights are actively managed across the equity investments. LGIM believes voting is a fundamental tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

The Fund's active fixed income investments are managed by Border to Coast through its externally managed vehicles. Voting decisions relating to bondholder meetings has been outsourced to the relevant external managers as this is an investment decision.

Where investments are made directly by the Fund, officers seek to gain a place on the advisory committee to oversee and influence investment and stewardship decisions.

Outcome:

A number of changes were made to the Corporate Governance and Voting policy as a result of the review in 2021. They include:

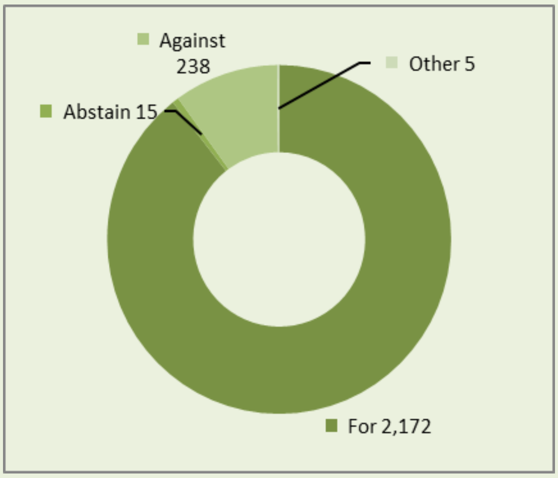
- strengthening the position on ethnic diversity at FTSE100 companies;
- splitting out executives' long-term incentives from other employees; and
- strengthening voting stance to include CA100+ net zero benchmark indicators.

Details of all the changes are available in the December 2021 meeting papers of the Committee.

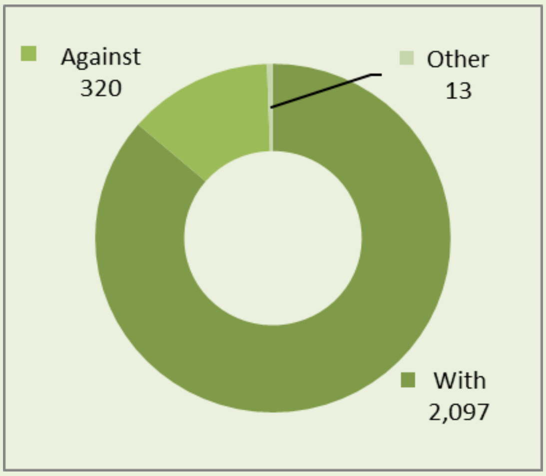
Examples of some manager's voting records for 2021/22 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (165 meetings)

Votes Cast

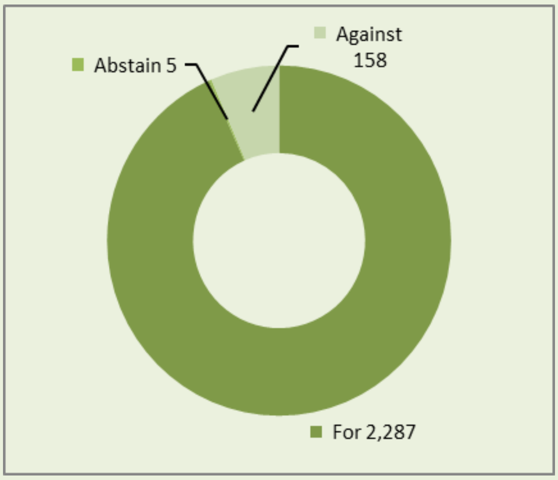


With or Against Management

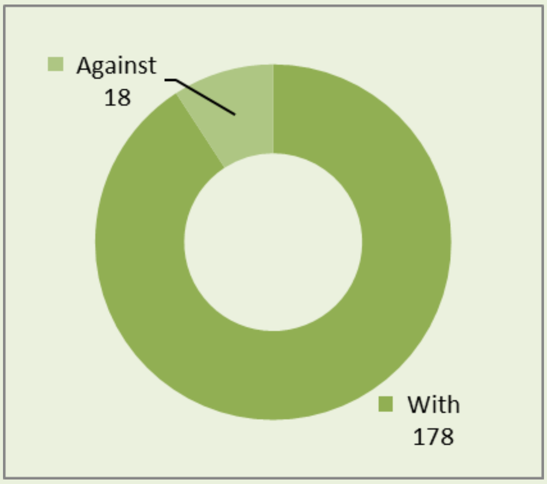


Votes cast for Border to Coast's UK Listed Equity Fund (141 meetings)

