Lancashire County Council

Pension Fund Committee

Friday, 7th June, 2013 at 11.15 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	**Item**	
1.	**Constitution: Chair and Deputy Chair; Membership; Terms of Reference**	(Pages 1 - 8)
2.	**Apologies**	
3.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
4.	**Minutes of the Meeting held on 22 March 2013** To be confirmed, and signed by the chair.	(Pages 9 - 16)
5.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	

Part II (Not open to Press and Public)

6.	**Investment Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).	(Pages 17 - 26)

Lancashire County Council

14. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

15. Date of Next Meeting

The next meeting of the Committee will be held on Friday 6 September 2013 at 10.00 a.m. at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 1

Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: None

Constitution: Chair, Deputy Chair and Terms of Reference

Contact for further information:
Chris Mather, 01772 533559, Office of the Chief Executive,
Chris.mather@lancashire.gov.uk

Executive Summary and Recommendation

The Committee is asked to note:

i. the appointment of County Councillors T Burns and M Parkinson as Chair and Deputy Chair respectively of the Pension Fund Committee for the 2013/14 municipal year.

ii. the appointment of County Councillors M Parkinson and T Burns as Chair and Deputy Chair respectively of the Pension Fund Administration Sub-Committee for the 2013/14 municipal year

iii. the membership of the Pension Fund Committee and the Pension Fund Administration Sub-Committee.

iv. the Terms of Reference of the Pension Fund Committee and the Pension Fund Administration Sub-Committee.

Background

1. Pension Fund Committee

The County Council at its annual meeting on 23 May 2013 agreed that the Pension Fund Committee shall comprise 14 County Councillors (on the basis of 6 Labour members, 6 Conservative members, 1 Liberal Democrat member and 1 Independent member) and 7 co-opted voting members.

The following County Councillors have subsequently been nominated to serve on the Pension Fund Committee for the following year:

County Councillors (14):

L Beavers	J Oakes
T Burns	M Parkinson
D Borrow	S Perkins

Lancashire County Council

M Brindle	K Sedgewick
J Gibson	D Westley
K Iddon	P White
J Lawrenson	B Yates

The following voting co-optees have been nominated to serve on the Committee:

Voting co-opted members (7)

Lancashire Unitary Authorities:

Councillor M Smith (Blackpool Council)
Councillor D Walsh (Blackburn with Darwen Borough Council)

Lancashire District Councils:

Councillor P Leadbetter (Chorley Borough Council)
Councillor I Grant (West Lancashire Borough Council)

Trade Union representatives:

Mr B Harvey
Mr R Whittle

Higher Education/Further Education establishments:

J McCann

The Full Council appointed County Councillor T Burns and County Councillor M Parkinson as Chair and Deputy Chair of the Pension Fund Committee for the 2013/14 municipal year.

A copy of the Committee's Terms of Reference are attached at Appendix 'A'.

2. Pension Fund Administration Sub-Committee

The County Council at its annual meeting on 23 May 2013 agreed that the Pension Fund Administration Sub-Committee shall comprise 5 County Councillors (on the basis of 2 Labour members, 2 Conservative members and 1 Liberal Democrat member) and 2 co-opted voting members.

The following County Councillors have subsequently been nominated to serve on the Pension Fund Administration Sub-Committee for the following year:

County Councillors (5):

M Brindle	M Parkinson
T Burns	D Westley
J Lawrenson	

The following voting co-optees have been nominated to serve on the Pension Fund Administration Sub-Committee:

Voting co-opted members (2)

Councillor M Smith (Blackpool Council)
Mr B Harvey (Trade Union representative)

The Full Council appointed County Councillor M Parkinson and County Councillor T Burns as Chair and Deputy Chair of the Pension Fund Administration Sub-Committee for the 2013/14 municipal year.

A copy of the Sub-Committee's Terms of Reference are attached at Appendix 'B'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk Management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Pension Fund Committee

Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:

    a. One co-optee representing the Further and Higher Education sector in Lancashire;
    b. One co-optee from Blackburn with Darwen Council;
    c. One co-optee from Blackpool Council;
    d. Two co-optees representing Trade Unions; and
    e. Two co-optees representing the Lancashire borough and city councils.

2. The role of the Committee is to:

    a. exercise responsibility for the administration of the Lancashire County Pension Fund ("the Fund");
    b. establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future investment policy for the Fund;
    c. monitor and review investment activity and the performance of the Fund; and
    d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.

3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

Terms of Reference

1. To exercise Lancashire County Council's responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.

2. To have overall responsibility for investment policy and monitor overall performance.

3. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.

4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.

5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.

6. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.

7. To approve the policies and procedures for any internally managed Fund investments.

8. To establish a Pension Fund Administration Sub-Committee and agree its composition, role and terms of reference.

9. To receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

10. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:

    a. external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
    b. external property agents and advisors;
    c. an external corporate governance adviser;
    d. an external Fund custodian;
    e. external performance measurement advisers;
    f. the Fund Actuary; and
    g. the Fund's AVC Provider.

11. To approve an Annual Business Plan, Statement of Investment Principles, Governance Policy Statement , Treasury Management Strategy and Policy and Governance Compliance Statement.

12. To approve the Pension Fund Annual Report.

13. To approve a Funding Strategy statement to include the Fund's policy in respect of:

    a. the Funding Target;
    b. the collection of employee contributions;
    c. the collection of employer contributions;
    d. the collection of additional employer contributions; and
    e. Admissions and Terminations.

14. To determine which pension related functions and responsibilities should be exercised under the Council's Scheme of Delegation to Chief Officers.

15. To approve the overall appropriate and necessary training requirements for members of the Committee.

Appendix 'B'

Pension Fund Administration Sub-Committee

Composition and role

1. The role of the Pension Fund Administration Sub-Committee ("the Sub-Committee") is to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

2. The Sub-Committee shall meet at least twice a year or otherwise as necessary.

3. The membership of the Sub-Committee shall be determined by the Pension Fund Committee ("the Committee"). The current membership is five County Councillors, one Trade Union representative and one representative from either the Lancashire borough and city councils or the Lancashire Unitary Authorities. All members have voting rights.

Terms of Reference

1. To ensure that the Committee's functions as Administering Authority are discharged and approve an Annual Administration Report.

2. To agree the terms of a Service Level Agreement in relation to the provision of administration services and support.

3. To submit reports and make recommendations to the Committee relating to the administration of the Lancashire County Pension Fund.

4. To respond to any Government consultations relating to the administration and benefits of the Local Government Pension Scheme.

5. To approve the following:

   a. Pensions Administration strategy statement;
   b. Communication Policy statement;
   c. Internal Dispute Resolution procedure;
   d. Death Grant procedure;
   e. Bulk Transfer Payment policy;
   f. Commutation policy (small pensions);
   g. Transfer policy; and
   h. Abatement policy.

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 22nd March, 2013 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
K Iddon	G Roper
J Lawrenson	M Welsh
F De Molfetta	K Young

Co-opted members

Bob Harvey, (Trade Union representative)
Councillor Paul Leadbetter, (Lancashire Leaders' Group representative)
Councillor Mark Smith, (Blackpool Council representative)
Ron Whittle, (Trade Union representative)

Eric Lambert and Noel Mills, Independent Advisers to the Pension Fund were also present.

1. Apologies

Apologies for absence were received from County Councillor P Evans and Councillors I Grant and Mrs D Walsh.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 30 November 2012

The Minutes of the meeting held on 30 November 2012 were presented.

It was noted that the attendance of Eric Lambert and Noel Mills, Independent Advisers, had been omitted from the Minutes.

Resolved: That, subject to the above mentioned amendment, the Minutes of the meeting held on 30 November 2012 be confirmed and signed by the chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on the performance of the Fund as at 19 March 2013, focussing on the key areas of:

- the funding position;
- cash flow;
- investment performance and allocation; and
- risk management of the Fund, including compliance with statutory and Fund limits.

Resolved: That the report be noted.

6. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee received a report from the Investment Panel setting out the work of the Panel at its meeting held on 29 January 2013. The Committee's attention was specifically drawn to the following key areas:

- The investment context in which the Fund was currently operating particularly in the context of the US economy and Europe's financial markets.
- Investment decisions in respect of emerging market debt;
- A Local Investment Strategy; and
- Further allocation work i.e. Regulatory Driven Investment.

Resolved: That the report be noted.

The Committee then returned to the remaining Part I agenda items.

7. Report of the Administration Sub-Committee

The Committee received the minutes of the Pension Administration Sub-Committee from its meeting on 6 February 2013.

It was noted that the Sub-Committee had considered reports on:

- The transfer of Your Pension Service to One Connect Limited
- Membership of Local Government Pension Scheme and Auto-enrolment
- Statutory Consultation on the new Local Government Pension Scheme 2014 and related proposals

The Committee's attention was particularly drawn to the following:

1. The transfer of Your Pension Service to One Connect Limited

The Sub-Committee had requested that assurances from One Connect Limited with regard to maintaining the quality of the Service and the security of information be brought to the attention of the Committee.

The Committee was informed that the following statement had been provided to give assurance to the Committee that the high quality of the existing service to members and their families as set out in the current Service Level Agreement would be maintained. Specifically, One Connect Limited undertook to ensure that:

- Any expansion of the Service would not affect current service standards.

- The Service would continue to be cost effective; and

- The integrity of the service, including data integrity, would remain secure.

The Committee also noted that the transfer would enable Your Pension Service to benefit from One Connect Limited's commercial skills, as well as its ongoing focus on high performance, continuous service improvement and placing the customer at the heart of the organisation. The transfer would see benefits arising from One Connect Limited's systems expertise which would enhance, improve and grow existing and future business without detriment to current levels of service.

In summary, the future delivery of the Service would remain in line with current standards and performance targets as set out within the existing Service Level Agreement.

There was a lengthy discussion on this matter and some further concerns were expressed about the transfer of the Service particularly around the need to maintain data security and also the high level of service to members and their families. The Committee was informed that existing staff would continue to deliver the same high quality service and that security of information would not be compromised. It was also noted that the County Treasurer would continue to be accountable for the delivery of the Service under the terms of the Service Level Agreement. Any examples of data breaches should immediately be brought to the attention of the County Treasurer.

It was reported that the transfer of Your Pension Service had been included on the original list of council services to be transferred to One Connect Limited.

Mr Harvey asked that his opposition to the transfer of Your Pension Service be recorded

2. Membership of Local Government Pension Scheme and Auto-enrolment

The Sub-Committee requested a further break-down of County Council employee opt-outs following auto-enrolment on 1 January 2013.

The Committee was informed that as at end of February the opt out rate was 37% (opt out target was less than 50%). A detailed breakdown of the opt outs by job groups, postcode, gender, age salary and fulltime/part time was presented. The Committee was also informed that the number of County Council employees in the Lancashire County Pension had increased by 7% (target increase was 5%).

The Committee also received an update on the situation in Cyprus. It was reported that on 19 March 2013, due to the banking crisis in Cyprus, the Chancellor of the Exchequer decided that all public sector pension payments to Cypriot bank accounts should be temporarily halted.

Members were informed that Your Pension Service currently processed pension payments for 32 pensioners who currently had a Cyprus address location, of which 17 pensioners had a UK bank account. However, 15 pensioners were paid via Citibank, who processed overseas payments on behalf of Your Pension Service. Citibank had confirmed that these payments had been frozen. The Service had contacted all 15 affected pensioners to ask them if they would like their payments redirected to a UK bank account. Six pensioners had chosen to have their payments redirected whilst the rest had decided to leave their payments frozen until the situation had been resolved.

Resolved:

1. That the minutes of the Pension Fund Administration Sub-Committee meeting held on 6 February 2013 be noted.

2. That the update on the situation in Cyprus, as mentioned above, be noted.

8. 2013 Actuarial Review – Framework for Setting Contribution Rates

The Committee considered a report on a proposed framework within which employer contribution rates would be set as a result of the 2013 actuarial valuation of the Fund.

The Committee was informed that the 2013 actuarial valuation of the Fund was probably the most significant valuation in the history of the Local Government Pension Scheme. There were a number of significant factors coming together at one point in time which would impact on the actuary's calculations. These included:

- The introduction of the new CARE scheme from April 2014 which would affect the calculation of the future service contribution rate.
- The continuing instability in the financial markets, particularly the bond markets which impacted on various factors used within the actuary's calculations.
- The introduction and the effects of auto-enrolment which would impact on fund membership, contributions received and future liabilities.
- The continuation of public sector austerity which would have an impact both on pay growth, scheme membership and the cash flow profile.
- The need to continue to make progress in reducing the past service deficit within the context of ongoing pressure on employers' budgets.

The Committee was asked to approve the proposed framework presented at Appendix 'A' as a basis for engagement with Fund employers and the intital development of the Funding Strategy Statement. By setting a clear set of ground rules for the valuation now the Committee would be ensuring that all stakeholders were clear on the parameters for the valuation and had time to prepare to deal with their impact. It also allowed the Committee to fulfil its responsibility to engage with Fund employers around the preparation of the Funding Strategy Statement which formed one of the key outputs from the valuation process.

It was noted that a further report would be presented to the Committee on 29 November 2013

Resolved: That the proposed framework, as presented at Appendix 'A', be approved as a basis for engagement with Fund employers and the intital development of the Funding Strategy Statement.

9. Credit and Fixed Income Strategy

The Committee considered a report on the Investment Panel's proposed approach to the management of the Fund's allocation to Credit and Fixed Income investments in order to achieve the objectives of the Fund.

The Committee was informed that the Panel recommended that, subject to appropriate ongoing governance and risk management, the Pension Fund should seek higher returns than the historic investment portfolio (comprising mainly Sterling Investment Grade Bonds and Gilts) could be expected to deliver.

The Panel considered that the current economic situation and particularly the change in the regulatory environment to which banks were subject was presenting opportunities to achieve better yields in the Credit and Fixed Income sphere without necessarily taking on significantly more risk.

The Panel therefore supported a strategy that sought to diversify away from Investment Grade credit into other areas, including but not limited to: *secured* lending to certain higher risk counterparties; long-term lending, preferably secured, where the Fund could earn an attractive term and liquidity premium; non-sterling lending to governments and other high-grade counterparties; investment opportunities driven by changes to banking regulation; and loans delivering a degree of inflation protection through indexation.

The proposed credit and fixed income strategy was presented at Appendix 'A'.

Resolved: That the credit and fixed income strategy, as presented at Appendix 'A', be approved.