Votes Cast



With or Against Management



During 2021/22 the Head of Pensions has been appointed to the advisory committee for two residential property funds that the Fund invested in, and these meet on a quarterly basis.

Appendix A – Action Plan

Principle 1:

Purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for employers and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Action:	Target date
Consideration of any stewardship implications in the Investment Strategy Review.	October 2022
To include a session on stewardship of investments and responsible investment beliefs at the Annual Employers Meeting in February and include a poll to better understand their views.	February 2023

Principle 2:

Signatories' governance, resources and incentives support stewardship.

Action:	Target date
Continue quarterly reports and enhance where opportunities arise. Ensure that carbon reporting and ESG Statements can be moved from private into the public papers.	July 2023
Provide more training to the Committee to better understand current issues and to clarify the Fund's strategy – eg net zero, work on reviewing the Investment Strategy.	On-going
Change to the Committee structure to include more diversity by introducing a representative from the Academy Sector.	December 2022
Following the unsuccessful appointment of a new post to provide additional resource for stewardship monitoring, develop a career grade post, who will come with different experience and will develop pensions/investment skills.	March 2023

Principle 3:

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Action	Target date
Annual review of policy.	March 2023
Provide any new members with training on conflicts as part of their induction training.	As required

Principle 4:

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Action:	Target date
Continue working with Border to Coast and LAPFF.	On-going
To identify any opportunities for further collaborative work with other organisations.	On-going
The Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments.	On-going
Respond to the DLUCH consultation on climate reporting and any other investment related consultations.	On-going

Principle 5:

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Action:	Target date
Expansion of Stewardship reporting to include significant private market managers.	March 2023
To include stewardship within the overall external governance review of the Fund.	Awaiting Good Governance Review Outcome

Principle 6:

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Action:	Target date
Continue to include information on stewardship in the Member Newsletter and request direct feedback.	October 2022
Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2023
Develop a Stewardship page on the LPF website - providing key information to any interested parties.	December 2022
Explore with employers (via the Annual Employers Meeting) how we could engage further with them on investment and Stewardship matters.	March 2023
Employer meeting will provide an update on stewardship.	March 2023

Principle 7:

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Action:	Target date:
The Fund will continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example: Morgan Stanley on Alternatives.	On-going

Principle 8:

Signatories monitor and hold to account managers and/or service providers.

Action:	Target date:
Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.	On-going
Discussion with Border to Coast on changes to Global Equity Alpha fund with the addition of Emerging Markets and China Managers.	July 2022

Principle 9:

Signatories engage with issuers to maintain or enhance the value of assets.

Action:	Target date:
Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee and Board, to assist them to challenge activity undertaken on our behalf. Include reference to the FWF ESG Report published quarterly.	On-going
Work with Border to Coast and Morgan Stanley, the Fund's main alternatives manager, to expand the coverage of engagement across other asset classes.	On-going

Principle 10:

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Action:	Target date:
Continue to work closely with Border to Coast and LAPFF to ensure that any collaboration is effective.	On-going

Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

Action:	Target date:
Where LAPFF issue voting alerts - share with managers and follow up to understand how they are voting on these issues and challenge where voted differently.	On-going
Continue to challenge managers and request reporting of escalations, to ensure that they are fulfilling their responsibilities.	On-going

Principle 12:

Signatories actively exercise their rights and responsibilities.

Action:	Target date:
To work with managers other than Border to Coast to understand how and where they are able to actively influence investment and stewardship decisions outside of the equity space, on our behalf.	On-going

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement, and Officers report to the Pensions Committee where any investment managers do not comply.

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 or amendments are required.

Communication Policy

COMMUNICATION POLICY

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Lincolnshire Pension Fund (LPF) communicates with over 270 employers and around 75,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Department for Levelling Up, Housing and Communities. 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) and on the Council's website.

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 active members and prospective members)			
	Newsletter	2/3 per year becoming more frequent and modular as electronic communications increase	Bulk email and mail if members opted out of electronic communications
	Annual Pension Statement	1 per year	E-mail and mail if members opted out of electronic communications
	Website - www.wypf.org.uk	Constant	Web
	Member fact card	On request/constant	Print and web
	Member fact sheets	Constant	Web
	Introduction to LPF	On employer request	Virtual or in person
	Presentation – Your pension explained	On employer request	Virtual or in person
	Presentation – Pre-retirement	On employer request	Virtual or in person
	Pension surgeries/drop in's	On employer request	Virtual
	WYPF Contact centre and LPF satellite office	8.45 to 4.30 Monday to Friday	Face-to-face/ phone/email
	Scheme booklet	Constant	Web
	New member pack	On joining	Mail
	Social media (WYPF)	Constant	Web
	YouTube channel (WYPF)	Constant	Web

LGPS deferred members (including representatives of deferred members)			
	Newsletter	1 per year becoming more frequent and modular as electronic communications increase	Bulk email and mail if members opted out of electronic communications
	Deferred Benefit Statement	1 per year	Email
	Website - www.wypf.org.uk	Constant	Web
	WYPF Contact centre and LPF satellite office	8.45 to 4.30 Monday to Friday	Face-to-face/ phone/email
	Social media (WYPF)	Constant	Web
	YouTube channel (WYPF)	Constant	Web

LGPS pensioner members (including representatives of retired members)			
	Newsletter	1 per year becoming more frequent and modular as electronic communications increase	Bulk email and mail if members opted out of electronic communications
	Website - www.wypf.org.uk	Constant	Web
	WYPF Contact centre and LPF satellite office	8.45 to 4.30 Monday to Friday	Face-to-face/ phone/email
	Pension advice slip	As and when net pension changes by £5.00 or more	Web unless opted out of electronic communications
	P60	1 per year	Web unless opted out of electronic communications
	Social media (WYPF)	Constant	Web
	YouTube channel (WYPF)	Constant	Web

Communications events - Employers

Communication	Format	Frequency	Method of distribution
	Employer Pension Fund Representatives	8.30 to 4.30 Monday to Friday	Virtual / face-to-face / email / phone
	Website – www.wypf.org.uk	Constant	Web
	Fact card	1 per year	Web
	Fact sheets	Constant	Web
	Employer guide	Constant	Web/electronic document
	Ad hoc training	When required	Face-to-face/virtual
	Update sessions	Up to 2 per year	Meeting
	Annual meeting	1 per year	Hybrid Meeting
	Manuals/toolkits	Constant	Web/electronic document
	Pension Matters and round-up	12 per year and when required	Wordpress blog and gov. delivery bulk email
	Social media (WYPF)	Constant	Web
	Ad hoc meetings	When required	Face-to-face
	Workshops	Weekly	Virtual plus on demand recordings

Governance Policy and Compliance Statement

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 Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

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

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Executive Director – Resources. 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 12 members in total, eight of which are County Councillors and four co-opted members. All the members have full voting rights.

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

The four co-opted members comprise:

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

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

- Drawing upon appropriate professional advice, to set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, and approval of the Investment Strategy Statement.
- To give consideration to the agreed Investment and Responsible Investment Belief framework when setting investment policies and ensure that the Fund is meetings its Stewardship requirements, with support from the professional advisors and officers.
- To review the performance of Border to Coast Pensions Partnership Limited and its sub-funds, legacy fund managers, including their stewardship and responsible investment arrangements, with support from the professional advisors and officers.

- Appoint and review professional service providers including fund custodian, investment consultant and actuary, with support from the professional advisors and officers.