10. The Management of Local Investment Allocations

The Committee at its meeting in November 2012 requested that officers bring forward proposals for the management of a local investment allocation.

This matter had been discussed by the Investment Panel and a report on the proposed adoption of various principles in managing an allocation of this sort (around 3% of the Fund) was presented at Appendix 'A' for the Committee's consideration.

The Committee agreed that whilst local investment could have a place in the assets of the Pension Fund, it was vital that the focus on the over-riding investment objectives of the Fund was maintained through ensuring robust appraisal and due diligence processes which were demonstrably independent and therefore able to provide an objective appraisal of any opportunities presented to the Fund. Members stressed that local investment must not override the fiduciary duties of the Fund. The Committee also agreed that:
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- Local investment would be defined as the Lancashire Sub-region i.e. the 1974 county area covered by the county council and the two unitary councils of Blackburn with Darwen and Blackpool.
- At least initially local investment should be concentrated in the area of property in line with the Investment Strategy’s preference for real income generating assets. A number of current local developments could present strong opportunities for the Funding including the Enterprise Zone and the Preston City deal;
- The Fund should avoid exposure to construction risk; and
- Any allocation should be managed by an external manager in line with a clear investment mandate. The manager would undertake both the impartial evaluation of opportunities and the ongoing management of any local allocation.

The Committee noted that the Greater Manchester Pension Fund had a successful local investment allocation in the North West region including Lancashire. It was agreed that officers should seek a meeting with representatives of the Greater Manchester Fund to discuss the issue of local investment allocations and to learn from that Fund's experience.

Following this a report setting out a procurement strategy for the appointment of an appropriate manager, together with details of the relevant local investment mandate would be presented to the Committee. It was noted that a procurement exercise in respect of the Fund's property mandate would be undertaken during the 2013/14 financial year and it was proposed to include the local allocation within that mandate.

Resolved:

1. That the implementation, in line with the Investment Strategy, of an allocation of 3% of the Fund to local property within the Lancashire area as set out in Appendix 'A' be approved.

2. That officers be requested to seek a meeting with representatives of the Greater Manchester Pension Fund to discuss local investment allocation issues and to learn from that Fund's experience.

3. That officers be requested to bring forward a procurement strategy paper for the appointment of an appropriate manager, together with details of the relevant local investment mandate to the next meeting of the Committee.

11. Fiduciary duties and ethical investment

The Committee at its meeting on 30 November 2013 requested a report setting out the Fund's fiduciary duties with regard to ethical investment decisions. A particular concern that was raised at that meeting related to investments in the tobacco industry and any conflict which this could bring with the imminent transfer of public health responsibilities to the County Council from April 2013.

The Committee considered a report which set out the meaning of fiduciary duties pertaining to the Fund, relevant case law, relevant research and regulatory duties. With specific regard to investments in tobacco related interests, and any potential conflict with the transfer of public health responsibilities to the County Council, the report explained how these two seemingly conflicting positions could be reconciled through the maintenance of appropriate separation of duties in carrying out these particular responsibilities.

The Committee agreed that the judgements arising from relevant case law made it clear that in order to meet its fiduciary duties, the Fund could not unilaterally decide to divest from an individual investment type without regard to the overall objectives of the Fund, or without taking appropriate professional advice including risk and return considerations.

Resolved: That the report be noted.

12. Fund Shareholder Voting and Engagement Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and voting activity for the period 1 October to 31 December 2012. It was noted that the Fund had voted on 193 occasions during this period and had opposed or abstained in 38% of votes.

Resolved: That the report be noted.

13. Urgent Business

None.

14. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 7 June 2013 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

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(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: All

Pension Service - Annual Administration Report
(Appendix 'A' refers)

Contact for further information:
Gill Kilpatrick (01772) 534715, County Treasurer
Gill.kilpatrick@lancashire.gov.uk

Executive Summary

The Pension Fund Committee is required to receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

A Service Level Agreement (SLA) exists between Lancashire County Council and the service provider; One Connect Limited. The SLA contains specific service level standards and corresponding service level targets. A report is attached at Appendix 'A' to inform the Committee of the Service's performance against the standards and targets set over the year.

Recommendation

The Committee is asked to note the 2012/13 Administration Report as presented at Appendix 'A'.

Background and Advice

The Service Level Agreement (SLA) exists between the Lancashire County Council and the service provider; One Connect Limited. The SLA contains specific service level standards and corresponding service level targets. A report is attached at Appendix 'A' to inform Committee of the Service's performance against the standards and targets set over the year.

2012 has been a year of change within the service. The biggest development was the launch of the member self service function "my pension online". This development allows scheme members to access their pension records online. This service will become the primary method of communication with scheme members in the future.

During the year the service also launched the 'I'm In' communications campaign to coincide with the County Councils auto enrolment date of 1 January 2013. The campaign was designed to promote the benefits of the Local Government Pension Scheme and to encourage staff to stay in the scheme following auto enrolment. The campaign resulted in an increase in LCC's membership of 7% against a target of 5%.The opt out rate was 37% against a target of 50%. This means that 63% of staff who where auto enrolled on 1 January 2013 chose to stay in the scheme; working and saving for their retirement.

Performance continues to meet, and in some areas exceed, the SLA targets set. The service continues to meet its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. At the beginning of 2013 the service was restructured and as a result dedicated client teams were created to deliver more efficient customer focussed services. A Performance Manager was appointed to ensure that SLA targets are met. The overall achievement against SLA targets over the year was 96%.

The service was also delighted to be shortlisted, together with Cumbria County Council, as a finalist in the Shared Services category at this year's Municipal Journal Achievement Awards. These awards recognize the best work of local government. An Awards evening will be held on 20 June 2013 to announce the winners.

Your Pension Service makes a charge to the Pension Fund on a per member basis which is restricted to the lower quartile as reported in national benchmarking returns. This charge is currently set at £21.50 per member as against a benchmark of £23. For 2012/13 the financial performance of the service across all the areas of work which it undertakes has generated an exceptional underspend and in order not to overcharge the Fund the County Treasurer has reduced the charge on a one off basis to £19.37 per member generating a rebate of £0.300m to the Fund. The ongoing level of charge to the Fund will be kept under review.

The Committee is asked to note the 2012/13 Administration Report as set out at Appendix 'A'.

Consultations

N/A

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
N/A		

your pension service

LANCASHIRE COUNTY PENSION FUND

Annual Performance Report 2012/13

Lancashire County Council

comms:3081

1. INTRODUCTION

a) Purpose

This annual administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of the Pension Service against the standards set out in the SLA during the year.

The report also explains the activities and events undertaken by the Pension Service over the reporting year.

b) Review of the Year

2012 has been another year of change within the service. The biggest development was the launch of the member self service function "my pension online". This development allows scheme members to access their pension records online. This service will become our primary method of communication with scheme members in the future.

During the year the service also launched the 'I'm In' communications campaign to coincide with the County Councils auto enrolment date of 1 January 2013. The campaign was designed to promote the benefits of the Local Government Pension Scheme and to encourage staff to stay in the scheme following auto enrolment. The campaign resulted in an increase in LCC's membership of 7% against a target of 5%.The opt out rate was 37% against a target of 50%. This means that 63% of staff who where auto enrolled on 1 January 2013 chose to stay in the scheme; working and saving for their retirement.

The service was also delighted to be shortlisted, together with Cumbria County Council, as a finalist in the Shared Services category at this year's Municipal Journal Achievement Awards. These awards recognize the best work of local government. An Awards evening will be held on 20 June 2013 to announce the winners.

Annual Plan – 2012/13

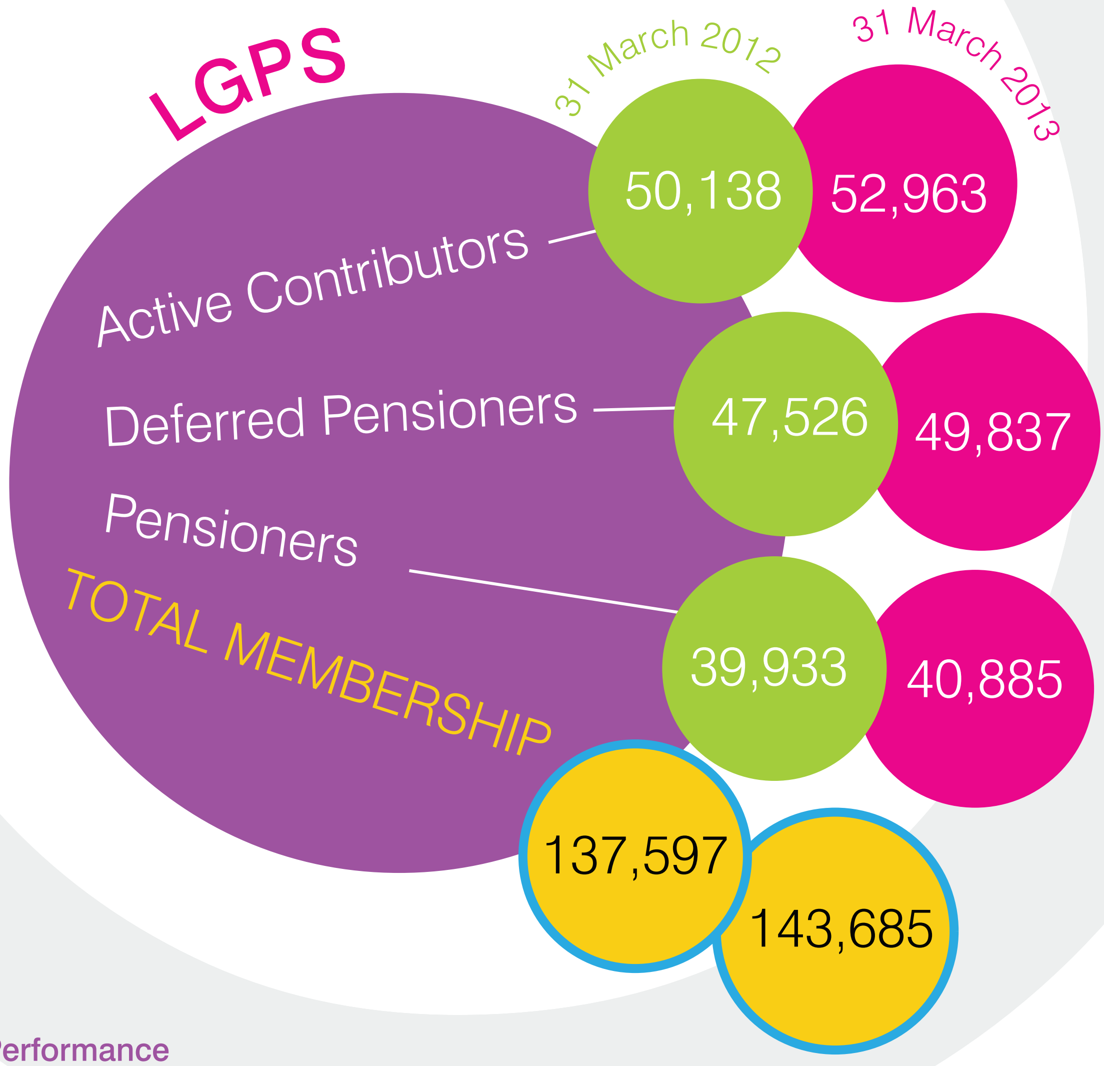
Due | Completed

Event	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Responsibility Your Pension Service (YPS)												
Application of Pension Increases		Completed										
Issue Annual Benefit Statement to Active Members						Completed						
Issue Annual Benefit Statement to Def Members		Completed										
Issue P60s to Pensioners	Completed											
Issue Newsletter	Completed											
Complete HMRC Scheme Returns										Completed		
Provide FRS17 data											Completed	

2. PERFORMANCE

a) Membership

Membership of the fund has increased overall by 5% over the year.



b) Caseload & Performance

Performance continues to meet, and in some cases exceed, the SLA targets set. The service continues to meet its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. At the beginning of 2013 the service was restructured and as a result dedicated client teams were created to deliver more efficient customer focussed services. A Performance Manager was appointed to ensure that SLA targets are met. The overall achievement against SLA targets over the year is 96%.

c) Annual Benefit Statements

Over the year the service has produced 102,000 benefit statements online for scheme members in accordance with a rolling programme. Over 49,000 deferred scheme members received statements during May 2012 whilst almost 53,000 active scheme members received their benefit statements towards the end of 2012.

LGPS

During the reporting period 59,226 individual calculations/ enquires were completed, of which 56,497 met the performance standard;an overall performance of 96% was achieved.

Performance Standard	Cases received	Cases completed	Within SLA	% Within SLA	Target	Cases outstanding
Estimate benefits within 10 working days	3350	3287	3062	94%	90%	63
Payment of retirement benefits within 10 working days	1973	1939	1836	95%	90%	34
Payment of death benefits within 10 working days	2805	2726	2480	91%	90%	79
Implement change in pensioner circumstance by payment due date	40656	39951	39410	99%	95%	705
Respond to general correspondence within 10 working days of receipt	2117	2037	1822	90%	90%	80
Action transfers out within 10 working days	830	802	725	91%	90%	28
Action transfers In within 10 working days	1224	1132	1021	91%	90%	92
Pay Refunds within 10 working days	213	202	165	82%	90%	11
Provide leaver statement within 10 days	4304	4101	3150	77%	90%	203
Amend personal records within 10 working days	3142	3049	2826	93%	95%	93
	60614	59226	56497	96%	95%	1388

Target Hit   Target Missed

3. CUSTOMER SERVICE & EMPLOYER LIAISON

a) Connect2Pensions

Connect2Pensions is a dedicated pension's helpdesk facility and is the first point of contact for both scheme members and employers. Over the year 93.5% of calls were successfully answered against a target of 90%.

b) Training Courses for Scheme Members & Employers

During the year the following training courses and presentations were delivered:

- Scheme information was presented at 16 pre retirement courses.
- A number of promotional events were attended at the request of the employer. Scheme information was available and the team delivered presentations and responded to general member enquiries relating to the membership of the pension scheme.
- At the request of employers 4 bespoke training events were delivered and a further 4 academy training visits were undertaken.
- Each year, following the issue of Annual benefit statements, a series of 'pension surgeries' are arranged at locations throughout the county. This year 11 events took place with over 500 members attending.
- Financial planning "drop in" sessions were held at 7 locations within Lancashire to support the auto enrolment campaign and promote the scheme to non members. Over 100 individuals attended.

c) Communication with Scheme Members

'Scheme Talk', the annual newsletter for active members, was sent promoting "my pension" online as a way to access their annual benefit statements. This was issued September 2012.

d) Annual Conferences

Our annual employer conference was held at Woodlands on 27th September 2012. Topics covered included auto enrolment, future developments within the Service and the 2014 scheme changes so far. Over 120 delegates attended on the day. In addition, a briefing for Chief Finance Officers and Directors was held at County Hall on 4th December 2012. The Fund Actuary attended to present current funding issues. Over 50 delegates attended.

e) Scheme Promotion

The "I'm in" communications campaign was undertaken to promote the Scheme in advance of Lancashire County Councils auto enrolment go live date of 1 January 2013. The aim of this campaign was to educate and raise awareness of scheme benefits to discourage opt outs and to increase scheme membership. The scope also included staff not captured by auto enrolment to encourage them to join. The campaign included posters and leaflets, letters to home addresses and online live 'Q and A' sessions. Drop in awareness sessions were also held throughout Lancashire to support the campaign. Lancashire's Chief Executive was a high profile sponsor of the campaign, raising staff awareness of auto-enrolment. The campaign resulted in an increase in LCC's membership of 7% against a target of 5%.The opt out rate was 37% against a target of 50%. This means that 63% of staff who where auto enrolled on 1 January 2013 chose to stay in the scheme; working and saving for their retirement.