- To appoint and review the performance of the Fund's Administrator, with support from the professional advisors and officers.

- To review the performance of scheme employers in meeting their responsibilities.

- To review the Annual Report and Statement of Accounts of the Fund, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

- To approve the Annual Report and Statement of Accounts of the Fund.

- Carrying out the duties set out in the Regulations in relation to the actuarial valuation of the Fund and in relation to any other decisions about the amount the employers need to pay, and approval of the Funding Strategy Statement.

- To review and approve, on a regular basis, all required policies including, but not limited to, the Administration Strategy, Communications Policy, Governance Compliance Statement, Risk Management and Training Policy.

- To contribute to any relevant consultations impacting upon the governance, investment, or benefit provisions of the Local Government Pension Scheme.

- To meet the minimum training requirements within the required timeframe, as set out in the Committee's Training Policy.

- To consider any other matters relevant to the operation and management of the Fund.

- To report to full Council on a regular basis on the committee's performance in relation to its effectiveness in meeting its purpose.

In fulfilling its functions the Committee shall have regard to the advice of the Lincolnshire Local Pension Board established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and shall receive and consider recommendations from the Border to Coast Pensions Partnership Joint Committee.

The Pensions Committee has eight regular meetings, with four covering investment and responsible investment, and four covering administration and governance. All meetings allow time for training to be undertaken. In addition, one or more special meetings may be held as required.

The Pensions Committee's regular 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 – Resources

The Executive Director – Resources 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 Council's website

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)); and
- 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 Council's website The Independent Chairman of the Board reports to the quarterly Pensions Committee to provide an update on the Board's work and any assurance given. 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.

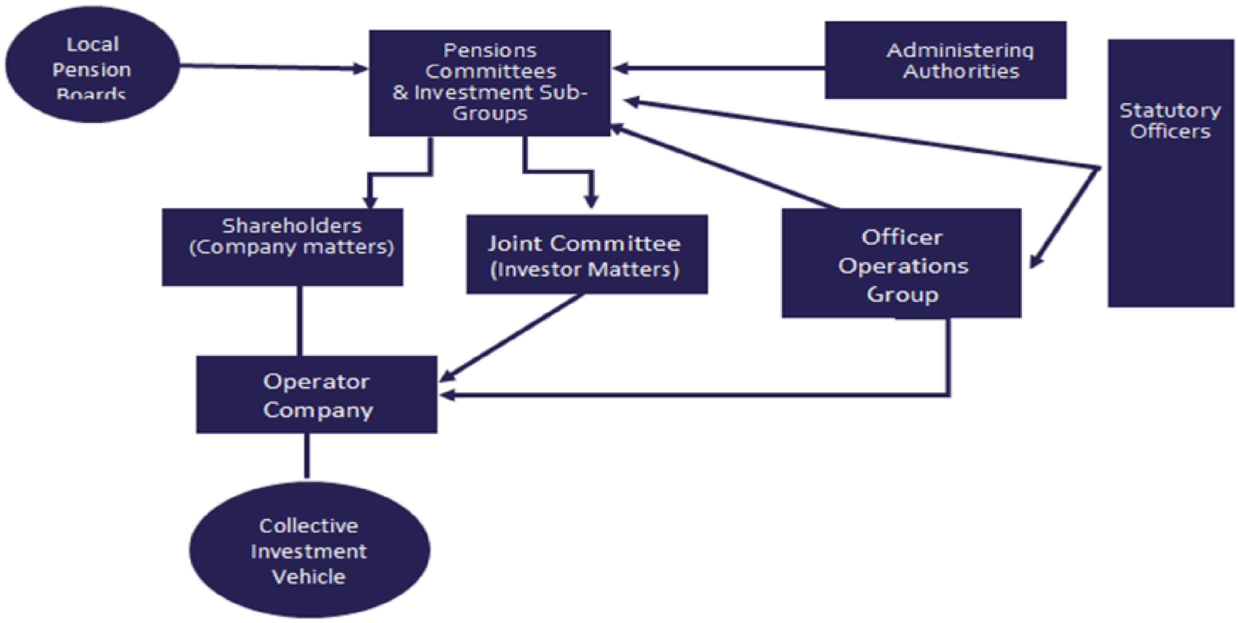
Any complaint or allegation of breach of due process brought to the attention of the Lincolnshire Pension Board shall be dealt with in accordance with the Fund's Breaches Reporting procedure and the Code of Practice as published by the Pensions Regulator.

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

Asset Pooling Governance

In response to the change in regulations, LGPS Funds have to pool the investment of their assets. Lincolnshire Pension Fund is a Partner Fund in the Border to Coast Pensions Partnership Limited (Border to Coast), one of the eight asset pools created.

The diagram below shows the governance structure for Border to Coast.



The Fund holds Border to Coast 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 Border to Coast (LCC S151 Officer).

- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast (Pensions Committee Chairman).

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group (Head of Pensions and S151 Officer).

The Pension Fund retains the decision making powers regarding asset allocation and delegates the investment management function to Border to Coast, where asset have been transitioned.

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	Partial	The Committee has twelve members, all with voting rights, of which eight are County Council Councillors. Other members include one representing other local authorities (district councils), one representing small scheduled bodies, currently from an Internal Drainage Board, and one representing the academy sector. Member representation is dealt with by having a trade union representative on the Committee.

	pensioner scheme members), • Where appropriate, Independent professional observers, and • Expert advisors (on an ad hoc basis)		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 Investment Consultant who attends all Investment and Responsible Investment Committee meetings.
	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	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.

	reimbursement of expenses in respect of members involved in the decision-making process.		
	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	Four co-opted members sit on the Committee 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	Yes	All members are treated equally in every respect.

	at meetings of the main committee.		
H – Scope	a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Partial	The terms of reference of the Pensions Committee include benefit related matters and issues other than investments. A report on the administration of the scheme is taken to each administration and governance 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 as the Board's role is to oversee these areas and provide assurance or recommendations to the Committee.
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.

Pension Administration Strategy

Contents

Regulatory framework and purpose

1. The regulations

This strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

The shared service, managed by West Yorkshire Pension Fund has produced a joint Pensions Administration Strategy document in line with these regulations covering the service for Lincolnshire Pension Fund (LPF), West Yorkshire Pension Fund (WYPF), Hounslow Pension Fund (HPF) and Barnett Pension Fund (BPF). As required, employers have been consulted on the strategy, and a copy has been sent to the secretary of state.

1.1. Purpose

This LPF strategy is based on the shared service strategy but has been made specific to LPF. Within this document the shared service administration (based in Bradford with a satellite office in Lincoln), will be referred to as ‘the administrator’.

This strategy outlines the processes and procedures to allow the shared service partners and employers to work together in a cost- effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

Where there is a conflict between the shared administration strategy and the fund’s stand-alone policy, the individual fund’s policy will prevail.

2. Review of the strategy

This strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy or on an annual basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers and a copy of the updated strategy will be sent to the secretary of state.

The administrator will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with the administrator at any time and may make suggestions for improvement to the strategy.

3. Liaison and communication

3.1. Authorised contacts for employers

Each employer will nominate a contact to administer the three main areas of the LGPS:

- a strategic contact for valuation, scheme consultation, discretionary statements and IDRPs
- an administration contact for the day-to-day administration of the scheme, completing forms and responding to queries, and
- a finance contact for completion and submission of monthly postings and co-ordination of exception reports

If they wish, employers may also nominate additional contacts by completing an authorised user list. If a third-party organisation provides services for the employer they too can be added as an authorised contact. Overall responsibility for pension administration remains with the employer regardless of the services they outsource and proactive contract management of third-party providers is expected.

All contacts will receive a login name and password that allows them to access the Civica employer portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a Main contact registration form and Authorised user list form, and sign the administrator's user agreement for the secure administration facility.

The three main contacts are responsible for ensuring that contacts are maintained by notifying the administrator when one leaves and registering new contacts where necessary.

3.2. Liaison and communication with employers

The administrator will provide the following contact information for employers and their members.