4. LEGISLATIVE CHANGE

a) Public Sector Pension Reform - LGPS 2014

A Statutory Consultation started on 21 December 2012 on new benefit regulations for the Local Government Pension Scheme (LGPS) from 1 April 2014.

A number of further consultations have followed with the intention of having a new LGPS in place by 1 April 2014. This new Scheme will reflect the provisions of the Public Service Pensions Bill which having worked its way through Parliament reached Royal Assent on 25 April 2013.

The main provisions of the new LGPS 2014 are:

- The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme with an accrual rate of 1/49th.
- The Scheme will be re-valued in line with Consumer Price Index (CPI).
- Pay will include non-contractual overtime and for part time staff pay will include additional hours.
- Flexibility in contributions will mean an optional arrangement allowing 50% of main benefits to be accrued by paying a 50% contribution rate.
- Normal Pension age will be the same as the individual member's State Pension Age (minimum 65).

The next step of the ongoing statutory consultation process is to ensure that the regulations covering the protections for current scheme members (known as the transitional regulations) are in place. These regulations describe how the move from current to new rules take place and set the foundations for protections. In particular protections will include a final salary link and protected retirement age for benefits built up to March 2014.

Over the forthcoming year the Service will be putting together a comprehensive communications plan in order to keep scheme members informed of these changes. The Service will also work closely with its systems supplier to ensure that the pension's administration system is compliant with the new regulations.

5. APPEALS

Under the terms of the Local Government Pension Scheme appeals from members are dealt with under the Internal Dispute Resolution Procedure (IDRP) which applies to members of the LGPS whose position may be affected by decisions taken by their employer, former employer or LGPS administering authority.

The IDRP is a formal procedure for individuals to appeal about their treatment under the LGPS regulations. The arrangements in place allow for a 2 stage appeal process. Responsibility for determinations under the first stage of the procedure can rest with the employing authority or administering authority depending on the reason for appeal.

Responsibility for determinations under the second stage of the procedure rests solely with the Administering Authority and for Lancashire the Appeals officer position has been designated to the Deputy County Treasurer.

During the year, 22 stage 2 appeals were received. 16 of these cases related to disputes concerning the award of ill health benefits either because benefits had not been granted or a dispute concerning the level of ill health awarded.

Of the 22 cases received 11 have been dismissed, 1 has been upheld and 10 are currently on-going.

6. e-DEVELOPMENT

a) Member self service "My Pension online"

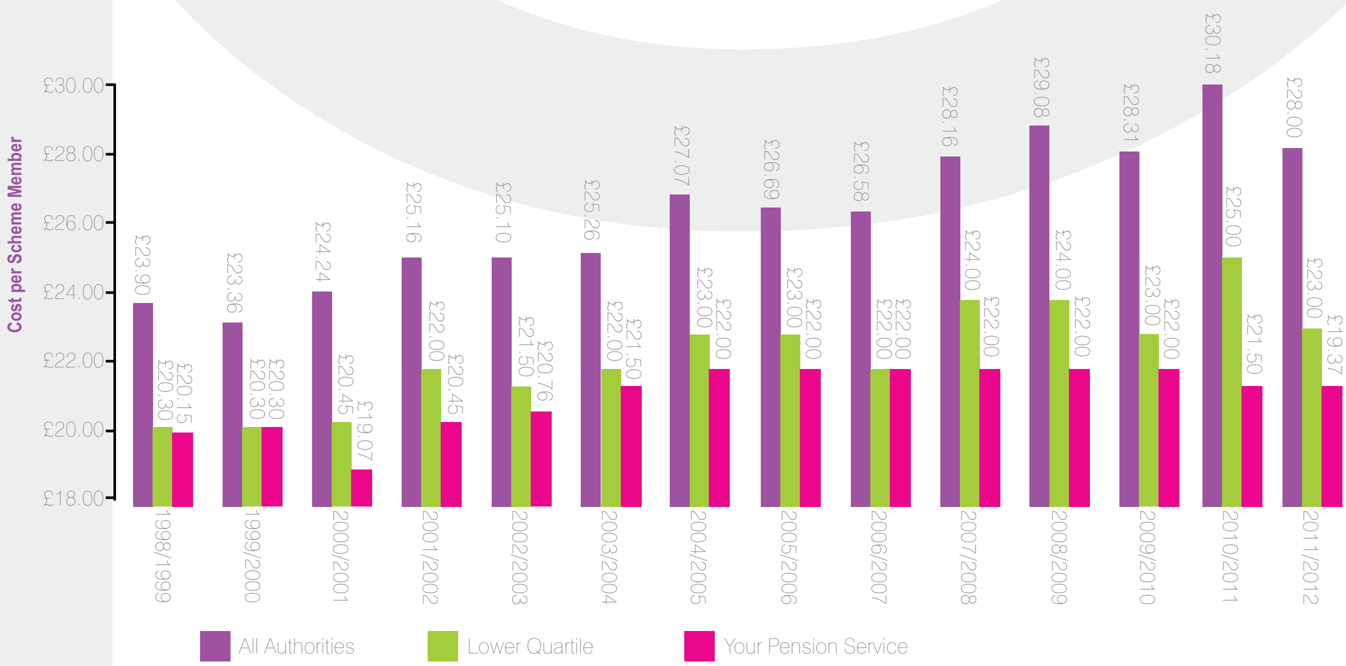
The service launched an innovative interactive self service function for scheme members. This development allows members to access their pension records online, including payslips for pensioner members and benefit statements for active and deferred members. The service aims to use this online facility as its primary means of communication in the future. A promotional campaign is planned for 2013 to encourage Scheme members to register for this service.

b) Future Developments

The service has agreed a project plan of future developments. One of these developments is to launch the Employer online facility to Fund employers. This service will enable employers to view scheme member records for their organisation, complete basic tasks and process estimates electronically.

7. CHARGES

Your Pension Service makes a charge to the Pension Fund on a per member basis which is restricted to the lower quartile as reported in national benchmarking returns. This charge is currently set at £21.50 per member as against a benchmark of £23. For 2012/13 the financial performance of the service across all the areas of work which it undertakes has generated an exceptional underspend and in order not to overcharge the Fund the County Treasurer has reduced the charge on a one off basis to £19.37 per member generating a rebate of £0.300m to the Fund. The ongoing level of charge to the Fund will be kept under review.



Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: 'All'

Knowledge and Skills Framework
(Appendices 'A' and 'B' refer)

Contact for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Directorate
Gill.kilpatrick@lancashire.gov.uk

Executive Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) published its code of Practice on public sector pensions finance knowledge and skills in October 2011. The Code has been devised in response to Lord Hutton's recommendation that every public sector pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent "Pensions Board". It also represents a key element in complying with the relevant principle of investment practice laid out in Local Government Pension Scheme (Management and Investment of funds) regulations 2009 regarding Effective Decision making.

The Code is intended to be used in conjunction with the CIPFA Pension Finance Knowledge and Skills Frameworks which enhances where necessary, levels of knowledge and skill held by all those involved in the management and oversight of public sector pension funds.

The Code became effective from 1 April 2012 and is mandatory for CIPFA members as part of their standards of professional practice, and was adopted by the Pension Fund Committee at its meeting on 3 February 2012 in order to ensure good governance and training practices, and to support the Treasurer who, as a CIPFA member, has a professional requirement to comply with the Code.

The full Code of Practice is attached in Appendix 'A'.

Members and officers of the Fund already possess some of the required skills set out in the Skills and Knowledge frameworks; however there may be some areas where knowledge may need supplementing or strengthening. It is important that these areas are identified and the appropriate training is undertaken, not only to demonstrate compliance with the CIPFA Code of Practice but also to ensure members are properly supported in their role. This is particularly important and timely, following the reconstitution of the Committee after the County Council elections in May 2013.

Lancashire County Council

The Council currently subscribes to a web-based knowledge and skills self assessment tool, developed by Hymans Robertson in conjunction with the CIPFA Pensions Network, to enable officers and elected members to help identify these gaps. A copy of the Training Needs Analysis (TNA) for Elected Members is attached as Appendix B. A separate TNA exists for pensions practitioners. It is recommended that officers and members use the toolkit to identify knowledge gaps. This process has begun for officers and needs to be fully completed for all relevant officers and members, and once completed, a training programme for both members and officers will be developed, incorporating the training materials available in the toolkit, relevant seminars, conferences and internal training days. This training programme will be devised to ensure compliance with the Code of Practice and to minimise the call on members' time.

Recommendations

The Committee is asked to agree:

a) the proposed approach to establishing an appropriate training programme to meet its commitments under the Knowledge and Skills Framework as part of the Policy Framework of the Lancashire County Pension Fund. This is to ensure good governance and in support of the Treasurer to the Pension Fund who as a CIPFA member has a professional requirement to comply with CIPFA Code of Practice.

b) as part of this, that work continues using appropriate tools, to identify areas where the knowledge and skills of both officers and members require strengthening, and that following this, a programme of activity to address any identified development areas be developed and undertaken.

Background and Advice

CIPFA published its code of Practice on public sector pensions finance knowledge and skills in October 2011, coming into effect from 1 April 2012.

The Code of Practice was devised in response to Lord Hutton's recommendation that every public sector pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent "Pensions Board".

The code also represents a key element in complying with the relevant principle of investment practice regarding Effective Decision making. This principle requires LGPS funds to ensure that:

> Decisions are taken by persons or organisations with the skills, knowledge, advice and necessary recourses to make them effectively and monitor their implementation, and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. The Code of Practice is underpinned by four key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspect of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

3. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

4. The organisation has designated a named individual to be responsible for ensuring that the policies are implemented.

CIPFA recommend that that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations and other policy documents the following statements:

1. This organisation adopts the key recommendations of *the Code of Practice on Public Sector Finance Knowledge and Skills.*

2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensue that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills frameworks.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the County Treasurer who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member with *CIPFA Standards of Professional Practice*.

The full Code of Practice is attached in Appendix A.

The Code is intended to be used in conjunction with the *Pensions Finance Knowledge and skills Framework – Technical Guidance for Elected Representatives and Non-executive members in the Public Sector* and *the Pensions Finance Knowledge and skills Framework – Technical Guidance for Pension Practitioners in the Public Sector.*

The framework was launched in January 2010 and it identified the following six areas of core technical requirements for both officers and members:

- Pensions legislation and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship management;
- Investment performance and risk management;
- Financial markets and products knowledge;
- Actuarial methods, standards and practices.

The frameworks are intended to have two primary uses, as a tool for organisations to determine whether that the right skill mix to meet their pension scheme financial management needs and as an assessment tool for individuals to measure their progress and plan their development.

Members and officers of the Fund already possess some of the required skills set out in the frameworks; however there may be some areas where knowledge and skills could be strengthened. A knowledge and skills self assessment tool has been developed by Hymans Robertson in conjunction with the CIPFA Pensions Network to enable officers and members to identify such areas. Full details of the self assessment tool and the associated knowledge library are set out in Appendix B.

It is recommended that officers and members use the toolkit to identify knowledge gaps. It is intended that the process will run as follows:

- June 2013 – access to the web-based training tool is provided to relevant officers and members for them to engage with the training materials;
- July 2013 – training needs assessment submitted to and returned from officers and members;
- August 2013 – analysis of potential training needs and development identified.

Once this is completed a training programme for both members and officers will be developed, incorporating the training materials available in the toolkit, relevant seminars, conferences and internal training days. This training programme will be devised to ensure compliance with the Code of Practice.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision-making within the Pension Fund may be ill-equipped to make informed decisions regarding the direction and operation of it.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-Executive members in the Public Sector (CIPFA)	2010	Andrew Fox/ County Treasurer's Directorate/ 01772 535916
Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pension Practitioners in the Public Sector(CIPFA)		
Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA)		
Local Government Pension Scheme (Management and Investment of funds) regulations 2009	2009	

CIPFA The Chartered Institute of Public Finance & Accountancy

Appendix 'A'

Code of Practice on

public sector pensions finance knowledge and skills

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ publications@cipfa.org.uk \ www.cipfa.org.uk

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Acknowledgements

This Code of Practice has been developed by the CIPFA Pensions Panel, supported by Nigel Keogh (CIPFA pensions technical manager).

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Treasurer, Norfolk Police Authority

Ian Coleman – Wirral Council

Terry Crossley – Department for Communities and Local Government

Paul Dale – London Borough of Bromley

Geoff Dobson – Suffolk County Council

Terry Edwards – Local Government Group/Local Government Pensions Committee

John Hattersley – South Yorkshire Pension Fund

Nicola Mark – Norfolk Pension Fund

Paul Mayers – Audit Commission

Richard McIndoe – Glasgow Council

Graeme Russell – Torfaen County Borough Council

Trevor Salmon – NILGOSC

Peter Tait – Audit Scotland

Mike Taylor – London Pension Funds Authority

John Wright – Hymans Robertson

We are also grateful to all those who participated in the development of this Code of Practice during the consultation process.