- A named Pension Fund Representative for regulatory or administration queries, training, advice and guidance
- A named Finance Business Partner to assist with the monthly returns process
- A dedicated contact centre for member queries

In addition to this, the administrator takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Virtual meetings/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	Virtual meetings
Update sessions	Up to 2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
Pension Matters and round-up	12 per year and as and when required	Wordpress blog and gov.direct bulk mail
Social media	Constant	Web
Ad hoc meetings	As and when required	Virtual meeting/face-to-face
Employer webcasts	1 per week	Virtual meeting

4. Employer duties and responsibilities

When carrying out their functions, employers must have regard to the current version of this strategy.

4.1. Events for notification

4.1.1. Employers should be able to provide the following information in relation to their employees in the Fund

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
Monthly postings (submitted via secure portal)	Approved spreadsheet	None	19th day of the month following the month in which contributions were deducted	100% compliance of compliance of returns received in target
New starters	Monthly return		Notified via the monthly return, the administrator will process the data within two weeks following monthly return submission	100% compliance or better
Change of hours, name, payroll number or job title	Monthly return (exception report)	Web form	Notified via monthly returns, the administrator will process the data within two weeks following monthly submission. For exception report output from the monthly return, change data response must be provided to the administrator within two weeks of receipt of the exception report. If the employer isn't using monthly return then information is due within six weeks of change event.	90% compliance or better
50/50 and main scheme elections	Monthly return		Notified by the employer via monthly return, the administrator will process the data within two weeks following monthly data submission.	90% compliance or better
Service breaks/absences	Web form		Within six weeks of the date of the absence commencing	90% compliance or better
Under three-month optouts	Monthly return		Notified by the employer via monthly return, the administrator will process the data within two weeks following monthly data submission.	90% compliance or better
Leavers	Monthly return Web form Monthly returns (exception reports)		Notified by the employer via monthly return, the administrator will process the data within two weeks following monthly data submission, else within six weeks of leaving. For exception reports, leaver forms must be provided within two months of receipt of the exception report.	90% compliance or better

Retirement notifications	Web form	10 days before the member is due to retire unless the reason for retirement is ill health or redundancy	100% compliance
Death in service notifications	Web form	Within three days of the date of notification	100% compliance

4.1.2. Notifiable events

Employers should also provide information on any circumstances which might affect their future participation in the Fund or their ability to make contributions to the Fund "notifiable events". These include the following:

- **A decision which will restrict the employer's active membership in the Fund in future**
  Examples include: ceasing to admit new members under an admission agreement; ceasing to designate a material proportion of posts for membership; setting up a wholly owned company whose staff will not all be eligible for Fund membership; outsourcing a service which will lead to a transfer of staff

- **Any restructuring or other event which could materially affect the employer's membership**
  Examples include: a Multi-Academy Trust re-structuring so there is change in constituent academies, the employer merging with another employer (regardless of whether or not that employer participates in the Fund), a material redundancy exercise, significant salary awards being granted, a material number of ill health retirements, large number of employees leaving voluntarily before retirement or the loss of a significant contract or income stream

- **A change in the employer's legal status or constitution which may jeopardise its participation in the Fund**
  Examples include the employer ceasing business (whether on insolvency, winding up, receivership or liquidation), loss of charitable status, loss of contracts or other change which means the employer no longer qualifies as an employer in the Fund

- **If the employer has been judged to have been involved in wrongful trading**

- **If any senior personnel, e.g. directors, owners or senior officers have been convicted for an offence involving dishonesty, particularly where related to the employer's business**

- **Where the employer has, or expects to be, in breach of its banking covenant**

- **Details of any improvement notice (or equivalent) served by the appropriate regulator, e.g. Education Funding and Skills Agency, Office for Students, Charity Commission, Regulator for Social Housing etc, or S114 notice for local authorities**

Employers should provide this information in advance of the event occurring (where possible) or as soon as practicable thereafter.

4.2. Responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions. Organisations with third-party providers can't delegate responsibility for this even if day- to-day tasks are carried out by that provider.

The administrator is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer.

In the event of the administrator being fined by The Pensions Regulator, this fine will be passed on to the relevant employer where that employer's actions or inaction caused the fine

Employers are responsible for keeping the Administering Authority informed of all events or decisions which might affect their participation in the Scheme, including the 'notifiable events' as set out in 4.1.2 above. In such circumstances the Administering Authority may increase an employer's contribution as set out in the Funding Strategy Statement. Any increase may be backdated where the employer has failed to provide information to the Administering Authority in a timely manner.

4.3. Discretionary powers

Employers are responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy to employees in respect of the key discretions as required by the regulations. A copy of these discretions must be sent to the administrator.

4.4. Member contribution bands

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member at least once a year in April or more frequently if required in their policy. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

4.5. Internal dispute resolution procedure (IDRP)

Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

5. Payments and charges

5.1. Payments by employing authorities

Employers will make all payments required under the LGPS regulations, and any related legislations, promptly to the relevant pension fund and /or its additional voluntary contribution (AVC) providers (Prudential/Scottish Widows/Standard Life) as appropriate.

5.2. Paying contributions

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission however they must be paid to the relevant fund by the 19th day of the month following the month in which the deductions were made. The monthly posting submission should be uploaded to the administrator by the same deadline and the data should reconcile to the payment made to the relevant fund.

Where the 19th falls on a weekend or bank holiday, the due date becomes the last working day prior to the 19th.

5.3. AVC deductions

Employers will pay AVCs to the relevant provider within one week of them being deducted.

5.4. Late payment

Employers can be reported to The Pensions Regulator where contributions are received late in accordance with the regulator's code of practice. If a matching monthly posting submission is not provided with a contribution payment by the deadline this will also be recorded as a late payment because the relevant pension fund will not be able to correctly allocate the payment received.

5.5. Awards of additional pension

Where an employer awards a member an additional pension all augmentation costs must be paid in full in one payment.

5.6. Early retirement costs

Employers should pay the full amount of the cost of any early retirements.

LPF employers must pay this within the payment term stated on the invoice. If employers have concerns about their ability to pay in that timeframe, they should contact the Head of Pensions at their earliest opportunity. Interest may be charged where early retirement costs are not paid in a timely manner, at a rate agreed with the Fund Actuary.

5.7. Interest on late payment

In accordance with the LGPS regulations, interest may be charged on any amount overdue from an employing authority by more than one month.

5.8. Employer contributions

Employers' contributions rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficiently funded to meet its liabilities.

5.9. Actuarial valuation

An actuarial valuation of the fund is undertaken every three years by the fund actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and any secondary payment, if appropriate, for each employer for the subsequent three years. Any pass through or pooled arrangements are considered at each valuation.

5.10 Administration charges

The cost of running the administrator is charged directly to the shared service partners; the actuary takes these costs into account in assessing employers' contribution rates.

6. Administering authority duties and responsibilities

When carrying out their functions the administrator will have regard to the current version of the strategy.

6.1. Scheme administration

The administrator will ensure that training sessions and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events.

- Employer annual meeting
- Pre-retirement courses
- New starters induction courses
- Employer training webcasts (replacing workshops)
- Bite size training videos

6.2. Responsibilities

The administrator will ensure the following functions are carried out.

6.2.1. Provide a helpdesk facility for enquiries, available during normal office hours, providing a single point of access for information relating to the schemes being administered.

6.2.2. Create a member record for all new starters admitted to the scheme.

6.2.3. Collect and reconcile employer and employee contributions.

6.2.4. Maintain and update members' records for any changes received by the administrator.

6.2.5. At each actuarial valuation the administrator will forward the required data in respect of each member and provide statistical information over the valuation period to the relevant fund so that their actuary can determine the assets and liabilities for each employer.

6.2.6. Each fund will communicate the results of the actuarial valuation to the relevant employers.

6.2.7. Produce a benefit statement each year for every active, deferred and pension credit member.

6.2.8. Provide estimate of retirement benefits on request by the employer.

6.2.9. Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits.