Contents

Purpose

All public sector organisations charged with the financial management of pension schemes will be aware of the growing complexity of pension schemes. Pension scheme financial management in the public sector demands appropriate skills, including a knowledge of financial markets and products, financial services procurement, pensions accounting and auditing, actuarial practices, investment performance and risk management, and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has produced this Code of Practice to put these requirements into a formal structure for public sector pension schemes.

Background

The *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, and *Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* (the frameworks), published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force.

We hoped that organisations would voluntarily adopt the guidance as a useful tool in identifying the knowledge and skills levels and development needs of practitioners and members of their decision-making bodies.

We recommended that, as demonstration of good practice, users of the frameworks make a voluntary disclosure in their pension scheme annual reports that covers:

- how the frameworks have been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs.

In response to user requests and as part of the ongoing development of the frameworks, CIPFA prepared an interim compliance statement that all public sector pension schemes were encouraged to include within their annual reports. The statement asked schemes to detail their approach to, and activities in respect of, the acquisition and maintenance of pension finance knowledge and skills of those involved in the financial management and decision-making of public sector pension schemes. In this compliance statement, CIPFA set out its intention to work towards formalising the requirements set out in the statement as a Code of Practice.

The launch of this Code of Practice is timely. In the final report of the Independent Public Service Pensions Commission (March 2011), Lord Hutton recommended that "*every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board*".

Consequently the case for a Code of Practice which embeds the requirements for the acquisition, retention and maintenance of appropriate knowledge and skills has never been stronger.

Status

In the local government sector, Local Government Pension Scheme (LGPS) fund administering authorities are required to report on a 'comply or explain' basis their adoption of, and compliance with, *Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles* (2009). The first of these principles, Effective Decision-making, requires LGPS funds to ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

This Code of Practice represents a key element in complying with this principle and is intended to complement the Myners requirements for knowledge and skills in decision-makers.

This Code of Practice has also been developed to work in conjunction with other Institute codes and statements, in particular the two key CIPFA statements on the role of the chief financial officer (CFO).

These statements set out several overriding principles which are relevant to this Code of Practice, and which are directed at CFOs. They are that the CFO must:

- lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- lead and direct a finance function that is resourced to be fit for purpose (principles 3 and 4 of *The Role of the Chief Financial Officer in Public Service Organisations)*
- support and advise democratically elected representatives
- support and advise officers in their operational roles
- maintain strong financial management underpinned by effective financial controls.

(Extracts from the *The Role of the Chief Financial Officer in Local Government*.)

Where this Code of Practice sets out particular requirements for chief financial officers, these should be seen in the context of the above principles.

Support for the Code of Practice

In preparing this Code of Practice, CIPFA regards it as essential that there be broad-based support for its recommendations.

Consequently the Institute has consulted widely with organisations with regulatory, professional and practitioner level responsibilities in the sphere of public sector pensions financial management.

The following organisations have fully endorsed the Code of Practice:

- Local Government Pensions Committee (Local Government Group)
- Society of County Treasurers
- Society of Welsh Treasurers
- South Yorkshire Pensions Authority
- Merseyside Pension Fund.

The CIPFA Pensions Panel is also grateful to the Department for Communities and Local Government for their support for this Code of Practice.

The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

CIPFA recognises that some organisations may not find the proposed form of wording to be precisely suitable to their circumstances. In such cases, organisations may, where justified, make alterations to the recommended wording without adversely affecting their stated adoption of the statement, provided that, when taken as a whole, any such changes do not materially deviate from the key aims and principles of the Code of Practice.

Nothing in this Code of Practice overrides or should be taken as overriding any statutory provision or requirement. Nor does the Code make intra vires anything that is otherwise ultra vires.

Key principles

The Code of Practice is underpinned by four key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
3. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA acknowledges that no two organisations in the public sector are likely to interpret these principles in precisely the same way. Therefore, in framing the principles, CIPFA does not seek to be prescriptive about how they might be implemented in practice.

Statements to be adopted

CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the following statement:

'1 This organisation adopts the key recommendations of *the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.*

2 This organisation recognises that effective financial administration and decision-making[1] can only be achieved where those involved have the requisite knowledge and skills.

3 Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

4 These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

5 This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6 This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to [*insert position of officer*[2]], who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member, with *CIPFA Standards of Professional Practice* (where relevant).'

1. In this context, decision-makers are those with executive authority serving on governing bodies: boards, pensions committees, investment committees, etc.
2. The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS (for example) it would be the accounting officer.

The knowledge and skills policy statement to be adopted

CIPFA recommends that an organisation's knowledge and skills policy statement (referred to in paragraph 3, page 11) adopt the following form of words (or similar):

'1 This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

2 It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.'

Application guidance

This Code of Practice is intended to be used in conjunction with the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* and the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, the first versions of which were published by CIPFA in January 2010 and which will be updated from time to time as required.

These frameworks attempt to determine what constitutes the right skill set for those in the organisation responsible for pension scheme financial administration and decision-making.

The frameworks are intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their pension scheme financial management needs
- as an assessment tool for individuals to measure their progress and plan their development.

Not all schemes will demand that their financial managers and decision-makers possess the full range of technical skills and knowledge outlined in the frameworks. However the frameworks are designed so that organisations and individuals can tailor them to their own particular circumstances. Users are therefore strongly encouraged to adapt the frameworks as necessary to meet their own requirements.

In applying the frameworks, there are a range of training courses and materials available to practitioners, such as the *CIPFA/Hymans Robertson Knowledge and Skills Framework Toolkit* (www.knowledgeandskillstoolkit.com), the Local Government Group's LGPS Fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events.

Further reading and sources of guidance

PUBLICATIONS

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector (CIPFA, 2010)

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector (CIPFA, 2010)

Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA, 2009)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (CIPFA, 2009)

All of the above are available to purchase from the CIPFA online shop at www.cipfa.org.uk/shop

The following are available as free downloads from the CIPFA website:

CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) at www.cipfa.org.uk/panels/corporate_governance

CIPFA Statement on the Role of the Chief Financial Officer in Public Service Organisations (2010) at www.cipfa.org.uk/panels/finance_director

CIPFA Standards of Professional Practice (SoPPs) (2002) at www.cipfa.org.uk/conduct

The *CIPFA Statement of Expertise* at www.cipfa.org.uk/members

ONLINE RESOURCES

To support the implementation of the Knowledge and Skills Frameworks, CIPFA, in partnership with Hymans Robertson, has developed an online toolkit which includes:

- Training needs analysis (TNA) to measure skills and knowledge across the full range of CIPFA competencies. There are two versions of the TNA: one for practitioners and one for elected representatives. Sample questions can be viewed at www.knowledgeandskillstoolkit.com/documents/tna%20sample.pdf
- A knowledge library, which provides a valuable one-stop resource for elected representatives and practitioners, for pension funds who would like cost-effective, easy access to relevant and up-to-date material. Sample content of the knowledge library can be viewed at www.knowledgeandskillstoolkit.com/documents/library%20sample.pdf

The toolkit is a subscription service. More information can be found at www.knowledgeandskillstoolkit.com

TRAINING AND SUPPORT

The CIPFA Pensions Network (www.cipfanetworks.net/pensions) provides a range of seminars built around the themes in the Knowledge and Skills Frameworks, as well as tailored training for organisations.

The Local Government Pensions Committee runs training events for pension practitioners, elected members and employing authorities. Further details can be found at www.lge.gov.uk/lge/core/page.do?pageId=119624.

CIPFA The Chartered Institute of Public Finance & Accountancy

HYMANS ROBERTSON

Appendix B

Training Needs Analysis

for Elected Representatives and Non-executives in the Public Sector

General introduction

Public sector pension schemes, and the cost of providing them, have become headline news. It doesn’t seem that a day goes by without some story or another on public sector pensions being in the national press.

At the same time governance of pension schemes in general, including public sector pension schemes like the LGPS, has become more important. Many would suggest that the legislative burden on pension schemes, and the level of scrutiny they face, has increased significantly ‘over the past few years. The skills and knowledge requirements of elected members and practitioners dealing with the LGPS have increased dramatically.

Private sector schemes have been faced with greater external influence, with the requirement for trustees to undergo skills assessments and, where skills or knowledge gaps are identified, training. Given the public spotlight on public sector schemes the need for similar disciplines in schemes such as the LGPS has been identified. CIPFA have developed a knowledge and skills framework setting out the requirements for both elected members and practitioners who have an involvement in the LGPS. This training needs analysis has been designed to help you measure your own knowledge and understanding against the CIPFA expectations.

Name: ______________________________

Pension Fund: ______________________________

Role: ______________________________

1. Pensions legislative and governance context

The occupational pensions landscape is complex. Legislation has built up over many years, particularly so since the Maxwell affair of the 1990s, since when governance and transparency have become ever more sharply in focus. This means that all those with an involvement in managing and administering pension schemes have to navigate very complex rules and this is no different for those involved with the LGPS.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

1.1 General pensions framework

1.1.1 tick one box

The LGPS is a 'registered pension scheme' for the purposes of which Act?

A. Pensions Act 1995;

B. Finance Act 2004;

C. Pension Schemes Act 1993;

D. Superannuation Act 1972.

1.1.2 tick all that apply

In which of the following ways is the LGPS impacted by overriding pensions legislation?

A. Tax relief on pension contributions;

B The reference scheme test;

C. Disclosure of information requirements;

D. Reduced national insurance contributions;

E. None.

1.2 Scheme specific legislation

1.2.1

What are the three key sets of Regulations which provide the legislative framework providing the benefit and administrative structure of the LGPS?

1.2.2

tick one box

Which one of the following is not being introduced as a result of changes to the LGPS from April 2014?

A. Change to benefit structure

B. Change to the investment rules

C. Introduction of a cost control mechanism

D. Changes to the scheme's governance arrangements

1.2.3

There are three types of employer that can participate in the LGPS. What are they, and give an example of each type?

1.2.4

tick all that apply

Which of the following is a role of an administering authority?

A. Maintain and administer the local LGPS Pension Fund;

B. Appoint investment managers;

C. Deciding entitlement to a particular retirement benefit;

D. Pay pension benefits to members and their survivors;

E. Deduction of employee and employer contributions.

1.2.5

How are employer contribution rates determined?

1.2.6 tick all that apply

Which of the following are ways in which LGPS benefits can become payable?

A. Age retirement; ☐

B. Voluntary early retirement (without early retirement reduction i.e. waived on compassionate grounds); ☐

C. Voluntary early retirement (with early retirement reduction); ☐

D. Ill health certified by the members medical consultant; ☐

E. Flexible retirement (with or without early retirement reduction - employer may waive it); ☐

F. Late retirement; ☐

G. All. ☐

1.2.7 tick one box

Early retirement can place a 'strain' on the pension fund. Which of the following approaches does the Audit Commission advocate is used by the administering authority in order that scheme employers plug any such funding strain?

A. The employer makes capital payments into the LGPS over a fixed period; ☐

B. Wait until the next funding valuation exercise. ☐

1.2.8 tick one box

Effective from 2011, how and when will LGPS benefits increase?

A. Retail prices index on the first monday on or after 1 January; ☐

B. Retail prices index on the first monday on or after 6 April; ☐

C. Consumer prices index on the first monday on or after 1 January; ☐

D. Consumer prices index on the first monday on or after 6 April. ☐

1.2.9 tick all that apply

Which organisations from the following list provide specific support to LGPS practitioners, pension committees and managers?

A. Communities & Local Government (CLG);

B. Local Government Employers (LGE);

C. The Pensions Regulator;

D. Home Office;

E. CIPFA;

F. Treasury.

Advanced

1.2.10 tick one box

Under which Act is legislation regulating the LGPS

A. Pensions Act 1995;

B. Finance Act 2004;

C. Pension Schemes Act 1993;

D. Superannuation Act 1972;

1.2.11 tick one box

What are the minimum and maximum age requirements for entry into the LGPS?

A. 16 and 65;

B. No minimum age and 65;

C. No minimum age and 75;

D. 18 and 75;

E. 16 and 75.

1.2.12

tick all that apply

Which of the following are NOT considered as pensionable payments?

A. Non-contractual overtime;

B. Salary/wages;

C. Pay in lieu of holidays;

D. Pay in lieu of notice;

E. Fees;

F. Contractual overtime.

1.2.13

tick all that apply

Which of the following is the normal retirement age (NRA) in the LGPS?

A. 55;

B. 60;

C. 65;

D. 68.

1.2.14

tick all that apply

Which of the following options are available to a scheme member with at least 3 months' membership in the LGPS and who leaves voluntarily before becoming entitled to the immediate payment of benefits?

A. Benefits deferred in the LGPS;

B. Option to transfer LGPS rights to another pension scheme;

C. Refund of contributions paid.

1.2.15 tick all that apply

Which of the following survivors will automatically become entitled to a benefit on the death of a scheme member/ pensioner?

- A. Civil Partner; ☐
- B. Child; ☐
- C. Spouse; ☐
- D. Co-habiting partner. ☐

1.3 Pensions regulators and advisors

1.3.1 tick one box

Which statement describes the role of the Pensions Regulator in relation to the new LGPS arrangements being introduced from April 2015?

A. Providing assistance to scheme members on the resolution of pension disputes

B. Responsible for scrutinising the funding position of individual LGPS funds

C. Overseeing the governance and administration of individual LGPS funds

D. Recommending changes to the Regulations that govern the LGPS

1.3.2 tick all that apply

Which of the following is the role of the pension fund committee/pension panel?

A. Appointment of investment managers;

B. Signing off the triennial funding valuation;

C. Agreeing to early retirement decisions relating to senior officers;

D. Setting overall funding objectives.

1.3.3 tick all that apply

What is the role of the administering authority's chief finance officer (section 151 officer) in relation to the LGPS?

A. Ensuring there is an effective system of internal financial control

B. Being the "specified" person for the purposes of the formal dispute procedure

C. Providing expert advice

D. Ensuring that financial management arrangements are sound and effective.

E. Ensuring there is an effective internal audit function and assisting management in providing effective arrangements for financial scrutiny.

F. Confirming early retirement decisions

G. Advising on anti-fraud and anti-corruption strategies and measures.

Advanced

1.3.4 tick one box

What vehicle is available via the LGPS to enable scheme members and their personal representative to have their issues considered?

A. Financial Services Authority (FSA);

B. Internal dispute resolution procedure;

C. Members' Trade Union.

1.3.5 tick all that apply

Which Government department is currently responsible for overseeing the LGPS?

A. Home Office;

B. Communities and Local Government;

C. Department for Work and Pensions;

D. Office of the Deputy Prime Minister.

1.3.6 tick all that apply

Indicate which matters the elected members/trustees at a scheme employer would need to consider in relation to the LGPS?

A. Contribution rates for members;

B. Setting discretionary policies;

C. Budgetary implications of employer contributions;

D. Maximum retirement age;

E. Early retirement decisions.

1.4 Pension scheme governance

1.4.1 tick all that apply

What is the role of the Council's Executive in the running of the pension fund?

A. Sets investment strategy; ☐

B. Monitors funding levels; ☐

C. Administers scheme members records; ☐

D. None. ☐

1.4.2

What is the prime responsibility of your Pension Committee?

____

____

____

____

1.4.3 tick all that apply

Which of the following activities might you expect specialist committees to the Pension Fund Committee/Pension Panel to be considering?

A. Liaison with employers; ☐

B. Manager selection; ☐

C. Liaison with employee representatives; ☐

D. Ensure good governance within decision making; ☐

E. Provide expert advice on specific issues; ☐

F. Agree the investment strategy of the pension fund; ☐

G. Sign off the formal funding valuation. ☐

1.4.4

What are the 6 Myners principles which are accepted as best practice in the way pension schemes should be run in relation to investment?

1.4.5

What is the title of the CIPFA guidance that LGPS Funds should follow when considering the revised Myners principles?

1.4.6

What is the guidance that funds should consider when looking at the Fund's governance arrangements?

1.4.7 tick one box

Which of the following does not describe the role of the proposed National Scheme Advisory Board?

A. Securing individual Fund compliance with scheme Regulations ☐

B. Securing compliance with requirements imposed by the Pensions Regulator ☐

C. Providing advice to CLG on the desirability of changes to the scheme ☐

D. Reviewing individual Funds' investment strategies. ☐

1.4.8 tick all that apply

Which of the following issues should the Pension Fund Committee/ Pension Panel consider as part of its role:

A. Governance; ☐

B. Funding; ☐

C. Investments; ☐

D. Communication; ☐

E. Administration; ☐

F. Compliance. ☐

1.4.9 tick one box

What change is expected to be required to be made tolocal LGPS Fund governance arrangements as a result of changes being made to the LGPS?

A. Increased frequency of meetings ☐

B. Requirement for increased scheme member and employer representation ☐

C. Ability to increase employee contributions ☐

D. No change ☐

1.4.10 tick one box

What action can LGPS Funds be doing now to prepare for changes to the governance arrangements expected from April 2015?

A. Increased frequency of meetings

B. Conduct a review of current arrangements, to understand the gaps and actions required

C. Review the fund's investment strategy

D. Do nothing, it's too early

Advanced

1.4.11 tick all that apply

How many of the following statements do you believe describe an elected member's responsibility with regard to funding:

A. Maintaining a stable and affordable employer contribution as a percentage of staff salaries;

B. Ensuring that on balance employers only pay toward liabilities attributed to them;

C. Monitoring changes in demographics at the whole fund, and employer, level;

D. Monitoring manager performance;

E. Signing off the formal valuation.

1.4.12 tick all that apply

Which of the following are stakeholders in the LGPS:

A. Scheme members;

B. Elected members;

C. Personal representatives;

D. Unions;

E. Local tax payers;

F. Local businesses;

G. Local authority employers;

H. Charities;

I. Local authority contractors.

1.4.13 tick all that apply

From the following list choose which forms of communication might be used in consulting on changes to the LGPS with each of the stakeholders above (where relevant):

A. Statutory consultation; ☐
B. Newsletters; ☐
C. Roadshows; ☐
D. Forum/meetings; ☐
E. Posters; ☐
F. Website. ☐

1.4.14 tick all that apply

Which of the following describe methods by which stakeholders can put their views to the Pension Panel or Committee?

A. Attendance for discussion on public items; ☐
B. Contacting their local councillor; ☐
C. Contacting the Chair of the Committee or Panel; ☐
D. Participation in the Committee or Panel; ☐
E. Through the member representative. ☐

1.5 Your scheme

1.5.1

What are your Fund's objectives (or goals/mission)?

1.5.2

What tasks are on your Fund's business plan for this financial year?

1.5.3

What are your Fund's greatest risks at the moment?

1.5.4

What action is being taken to mitigate and/or monitor these risks?

2. Pensions accounting and audit standards

The importance of pension information in employer accounts has increased in recent years, with the introduction of FRS17 and IAS19 reporting requirements. Now the size of an employer's pension obligations can have a real impact on its ability to obtain credit. At the same time the requirement to publish separate pension fund accounts has been introduced, increasing the need for high standards in accounting practices.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

2.1 Pensions accounting and audit standards

2.1.1

Give 4 examples of how FRS17/IAS19 reporting differs from formal fund valuation reporting?

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____

____

2.1.2 tick all that apply

Which of the following statements describe the role of an elected member in the preparation of pension fund accounts and which describe the responsibilities of the 'responsible financial officer' and auditor?	EM	RFO
A. Approve the statement of accounts;	☐	☐
B. Selecting suitable accounting policies and then applying them consistently;	☐	☐
C. Provide an opinion on whether the accounts provide fairly the financial transactions of the pension fund;	☐	☐
D. Taking reasonable steps to detect and prevent fraud and other irregularities;	☐	☐
E. Examine, on a test basis, evidence that the information contained in the accounts is consistent with the information contained in supporting information.	☐	☐

2.1.3 tick one box

True or False?

FRS17/IAS19 reporting provides certain disclosures which need to be made in an employer's statement of accounts.

True

False

2.1.4

What is the difference between the role of internal and external audit?

Advanced

2.1.5 tick one box

Under which Act are the accounting and auditing requirements of local authorities and LGPS Funds defined?

A. Pensions Act 1995;

B. Finance Act 2004;

C. Superannuation Act 1972;

D. The Accounts and Audit Regulations 2003.

2.1.6 tick all that apply

Guidance on financial reporting standards for public bodies participating in the LGPS is contained in either the CIPFA Statement of Recommended Practice (SORP) or the Financial Reporting Manual (FReM). Broadly speaking, which of the bodies set out below would you expect to be covered by the CIPFA guidance and which by FReM?

	CIPFA	FReM
A. County Council;		
B. District or Borough Councils;		
C. Probation Board or Trust;		
D. Government Agencies.		

3. Financial services procurement and relationship management

Given the technical nature of managing a pension fund such as LGPS funds, and the acceptance that third parties can provide a more cost effective service on your behalf, it is often necessary or useful to utilise the services of external experts who have the required experience or qualifications. Outsourcing is in itself a complex area, and so it is important to understand the various legal requirements that need to be complied with in order than any outsourcing arrangements are entered into legally and can work effectively.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

3.1 Understanding public procurement

3.1.1 tick all that apply

Which of the following statements is true?

A. Appointments of advisors and investment managers above a minimum threshold (in terms of value) are subject to European public procurement regulations; ☐
B. The Committee should agree in advance the procurement rules that they will apply to each appointment; ☐
C. All advisory and manager appointments are subject to the requirements of EU public procurement. ☐

3.1.2 tick all that apply

Who in the Council is responsible for ensuring that procurement rules are followed?

A. The Committee; ☐
B. The Director of Resources and Fund officers; ☐
C. A specialist Procurement Officer. ☐

3.1.3 tick all that apply

How long would it typically take to procure an investment manager and transfer assets under their control

A. 1 month; ☐
B. 3 months; ☐
C. 6 months. ☐

Advanced

3.1.4 tick all that apply

Which of the following statements are true if you are appointing investment managers?

A. The Committee can decide which investment managers they would like to interview;
B. The contract must be published so that any suitably qualified investment manager can apply;
C. The Committee must select the investment manager with the best historic performance record;
D. Unsuccessful applicants are entitled to feedback on why they did not succeed.

3.2 Supplier risk management

3.2.1 tick all that apply

Who holds investment assets within the Fund?

A. The Council;
B. The Fund managers;
C. The Fund custodian.

Advanced

3.2.2 tick all that apply

When you participate in stocklending, which of the following entitlements does the fund lose

A. Dividends;
B. Voting rights;
C. Rights issues / share splits.

3.2.3 tick all that apply

Can an investment manager lose more than the value of your assets held within their mandate

A. No, not if they follow LGPS regulations;
B. Yes, depending on the specific nature of their mandate.

4. Investment performance risk management

Monitoring the investment performance of fund managers and ensuring appropriate risk management processes are in place are probably amongst the more traditional roles of LGPS pension committees or panels. While the terms of reference of committees or panels have become much broader in recent years, monitoring the fund investments and managing risks remain at the core of elected members and practitioners responsibilities.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

4.1 Total fund

4.1.1 tick all that apply

Where should the fund's policy on stock lending be recorded?

A It does not have to be recorded ☐
B The statement of investment principles ☐
C The statement of funding principles ☐

4.1.2 tick one box

What is the most important factor the Committee needs to take into account when taking major investment decisions?

A. Familiarity with the specific issue concerned; ☐
B. Appropriate advice; ☐
C. An awareness of recent financial conditions. ☐

4.1.3 tick one box

Which of the following is the most appropriate method of measuring how well the Fund is meeting its objective?

A. A comparison of the investment return relative to that of other LGPS funds; ☐
B. A comparison of the investment return relative to its strategic benchmark return; ☐
C. A comparison of the value of the assets relative to the value of the liabilities. ☐

4.1.4 tick all that apply

Which of the following impact the total benefits that the Fund will have to pay in the future?

A. Inflation rate; ☐
B. Interest rates; ☐
C. How long people live. ☐

4.1.5 tick one box

If long term fixed interest gilt and index linked gilt yields fall, which of the following is true

A. Liabilities fall in value; ☐

B. Liabilities rise in value. ☐

Advanced

4.1.6 tick all that apply

Funds North and South have very similar liabilities and funding levels but different investment strategies. Fund North is invested 65% equities and 35% fixed interest bonds and Fund South is invested 35% equities and 65% fixed interest bonds. Which of the following statements is true?

A. If equity markets rise the funding level of South will rise more than the funding level of North; ☐

B. If interest rates rise the funding level of North will rise more than the funding level of South; ☐

C. If the inflation rate rises the funding level of both Funds will be reduced but South's funding level will be reduced by more than North's. ☐

4.2 Performance of advisors

4.2.1 tick all that apply

Which of the following services might your investment advisor provide?

A. Performance monitoring; ☐

B. Investment manager selection; ☐

C. Valuation of fund liabilities; ☐

D. Strategy and structure proposals; ☐

E. Advice on stock selection in your equity portfolios. ☐

4.2.2

How and when do you review the performance of your advisors?

___

___

___

4.2.3 tick one box

How frequently should the performance of investment managers be measured and monitored?

A. Monthly;

B. Quarterly;

C. Annually.

4.2.4 tick one box

Who is responsible for the measurement and monitoring of the performance of investment managers?

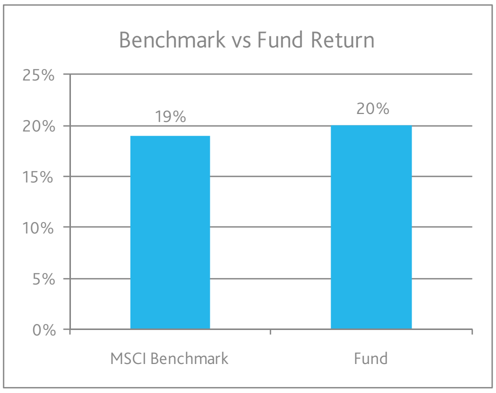
A. The Committee;

B. The administering authority (i.e. the Officers);

C. The investment advisor.

4.2.5 tick all that apply

One of your Fund's global equity managers has a performance target of 2% p.a. in excess of the MSCI All Countries index. The manager presents the following graph



Which of the following statements do you agree with?

A. The return achieved is ahead of benchmark so we should be content.

B. The fund manager has beaten his target by 1%.

C. When you consider dividends on top the return is even better.

D. The benchmark is up so much it is not fair to expect the fund manager to have beaten it.

E. It's a strong return but the fund manager has not achieved his target.

4.2.6 tick all that apply

What other aspects of your investment managers should you monitor?

A. Their voting activity;

B. Their engagement with companies on economic, social and governance issues;

C. Their recruitment polices;

D. The costs of trading on your portfolio.

4.2.7

Who meets with the investment managers for your fund, how frequently and how is the outcome of these meetings reported to Committee?

4.3 Performance of the committee

4.3.1

CIPFA advises that a Committee should set out its expectations of its own performance in a business plan. What targets have you/might you include in such a plan for your own committee? When you review the plan what will the objectives of the review be?

Advanced
4.4 Performance of support services

4.4.1 tick all that apply

Which of the following is the Scheme's Custodian responsible for?

A. Tax reclaims on income received from investments;

B. Storing and safeguarding the assets;

C. Settling trades i.e. buys and sells assets;

D. Stocklending activities.

5. Financial markets and product knowledge

The variety and complexity of investment products available in the marketplace today has grown significantly from the traditional equities, gilts and property that have been the cornerstone of fund investments for decades. Ensuring an appropriate investment strategy is put in place requires a suitable understanding of the options available in the marketplace. This will also include an understanding of ethical issues and an understanding of the risks associated with different types of investment vehicle.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

5.1 Investment strategy

5.1.1 tick all that apply

What influences the funding level of your scheme?

A. The value of the assets; ☐

B. The value of the liabilities; ☐

5.1.2

What is the investment objective of your Fund? In which document would you find it recorded?

____

____

____

5.1.3 write in answer

Which asset class (equities, bonds, property, cash) matches each of the activities described below?

A. Lending money to companies or to government; ☐

B. Buying a share in commercial premises; ☐

C. Buying shares in companies on a stock exchange; ☐

D. Depositing money in the bank? ☐

5.1.4 — tick one box

Historically LGPS funds have invested mainly in equities, bonds and property. Which of these has had the highest allocation?

A. Equities; ☐
B. Bonds; ☐
C. Property. ☐

5.1.5 — tick one box

Which asset class has the highest expected return?

A. Equities; ☐
B. Bonds; ☐
C. Property. ☐

5.1.6 — tick one box

Why do you not invest all of the Fund in equities, the asset class with the highest expected return?

A. The fund is taxed on high returns so it is better to keep the expected return at a reasonable level; ☐
B. Assets with high returns also have high risk and we cannot afford to take that risk; ☐
C. Government regulations require schemes to hold gilts. ☐

5.1.7 — tick one box

Which of the following is the best description of the impact of successful diversification?