6.2.10. Comply with HMRC legislation.

6.3. Decisions

The administrator will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

6.4. Discretionary powers

The administering authorities with support from the administrator will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

6.5. Internal dispute resolution procedure (IDRP)

The administrator will deal with employer appeals at stage two of the IDRP for LPF.

An adjudicator will be nominated to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision the administrator has made or is responsible for making. For LPF, the decision maker in these stage one appeals is the Head of Pensions.

6.6. Fund performance levels

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member records created	10	85%
2. Update personal records	10	85%
3. Posting monthly contributions to member records	10	95%
4. Calculate and action incoming transfer values	35	85%
5. Deferred benefit – payment of lumps sums	3	90%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions - payment	5	90%
9. Pay transfers out on receipt of acceptance	35	85%
10. Provide estimate of retirement benefits	10	75%
11. Retirement benefits – payment of lump sum	3	90%
12. Retirement benefits – calculation of pension/lump sum	10	85%
13. Calculation and payment of death benefits on receipt of all necessary information	5	90%
14. Make death grant payment to the member's nomination (provided all relevant information is received)	1 month	100%
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members		by 31 May
17. Annual benefit statements issued to active members		by 31 August
18. Make payment of pensions on the due date		100%
19. Issue P60s to pensioners within statutory deadlines		100%
20. Provide information on request in respect of pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlement to pensions for children over the age of 17		100%

7. Unsatisfactory performance

7.1. Measuring performance

Both employer and administrator targets will be measured on a quarterly basis using the Civica document management system. Administrator performance levels will be published on a monthly basis to the shared service pension funds and fire authorities. Overall administrator performance will be published by the funds in their Report and Accounts.

7.2. Unsatisfactory performance

Where an employer materially fails to operate in accordance with the standards described in this strategy, and this leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

Appendix A – Main contact registration and authorised users

Main contact registration form

Main contact registration form

Employer name and location code	
Employer address	

Important: please read the guidance note on **Managing your contacts** before you complete this form.

Strategic contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Administration contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Finance contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Contact at third-party payroll provider (if applicable and not listed above)

Name	Company name and address
Job title	
Phone	Specimen signature
Email	

Date signatures valid from	**Signed (by current authorised signatory)**

Authorised user list

authorised payroll user list oct 2018

Employer name

Authorised payroll user list

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

Full name	Phone number	Email address
Date authorised users valid from		
Signed (by current authorised signatory)		

Appendix B – Schedule of charges

Performance areas	Reason for charge	Basis of charge
1. Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III).
2. Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th)	Due by 19th of the month – late receipt of funds, plus cost of additional time spent chasing payment.	Number of days late interest charged at base rate plus 1%.
3. Monthly return due anytime but latest by 19th of the month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months.	Due by 19th of the month, any additional work caused by late receipt of information incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II).
4. Change in member detail	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to the administrator within 2 weeks of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I).
5. Early leavers information	If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to WYPF within two months of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension officers level I).
6. Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II).
7. Death in membership	Due within 3 working days of the notification – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III).
8. AVC deducted from pay to be paid anytime but latest date by 19th of the month (weekends and bank holidays on the last working day before 19th).	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I).
9. Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in

		admin charge (at pension officer level I).
10. Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers	Costs of additional work resulting from employer's failure to notify the administrator of change in authorised officers list.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I).
11. Security breach on system re data protection	Recharge employers any fines imposed on us in this event	Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III).
12. Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order.	The charge is £350 + VAT for this work.
Miscellaneous items: • Benefit recalculation • Member file search and record prints • Supplementary information requests	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + VAT will be levied. Where the member has more than one known record, the charge is for each record.

Appendix C – Charging Levels

Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made. Any part or all of these charges may be waived at head of service discretion.

Charge levels	I	II	III
Daily charge	£96	£136	£220
Half day charge	£48	£68	£110

- Level I – work at Pensions Officer level
- Level II – work at Senior Pensions Officer level
- Level III – work at Pensions Manager level