A. The fund will achieve higher returns but with significant additional volatility; ☐
B. The fund will have lower volatility but the returns will also be significantly reduced; ☐
C. The fund will achieve a better risk-adjusted return measured by the expected return relative to the volatility of return. ☐

5.1.8 tick one box

Which of the following correctly ranks equities, gilts and property in order of liquidity, the most liquid first?

A. Equities, gilts, property;

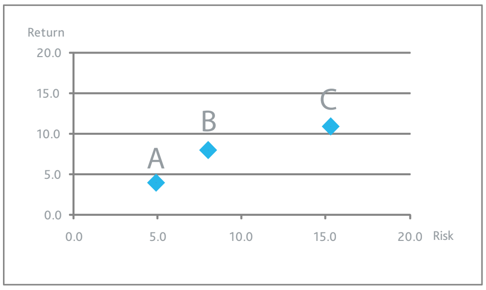
B. Gilts, property, equities;

C. Gilts, equities, property;

D. Property, equities, gilts.

5.1.9

The diagram below plots return on the vertical axis and risk on the horizontal axis. A, B and C indicate each of the three asset classes, equities, bonds and property. Which is which?



A= ______________________________

B= ______________________________

C= ______________________________

Advanced

5.1.10 tick all that apply

The Committee is considering further diversifying the Fund. Which of the following statements are true?

A. The Fund can be diversified by choosing new assets which behave differently to the ones currently in the Fund;

B. The Fund can be diversified by choosing new assets which behave in broadly the same way to the ones currently in the Fund;

C. Private Equity should be considered as it is positively correlated with listed equities;

D. Hedge Funds should be included as they guarantee to provide a positive return in all market conditions;

E. Fund management costs will be higher if we choose a fund of funds approach rather than a single fund.

5.1.11 tick one box

Which of the following would you expect to be the most highly correlated with UK equities?

A. Property;

B. Active currency;

C. US equities;

D. Gilts.

5.1.12 tick all that apply

Your Fund is currently invested with 70% equities, 20% bonds and 10% property. Which of the following will reduce risk without a significant reduction in expected return?

A. Reducing equities by 20% and increasing bonds;

B. Reducing equities by 10% and investing in a combination of 'alternative' assets (infrastructure, active currency, hedge funds.);

C. Hedging the currency exposure on the overseas equities.

5.2 Financial Markets

5.2.1 tick one box

The following is a list of some of the issues the Pensions Committee has to consider

1. The selection of investment managers
2. Agreeing investment strategy i.e. how much of the fund should be allocated to each of the asset classes?
3. The use of pooled funds or segregated mandates

What is the correct order of importance of decision making?

A. 1, 2, 3;

B. 3, 2, 1;

C. 2, 1, 3;

D. 2, 3, 1.

5.2.2 tick one box

Your fund employs a passive manager for a large portion of the UK equities. What investment objective would you set for the manager?

A. To achieve a return equal to the return on the liabilities;

B. To achieve a return equal to the return on the FTSE All-Share;

C. To achieve a return in excess of the return on FTSE All-Share but without investing outside the UK;

D. To achieve a return equal to the return achieved by other UK investment managers.

5.2.3 tick one box

Corporate bonds are

A. Baskets of gilts put together to meet the requirements of pension funds and therefore yield the same as gilts;

B. Bonds issued by companies and therefore normally have a higher yield than gilts;

C. Bonds issued by companies and therefore normally have a lower yield than gilts.

5.2.4 tick one box

Which of the following has not traditionally been considered to be part of a property investment portfolio?

A. Offices;

B. Industrial properties – e.g factories;

C. Residential properties;

D. Retail properties – e.g.shops, shopping centres.

5.2.5 tick all that apply

Which of the following is an advantage of investing in a pooled fund?

A. Potentially lower costs; ☐

B. The investment objective can be tailored to meet the fund's requirements; ☐

C. The Committee can specify the voting policy they want the manager to follow. ☐

5.2.6 tick all that apply

Which of the following is an advantage of investing in a segregated mandate?

A. lower costs; ☐

B. the investment objective can be tailored to meet the fund's requirements; ☐

C. Smaller sized mandates can be accommodated; ☐

D. The manager will be able to use sophisticated instruments such as interest rate swaps. ☐

5.2.7 tick one box

The return generated by active managers in excess of benchmark is referred to as

A. Alpha; ☐

B. Beta; ☐

C. Gamma; ☐

D. Delta. ☐

Advanced

5.2.8 tick all that apply

Which of the following are permitted under the LGPS Investment Regulations

A. Having all of the assets managed by one investment manager in a segregated mandate;
B. Investing all of the assets in one pooled fund;
C. Investing in unlisted securities;
D. Using sophisticated derivative contracts to hedge out interest rate and inflation rate risks?

5.2.9 tick all that apply

Some time ago, the government issued a new gilt with an annual coupon of 5% (the income per annum is £5, the yield is 5% and the redemption value is £100). If the price of the gilts increases to £120 which of the following statements is true?

A. The yield is still 5%;
B. The income is still £5 p.a.;
C. The redemption payment will be £100;
D. The redemption payment will be £120.

5.2.10 tick one box

Within the property portion of the portfolio, if the Committee wants to achieve as much diversification as possible and the highest level of liquidity, investment should be

A. In a portfolio of directly held physical properties;
B. In a property unit trust managed by a properly authorised investment manager;
C. In a property fund of funds managed by a properly authorised investment manager.

6. Actuarial methods, standards and practices

LGPS funds are required to be "valued" every three years. Traditionally this might have been the only contact a fund would have had with its actuary. Over recent years, however, the degree of contact with the fund actuary has increased dramatically. Contributory factors are;

- The approach to funding has become more sophisticated and so fund valuation exercises involve far more dialogue between fund and actuary;
- There is far more individual employer involvement, as employers become more engaged in the pension scheme they are required to participate in;
- There is more outsourcing of functions and services which has pension implications , and
- More employers are considering whether they need to, or are required to, remain in the LGPS.

Understanding of the actuarial process is, therefore, far more important these days.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

6.1 Valuations

6.1.1 tick one box

How often should a formal valuation of the Pension Fund take place?

A. Every year; ☐
B. Every 3 years; ☐
C. Every 5 years; ☐
D. Every 7 years. ☐

6.1.2 tick all that apply

Which of the following increases the liabilities of the fund?

A Higher than expected inflation; ☐
B Living longer than expected; ☐
C Early retirement decisions. ☐

6.1.3 tick one box

What is the purpose of the rates and adjustment certificate?

A Sets out the rates of contribution for each member; ☐
B Sets out the difference in pre and post valuation contributions; ☐
C Sets out the rates of contributions for each scheme employer. ☐

6.1.4 tick all that apply

Which of the following describe assets in the fund:

A. Employee contributions;
B. Employer contributions;
C. Returns on investments;
D. Transfer values received;
E. Transfer values paid;
F. Death grants.

6.1.5 tick one box

Which of the following describe liabilities in the fund:

A. Annual pension;
B. Death grants;
C. Employer contributions;
D. Transfer values received;
E. Transfer values paid;
F. Returns on investments.

6.1.6 tick one box

Which of the following describes how the funding level is calculated (expressed as a percentage):

A. Value of assets x value of liabilities;
B. Value of liabilities / value of assets;
C. Value of liabilities x value of assets;
D. Value of assets / value of liabilities.

6.1.7

Provide four assumptions which the Fund actuary will take into account as part of the formal valuation exercise

____

____

____

____

6.1.8 tick all that apply

Which of the following is not the purpose of a funding strategy statement?

A. Strength of Covenant; ☐
B. Monitoring Fund Manager Performance; ☐
C. Asset Allocation; ☐
D. Risks and Controls; ☐
E. Contribution Stability Mechanism; ☐

6.1.9 tick all that apply

Which of the following are not one of the stated CIPFA funding aspirations to be included in your fund's funding strategy

A. Affordability; ☐
B. Consistency of approach; ☐
C. Fairness of stakeholders; ☐
D. Transparency; ☐
E. Prudent long term view; ☐
F. Stability of contributions. ☐

6.1.10 tick one box

What is the 'discount rate'?

A. The expected future investment return ignoring inflation; ☐
B. The expected future investment return including inflation; ☐
C. The expected future investment return net of inflation. ☐

6.1.11

What do you understand by the terms "future service rate" and "past service rate" (sometimes called "past service adjustment")?

____
____
____

6.1.12

What methods are used by the actuary to stabilise employer contributions?

____
____
____
____

6.1.13 tick all that apply

Which of the following need to be considered by the administering authority when a new employer joins an LGPS Pension Fund:

A. Rate of employer contribution rate; ☐
B. Which staff can participate in the scheme; ☐
C. The need for a guarantor/bond; ☐
D. Bulk transfer terms; ☐
E. Any possible allocation of assets within the fund. ☐

6.1.14

Describe 3 matters that should be considered when an employer leaves an LGPS Pension Fund

6.1.15

Which of the following is expected to be included as part of the proposed cost control mechanism?

A. Changes in financial assumptions

B. Changes in membership

C. Pay growth

D. Improvements in life expectancy

Advanced

6.1.16

What do you understand by the terms "common contribution rate" and "individual adjustment"?

6.1.17

tick all that apply

From where would you obtain a copy of the last formal funding valuation report and the latest version of the Pension Fund's funding strategy statement?

A. Fund Manager;

B. Fund Administrator;

C. Communities and Local Government (CLG).

6.1.18

List three methodologies for inter-valuation monitoring

6.1.19

tick one box

Which organisation has published guidance on the monitoring of ill health and early retirement decisions in local government?

A. The Audit Commission;

B. Department for Work and Pensions;

C. The Pensions Regulator

6.1.20

tick one box

What is the name of their report and when was it issued?

A. Facing the Future;

B. Fair Deal;

C. Retiring Nature.

Year of issue

6.1.21

tick all that apply

Over what suggested time period are LGPS Funds encouraged to recover early retirement strain costs:

A. 3 years;

B. 5 years;

C. Future working lifetime as set out in the funding strategy statement;

D. Period remaining to normal retirement date.

6.2 Outsourcing

6.2.1

A number of pieces of guidance have been issued over the years on pension protection where employees are compulsorily transferred from a public sector employer. Name 2 of them.

6.2.2

Where a scheme employer outsources a service or assets what are the two options by which pension protection must be provided to the transferring LGPS scheme members?

6.2.3

tick one box

Do the protections described in 6.2.2 apply to new joiners?

A. Yes;

B. No.

6.2.4

What are 2 differences between bulk transfers and individual transfers?

6.2.5 tick one box

From a funding perspective, in order to minimise risks, which of the following does not apply upon the introduction of a new admitted body to the fund?

A. Requirement for a guarantor ☐

B. The administering authority resolving which employees are eligible for membership of the LGPS ☐

C. Potentially levying a higher employer contribution rate on the new employer to reflect their individual circumstances ☐

D. Having clear and unambiguous termination clauses in any admission agreement ☐

Advanced

6.2.6 tick all that apply

Which of the following are different options that can be used to calculate bulk transfer amounts?

A. Past Service Reserve; ☐

B. Share of Fund; ☐

C. Amount of accrued benefit; ☐

D. Employee and employer contributions; ☐

E. Standard cash equivalent transfer value. ☐

Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: All

Strategy for the Procurement of UK and Local Property Investment Managers and Independent Valuers

Contact for further information:
Mike Jensen, 01772 534742, County Treasurer's Directorate
Mike.jensen@lancashire.gov.uk

Executive Summary

The Fund has an existing UK property portfolio (currently £434m) and has allocated 3% of the Fund value (around £150m) to building a Local property portfolio in the County of Lancashire. While aspects of the contracts for the management and independent valuation of the Fund's UK property portfolio have been renegotiated to the advantage of the Fund and a temporary arrangement has been entered into for the Local portfolio, the contracts have not been fully tendered for many years. At the same time as seeking an investment manager for the Local portfolio, it is proposed to fully market test the UK portfolio investment management contract and the contract for the Independent Valuer

Recommendation

The Committee is asked to approve the procurement strategy for the appointment of the UK and Local property investment management mandate and independent valuation contracts as set out in the report.

Background and Advice

As shown in the Fund Performance Report, the Fund's investments are allocated across three main categories: equities, property and lower volatility strategies. The property allocation supports the Fund's objectives through both providing rental income and also through an appreciation of the capital value of the properties.

The Fund has two property portfolios, a UK property portfolio and a Local property portfolio. The UK property portfolio is a balanced portfolio of core commercial properties located throughout the UK, comprising offices, retail and industrial buildings. The Local portfolio is to be a portfolio of investment properties located in Lancashire.

The Fund's UK portfolio was first set up in 1988 and as at 31 March 2013 comprised 55 properties valued at £434m. It has been managed by the property agents, Knight Frank since inception. .

Lancashire County Council

As part of the overall investment strategy, the Pension Committee has approved an allocation to local investment of 3% of the Fund value. It is anticipated that this allocation will be largely invested in commercial property in the County of Lancashire (the Local portfolio). The City Deal is anticipated to provide a significant flow of investment property opportunities for the portfolio. On the current Fund value of around £5bn, this represents an allocation to local investment of up to £150m

The management of a property portfolio involves three separate services:

- *The property investment manager* is responsible for the overall investment performance of the portfolio. The investment manager designs the investment strategy for the portfolio and determines which properties either enter or leave the portfolio.

- *The property estate manager* is the property professional responsible for the smooth running of the Fund's properties. The estate manager deals with property lettings, rent collection, as well as building and estate repairs and management, where these are the responsibility of the landlord.

- *The Independent Valuer* prepares independent valuations of the Fund's properties for inclusion in the Fund's accounts. The Independent Valuer determines what value a property would be expected to reach if sold between a willing buyer and a willing seller in the course of a normal commercial sale.

The existing UK property management and valuation contracts have been in place since 2000. Throughout this period and since inception of the portfolio in 1988, the performance of the property portfolio has met its benchmark suggesting there is little need to revisit the existing contracts. However, the contracts have been in place for 13 years and it is best practice to market test contracts on a regular basis. Recent renegotiation of aspects of the existing contract to obtain better value for money suggest there are further value for money improvements to be obtained in the current competitive environment. Market testing also provides the Fund with the opportunity to compare the current property investment strategy with the latest thinking of other property agents. The need to set up property management arrangements for the new Local portfolio means that this is an opportune moment to put the management of both the UK and the Local portfolio out to tender.

Existing and Proposed Management Arrangements

The existing UK portfolio property management arrangement includes both investment management and estate management services in a single contract with the property agents, Knight Frank. This means that the two separate arms of Knight Frank, Investors and Property Management report in parallel to the Fund. While part of the same group, Knight Frank Investors and Knight Frank Property Management operate quite separately from each other.

This arrangement creates a mis-alignment of responsibilities. As investment managers, Knight Frank Investors should have full responsibility for the performance of the property portfolio. However, the performance of Knight Frank Property Management, over which Knight Frank Investors has no direct control, can have a significant effect on the portfolio values and performance (for example, through lease re-negotiations, asset management initiatives, repairs and refurbishments).

It is proposed that the Fund initially undertakes a procurement exercise to appoint the property investment manager, who will then be mandated to procure and appoint a property estate manager. The estate manager may well not be from the same group as the investment manager. This contractual structure will give the property investment manager direct control over the estate manager and full responsibility for all aspects of the performance of the portfolio. It is believed that this structure will produce the best returns for the Fund.

The current investment management mandate is an advisory mandate with Knight Frank Investors having to seek the approval of the County Treasurer for every proposed property acquisition or disposal.

In common with the Fund’s other investment mandates, it is proposed that the new property investment mandate be a discretionary rather than an advisory mandate, with the investment manager then fully responsible and accountable for the performance of the property portfolio.

It is proposed that as part of this revised approach the property investment manager be required to produce an overall property investment strategy which will be subject to the approval of both the Investment Panel and the Pension Fund Committee. This strategy will set out not only how the manager expects to meet the investment return targets set out in the Statement of Investment Principles but also define prudential limits for risk management of the portfolio. These prudential limits will not only place limits on lot sizes and tenant exposure, but will also include such matters as the conditions around and extent to which the investment manager may undertake development expenditure or acquire vacant property speculatively.

It is also proposed that an advisory board-type arrangement be set up with the detailed constitution to be agreed between the Investment Panel and the property investment manager. An advisory board structure with representatives of investors and the manager is common amongst private equity and unlisted investment funds. The property investment manager will be required to produce an annual business plan for the implementation of the investment strategy for approval by the advisory board. The advisory board will also receive quarterly performance reports and will be consulted prior to any investment decisions.

It is proposed that a single procurement will be undertaken for both the UK and Local investment management mandates, with bidders able to bid for either one or both of the mandates. This will give commercial property estate agents with specialist local knowledge and the capacity to service property portfolios at a local level only, the opportunity to bid for the local investment management mandate. It will also give the Fund the opportunity to weigh the advantage of specialist local knowledge against any economies of scale to be gained from a single property investment mandate comprising both national and local portfolios.

The procurement of the independent property valuer will be for the annual valuation of both the Local and the National portfolios.

The Fund proposes to run the procurement in-house with the assistance of the One Connect Procurement Centre of Excellence and take appropriate specialist professional advice where necessary on the construction and scoring of the technical questions.

It is proposed to use the restricted tender process (the detail of which is set out below) with a view to making a decision on investment managers for the Local and UK portfolios by the end of 2013 and an implementation with effect from 1 April 2014, or earlier if practicable.

The restricted tender process is a two stage process. Stage 1 is a qualifying stage from which 3 to 5 bidders are taken through to Stage 2 when detailed proposals are requested.

Stage 1 is about identifying bidders with the capacity to deliver the service and will involve evaluation of the following matters:

- Business and Corporate Structure
- Staff
- Risk management
- Performance
- Track Record
- Mandates won and lost
- Sustainability and responsible property investment
- Equal opportunities
- Health and safety
- Referees
- Professional indemnity and others insurance

Stage 2 involves an understanding and evaluation of the bidder's portfolio strategy, investment style and fee structure. Stage 2 will require the potential manager to sign a Non-Disclosure Agreement as a comprehensive Fund information pack will be sent out outlining the details of the UK portfolio (and the Local portfolio if any acquisitions have been completed prior to issuing the tender). The pack will include information on the overall Fund philosophy and style and all available property details such as recent valuation reports containing the tenancy schedules.

In Stage 2 bidders will be required to provide

- Investment policy and style
- Investment process
- Proposed Strategy
- Potential Returns
- Sustainability
- Fees

- People

In its assessment of fees, the Fund will seek an arrangement which links the manager's remuneration to the performance of the property portfolio.

A similar restricted tender process will be used to appoint an independent valuer to the Fund.

The broad award criteria are provisionally assumed to be:

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

With the existing contracts and their partial renegotiation, the Fund might forego any further benefit to be gained from opening the contract to rival bidders.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected:
'All'

Fund Shareholder Voting and Engagement Report
(Appendices 'A' and 'B' refer)

Contact for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Directorate,
Gill.kilpatrick@lancashire.gov.uk

Executive Summary

In accordance with its policies on promoting corporate social responsibility in the businesses in which it invest the Fund works through Pensions and Investment Research Consultants Ltd (PIRC) as its Governance Adviser and the Local Authority Pension Fund Forum (LAPFF) to both ensure that shares are voted in accordance with sound governance principles and influence companies' behaviour.

This report provides the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by PIRC and the engagement activity undertaken by LAPFF.

The attached report from PIRC (Appendix 'A') covers the period 1 January to 31 March 2013. The Fund has voted on 421 occasions and has opposed or abstained in 26% of votes. PIRC recommends not supporting resolutions where it does not believe best governance practice is being applied. PIRC's focus has been on promoting independent representation on company boards, separating the roles of CEO and Chairman and ensuring remuneration proposals are aligned with shareholders' interests.

The attached engagement report from LAPFF (Appendix 'B') also covers the period 1 January to 31 March 2013.

Recommendation

The Committee is asked to note the report.

Background and Advice

Shareholder Voting and Governance

PIRC, acts as the Fund's proxy and casts the Fund's votes on its investments at shareholder meetings. PIRC are instructed to vote in accordance with their guidelines unless the Fund instructs an exception. PIRC analyses investee companies and produces publically available voting recommendations to encourage companies to adhere to high standards of governance and social responsibility. The analysis includes a review of the adequacy of environmental and employment policies and the disclosure of quantifiable environmental reporting. PIRC is also an

Lancashire County Council

active supporter of the Stewardship Code, a code of practice published by the Financial Reporting Council with the aim of enhancing the quality of engagement between institutional investors and companies.

There may be occasions when the Fund wishes to cast a vote at a shareholder meeting in a way which does not accord with PIRC's recommendations. For example, an investment manager might request the Fund to vote in a particular way to support or oppose a corporate action. Such requests would be considered by the Fund on a case by case basis and PIRC instructed to cast the Fund's vote accordingly.

PIRC also lobbies actively on behalf of its investing clients as well as providing them with detailed support. It works closely with NAPF (the National Association of Pension Funds) and LAPFF (the forum of Local Authority Pension Funds).

PIRC's quarterly report to 31 March 2013 is presented at Appendix 'A'. This report not only provides details of the votes cast on behalf of the Fund but also provides a commentary on events during the period relevant to environmental and social governance issues.

In addition PIRC produces a detailed document which is reviewed by the Fund's officers, which sets out the circumstances and reasoning for every resolution opposed, abstained or withheld. This document is available on request.

The Fund's voting record using PIRC as its proxy for the three months ended 31 March 2013 is summarised below:

TABLE 1: GEOGRAPHIC VOTING OVERVIEW – MAJOR MARKETS ONLY

Geographic Region	Meetings	Resolutions	For	Oppose	Abstain	Withheld	Non-Voting
UK	2	41	31	4	6	0	0
EU (ex-UK)	7	120	78	20	9	0	13
USA & Canada	10	113	58	34	6	15	0
Asia (ex-Japan)	3	22	13	1	8	0	0
Japan	2	42	40	2	0	0	0

TABLE 2: ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	2	100.0	0	0.0	0	0.0	2
Remuneration Reports	0	0.0	0	0.0	2	100.0	2
Articles of Association	0	0	0	0	0	0	0

Auditors Appointment	0	0.0	2	100.0	0	0.0	2
Political Donations	0	0.0	2	100.0	0	0.0	2
Directors	17	94.4	1	5.6	0	0.0	18
Dividend	2	100.0	0	0.0	0	0.0	2
Executive Pay Scheme	1	33.3	0	0.0	2	66.7	3

The Fund was party to 421 resolutions during this period, of which 67% resulted in positive votes for shareholder resolutions and 26% were opposed or an abstention given. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition. In addition, within certain foreign jurisdictions, shareholders either vote for a resolution or not at all, opposition to these votes is described as vote withheld. These totalled 15 within the period, just under 4%. The remaining agenda items required no vote.

In relation to the **UK**, this quarter's report focuses upon scrutiny by the Competition Commission of the audit market, and calls for the mandatory rotation of auditors. In addition, it reports upon the creation of a shareholder voting group announced by the Trades Union Congress (TUC) along with Unison and Unite. There is also reference to the practice of putting all board members up for annual election, which has been rapidly and widely adopted in the first year following the introduction of the provision for annual elections in the UK Corporate Governance Code.

Within **European** markets, executive pay remuneration is still high on the agenda, in particular calls for tighter restrictions, given recent examples of so-called "golden hellos" and "golden parachutes". In addition, a Danish pension fund announced that it would no longer invest in Walmart because of the company's appalling record on workers’ rights.

Within the **United States**, the quarterly report references several shareholder-relevant events involving several major US listed companies including Hewlett-Packard, Exxon Mobil, and Standard Chartered.

Shareholder Engagement through LAPFF

Lancashire County Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

Members of the Committee may be interested to note the attached engagement report from LAPFF (Appendix 'B') which covers the period 1 January to 31 December 2013.

It sets out details of their activities in influencing governance, employment standards, reputational risk, climate change, finance and accounting, and Board composition, and provides a slightly different and wider perspective than the PIRC report.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

It is a key component of good governance that the Fund is an engaged and responsible investor complying with the Stewardship Code.

Well run responsible companies are more likely to be successful and less likely to suffer from unexpected scandals.

The promotion of good responsible corporate governance in the companies the Fund is invested in reduces the risk of unexpected losses arising as a result of poor oversight and lack of independence.

Local Government (Access to Information) Act 1985
List of Background Papers

N/a

Lancashire Quarterly Voting Report Q1 2013

OVERVIEW

The Pension Fund received voting recommendations for **421** resolutions at **32** meeting meetings in the quarter ended 2013-03-31.

The Pension Fund support **281** of the resolution (66.75%).

The Pension Fund voted against on **75** occasions (17.81%).

The Pension Fund Abstained on **35** occasions (8.31%).

There were **14** non-voting agenda items (3.33%).

There were **15** withheld agenda items (3.56%).

OVERVIEW

TABLE 1: GEOGRAPHIC VOTING OVERVIEW

Geographic Region	Meetings	Resolutions	For	Oppose	Abstain	Withheld	Say When on Pay	Non-Voting
UK	2	41	31	4	6	0	0	0
EU (ex-UK)	7	120	78	20	9	0	0	13
USA & Canada	10	113	58	34	6	15	0	0
Asia (ex-Japan)	3	22	13	1	8	0	0	0
Japan	2	42	40	2	0	0	0	0

Other Markets Available on Request

TABLE 2: ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	2	100.0	0	0.0	0	0.0	2
Remuneration Reports	0	0.0	0	0.0	2	100.0	2
Articles of Association	0	0	0	0	0	0	0
Auditors Appointment	0	0.0	2	100.0	0	0.0	2
Political Donations	0	0.0	2	100.0	0	0.0	2
Directors	17	94.4	1	5.6	0	0.0	18
Dividend	2	100.0	0	0.0	0	0.0	2
Executive Pay Scheme	1	33.3	0	0.0	2	66.7	3

TABLE 3: SIGNIFICANT UK OPPOSE VOTES

Company	Date	Type	Proposal	Recommendation	Oppose Percentage
BUMI PLC	2013-02-21	EGM	To appoint Nathaniel Philip Victor James Rothschild	Oppose	62.38
BUMI PLC	2013-02-21	EGM	To remove Julian Michael Horn-Smith	Oppose	61.35
BUMI PLC	2013-02-21	EGM	To remove Nick von Schirnding	Abstain	60.66
BUMI PLC	2013-02-21	EGM	To remove Graham Ian Holdaway	Oppose	56.94
BUMI PLC	2013-02-21	EGM	To remove Amir Sambodo	Oppose	56.88
BUMI PLC	2013-02-21	EGM	To remove Philip Yeo	Oppose	56.85
BUMI PLC	2013-02-21	EGM	To remove Sony Harsono	Oppose	56.51
BUMI PLC	2013-02-21	EGM	To appoint Brock Gill	For	56.29
BUMI PLC	2013-02-21	EGM	To appoint Hashim Djojohadikusumo	For	56.29
BUMI PLC	2013-02-21	EGM	To appoint Roger Davis	For	56.29
BUMI PLC	2013-02-21	EGM	To appoint Jonathan Simon Djanogly	For	56.29
BUMI PLC	2013-02-21	EGM	Appoint Wallace King as Chairman	For	56.29
BUMI PLC	2013-02-21	EGM	Remove Scott Merrillees as CFO	For	56.27

BUMI PLC	2013-02-21	EGM	Remove Nick von Schirnding as CEO and appoint Brock Gill in his place.	For	56.24
BUMI PLC	2013-02-21	EGM	To remove Samin Tan	Abstain	56.16
BUMI PLC	2013-02-21	EGM	To appoint Wallace King	For	56.15
BUMI PLC	2013-02-21	EGM	To remove Lord Robin William Renwick	For	55.82
BUMI PLC	2013-02-21	EGM	To remove Scott Andrew Merrillees	For	55.67
BUMI PLC	2013-02-21	EGM	To remove Alexander Ramlie	For	55.67
BUMI PLC	2013-02-21	EGM	To remove Jean-Marc Mizrahi	Oppose	48.75
BUMI PLC	2013-02-21	EGM	To appoint Sir Richard Gozney	For	48.1
EASYJET PLC	2013-02-21	AGM	Meeting notification related proposal.	For	46.07
BUMI PLC	2013-02-21	EGM	To remove Nalinkant Rathod	For	45.75
EASYJET PLC	2013-02-21	AGM	Approve the Remuneration Report	Oppose	44.64
EASYJET PLC	2013-02-21	AGM	Issue shares with pre-emption rights	For	44.29
EASYJET PLC	2013-02-21	AGM	Elect Sir Michael Rake	For	44.23
EASYJET PLC	2013-02-21	AGM	Issue shares for cash	For	43.99

ADVANCE DEVELOPING MARKETS FUND LIMITED	2013-03-15	EGM	Approve the Continuation of the Company	For	43.88
ADVANCE DEVELOPING MARKETS FUND LIMITED	2013-03-15	AGM	Approve the Continuation of the Company	For	43.88
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Re-elect Mr P J Hulse	Oppose	43.69
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Re-elect Mr G M Fuller	For	43.47
CAPITAL & REGIONAL PLC	2013-01-10	EGM	Approve Rule 9 Waiver	Abstain	40.19
LONMIN PLC	2013-01-31	AGM	Issue shares with pre-emption rights and for cash	For	38.53
ADVANCE DEVELOPING MARKETS FUND LIMITED	2013-03-15	EGM	Re-elect T. Mahony	For	31.93
ADVANCE DEVELOPING MARKETS FUND LIMITED	2013-03-15	AGM	Re-elect T. Mahony	For	31.93
THOMAS COOK GROUP PLC	2013-02-07	AGM	Approve the Remuneration Report	Oppose	28.05
LONMIN PLC	2013-01-31	AGM	Approve the Remuneration Report	Oppose	27.94
SMITHS NEWS PLC	2013-01-24	AGM	Issue shares with pre-emption rights	For	22.14
SMITHS NEWS PLC	2013-01-24	AGM	Issue shares for cash	For	21.66
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Issue shares for cash	For	21.57
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Issue Treasury shares for cash	For	21.37

LONMIN PLC	2013-01-31	AGM	Re-elect Len Konar	Abstain	18.76
LONMIN PLC	2013-01-31	AGM	Re-elect Roger Phillimore	For	16.91
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Re-elect Mr D H Hodson	Oppose	14.82
HENDERSON VALUE TRUST PLC	2013-03-11	AGM	Appoint the auditors and allow the board to determine their remuneration	For	14.55
IMPERIAL TOBACCO GROUP PLC	2013-01-30	AGM	Meeting notification related proposal	For	14.07
GRAINGER PLC	2013-02-06	AGM	Appoint the auditors	Oppose	13.68
GRAINGER PLC	2013-02-06	AGM	Allow the board to determine the auditors remuneration	For	12.99
MEDICX FUND LTD	2013-02-20	AGM	Appoint the auditors	Oppose	12.31
COMPASS GROUP PLC	2013-02-07	AGM	Meeting notification related proposal	For	11.77
GRAINGER PLC	2013-02-06	AGM	Meeting notification related proposal	For	11.6
IMPERIAL TOBACCO GROUP PLC	2013-01-30	AGM	Approve the Share Matching Scheme (SMS)	Oppose	11.5
ABERDEEN ASSET MANAGEMENT PLC	2013-01-17	AGM	Approve the Remuneration Report	Oppose	11.34
TUI TRAVEL PLC	2013-02-07	AGM	Re-elect Horst Baier	Oppose	11.24
LONMIN PLC	2013-01-31	AGM	Modification of the Balanced Scorecard Bonus Plan	Abstain	11.21

TUI TRAVEL PLC	2013-02-07	AGM	Re-elect Tony Campbell	Oppose	11.03
IMPERIAL TOBACCO GROUP PLC	2013-01-30	AGM	Approve the Remuneration Report	Oppose	10.38
TUI TRAVEL PLC	2013-02-07	AGM	Re-elect Sir Michael Hodgkinson	Oppose	10.38

TABLE 4: MEETINGS VOTE / NOT VOTED IN THE QUARTER

Company	Meeting Date	Type	Date Voted	Comment
ROCHE HOLDING AG	2013-03-05	AGM	Not Voted	Non voting shares.
SCHINDLER HOLDING AG	2013-03-26	AGM	Not Voted	Non voting shares.

CLIENT VOTE CHANGES

There were no vote changes during the quarter.

VOTES REJECTED IN THE QUARTER AND EXPLANATION

There were no votes rejected during the quarter.

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UK stories

UK audit market under scrutiny

Competition in the audit market is restricted by factors which inhibit companies from switching auditors and by the tendency for auditors to focus on satisfying management rather than shareholder needs, according to the Competition Commission (CC).
In a summary of its provisional findings issued in February, the CC stated that because companies find it difficult to compare alternatives with their existing auditor, prefer continuity and face significant costs in switching, they are reluctant to change auditor and so lack bargaining power. Audit firms outside the 'Big 4', which dominate the market, find it difficult to show that they have sufficient experience and reputation to win the audit engagements of FTSE 350 companies.

Additionally, although auditors are appointed to protect the interests of shareholders, who are therefore the primary customers, too often auditors' focus is on meeting the needs of senior management who are key decision takers on whether to retain their services. This means that competition focuses on factors that are not aligned with shareholder demand.

The CC found that 31 per cent of FTSE 100 companies and 20 per cent of FTSE 250 companies have had the same auditor for more than 20 years, and 67 per cent of FTSE 100 companies and 52 per cent of FTSE 250 companies for more than ten years. The CC adds that the lack of competition is likely to lead to higher prices, lower quality and less innovation for companies and a failure to meet the demands of shareholders and investors.

The CC is now looking at possible ways to encourage greater competition through mandatory tendering and rotation; increasing information and transparency with more frequent reviews and extended reporting requirements; and strengthening accountability and independence by giving audit committees and shareholders greater control of external audit.

The CC findings have been welcomed by investors. At the same time as the Commission's announcement a group of over 30 major European institutional investors and investor associations, managing over EUR 2 trillion in assets, released a Position Paper backing an overhaul of the audit market. The group, which includes some of the UK's biggest investors, is seeking greater transparency around audit, mandatory rotation of the audit firm every 15 years, and a cap on non-audit work at 50% of the audit fee.

Sacha Sadan, director of corporate governance at Legal & General Investment Management: "LGIM welcomes the Competition Commission's provisional findings on the audit market in the UK. We are particularly pleased to see they have supported our proposals on mandatory rotation of auditors."

PIRC believes that the decision of the CC to explore mandatory rotation of auditors is indeed an important development. This is a reform we have advocated for some time and we believe that an increasing number of institutional investors support the idea. Indeed, the group of investors coalesced around the new position paper has made this one of its key proposals for reform.

The alternative proposal for mandatory retendering alone does not go far enough and is unlikely to have a meaningful impact. Given that the concern amongst investors is that audit firms get too close to their clients there is no reason to expect that simply re-tendering would make a difference. A company with a close relationship with its auditor would surely be more likely reappoint them. Therefore in our view mandatory tendering is simply a more sophisticated way of defending the status quo. We hope the Commission sticks to its guns on this one.

Rothschild loses BUMI battle

After all the noise around Febrruary's BUMI EGM, in the end the company was able to (largely) fend off the assault launched by former director Nat Rothschild.[3]

In his attempt to reshape the BUMI board, Rothschild had sought to remove a dozen incumbent directors and replace them with his own team, headed by Brock Gill as chief executive. A core part of the argument between Rothschild and the board was how to resolve the difficult relationship with the Bakrie family. The board's defence was that that a divorce from the Bakries would be harder to achieve under Rothschild's plan. It seems this argument swung some investors, but, arguably, more important were some last minute changes in the ownership of the company which appear to have swung the vote decisively in favour of the board.

As a result, only two directors - Nalinkant Rathod and Jean-Marc Mizrahi – were removed, with the support of 54% and 51% of shareholders respectively. Given that most of the other directors received votes of around 44% in favour of their removal, this may indicate one or more of the significant shareholders wanted these two off the board. In addition just one of Rothschild's nominees - Sir Richard Gozney – was appointed. Again this was with a 51% in favour, compared to around the 43% mark for most other directors. Notably Rothschild himself secured the least support in favour of his appointment, at just under 37%.

So a pretty comprehensive win for the home team after all that.

UK unions turn investor activists

The Trades Union Congress (TUC) and its two largest affiliated unions, Unite and Unison, announced in March the formation of a union shareholder voting group.

The group, called Trade Union Share Owners , has drawn up a set of policy guidelines that will guide how the unions' pension funds vote at AGMs.[2] Focusing initially on the FTSE350, the guidelines cover such issues as the membership of boards, the advertising for new director posts, and the level of top pay and bonuses.

Trade Union Share Owners will start out with over £1 billion of assets between them and the TUC hopes that more of its affiliated unions will want to get involved, as they see this new, co-ordinated approach is an effective way of getting workers' voices heard in company boardrooms. The TUC says that one of the drivers behind forming the group was the recognition that fund managers of union pension funds often vote in ways which do not reflect the views of the union and the ordinary people with money invested. The TUC has been researching shareholder voting for a decade through its Fund Manager Voting Survey.

The group's voting and engagement guidelines have been drawn up to ensure that corporate governance policies that unions have long been critical of – all-male boards, excessive director pay and bonus packages, and the non-advertisement of new director positions – will be challenged by union voting at company AGMs.

The group will use the guidelines to ensure that wherever their money is being invested, shareholder votes are a genuine reflection of their views and of ordinary savers. The guidelines contain a variety of policy positions including:

- Moves to limit the growing gap in the pay of those at the very top and bottom of companies, with the aim of achieving a 20:1 pay ratio, and for pay increases to directors to mirror those being offered to ordinary employees.
- Persuading all companies to become living wage employers on the basis that decent wages lower staff turnover and absence rates, and lead to a more motivated, productive workforce.
- Encouraging companies which are keen to include worker representatives in their corporate governance structures.
- Achieving a balance on company boards between executive and non-executive directors.
- At least a quarter of the board positions to be held by women and for any vacancies to be advertised, rather than people simply being invited to join the board.
- A limit to the number of board positions that directors can hold, and where individuals are unable to devote enough time to their role, their re-election should be opposed.

Investor pushback on auditors?

Over the years we've regularly bemoaned the fact that few investors bother to use the vote to appoint the audit firm as a way to raise concerns. Votes against auditor appointments are typically tiny. But a couple of results early in the UK AGM season gave us some hope.

At Future Plc's AGM in February there was a vote of just over 10% against the appointment of PricewaterhouseCoopers. Given that PwC's fees from non-audit work have been over 50% of the value of audit fees for a few years this could be the explanation.

There was a similar story at Grainger's AGM, held the week before Future's, where PwC was again being reappointed, with a vote against this time of 13.6%. Again it looks like the high value of non-audit work undertaken by PwC, which was worth more than fees relating to the audit, was the trigger for this level of opposition.

Votes of 10% and 13.6% against may not sound like a lot, but cases of auditors actually being removed are almost non-existent, and the average level of opposition is around 1%. As such these votes represent, relatively, significant dissent.

The Code and annual elections

The practice of putting all board members up for annual election has been rapidly and widely adopted, according to research by Grant Thornton.

It found that in the first year following the introduction of the provision for annual elections in the UK Corporate Governance Code, it was adopted by 96% of FTSE 350 companies. Twelve said it discouraged the taking of a long-term view. Prior to the Code being amended, only 6% of companies had annual elections.

The reports states: "This immediate uptake of a new provision is a clear example of the Code's ability to change practice, particularly in areas where shareholder engagement is more evident. With such a clear impact, the temptation may be to resort to legislation to drive change but care must be taken not to dilute or undermine the Code's founding principle of comply or explain."

European Stories

Bonus caps and binding votes

Across Europe popular sentiment seems to be pushing policy on executive pay towards tighter restrictions.

Looking at the bonus cap debate, it's something of a feature of the opposition expressed against the idea that the arguments are unusually unconvincing. It has been argued both that bankers will flee to other jurisdictions (with Switzerland now looking less likely as a destination) and that they will find a way around the rules. We are told both that there is too much focus on a relatively small number of high earners, and that a modest cap on variable pay would make banks' costs so inflexible this will increase systemic risk. These arguments cannot all be true, and the fact that high pay lobbyists have failed to stick to any one in particular leads us to suspect that perhaps none of them are really very strong.

The compromise struck with the cap – to allow a higher ratio to be adopted provided shareholders assent to this – also throws up some interesting questions. Presumably this compromise was adopted on the assumption that shareholders would assent to higher ratios, otherwise what is the point? But what kind of message does that implicitly send about shareholder oversight of pay within banks? Of course one could argue that it demonstrates that the Government thinks shareholders are more rational than politicians who don't really 'get' executive pay. Well, maybe, but it will be interesting to see how these votes are interpreted. There is a real danger that shareholders will be seen as a soft touch if they vote to allow bankers to put their bonuses back up, or to unnecessarily inflate salaries.

Meanwhile events in Switzerland demonstrated that a large majority of the public, even in a very business-friendly economy, want to see a much tougher line taken on top pay. Despite a serious propaganda effort by the Swiss business lobby, and a lack of support from some Swiss institutional investors, in a national referendum more than two-thirds of the public supported a proposal for a binding shareholder vote on pay, plus a bar on golden hellos and golden handshakes. This will make the Swiss regime tougher than that in the UK.

In reality, perhaps the most surprising elements of both the bonus cap and the Swiss proposals are that they remain relatively modest, and that they have taken so long to emerge. Some sort of popular reaction to high pay was always likely, but the policy proposals we have seen so far are really not that radical. They fit within the broad parameters of corporate governance, particularly since shareholder consent is taken as central. But this may not always be the case.

Danish fund screens out Walmart

Danish pension fund PFA Pension announced in January it would no longer invest in Walmart because of company's appalling record on workers' rights, according to trade union HK Commerce.

Per Tønnesen, president of HK Commerce, said PFA Pension had made the right decision: “We can under no circumstances have our member’s pension savings invested in a company responsible for poor work conditions.”

PFA Pension said it was withdrawing an investment of 50 million Danish kroner (8,79 million dollars) from Walmart. PFA Pension’s standards for employee rights are based on conventions from International Labour Organisation (ILO) under the UN.

Novartis rebuffed over pay

If we were going to give friendly advice to companies on how to avoid antagonising their shareholders over executive pay perhaps practical examples would be most helpful. Here’s one – do the opposite of Novartis.

In February, the Swiss pharmaceuticals groups made a catastrophic error of judgment in deciding to award outgoing chief executive Daniel Vasella a CHF78m golden handshake – a non-compete payment of CHF13m over six years. Although Vasella had pledged to use the award for “philanthropic activities” the scale and nature of the award inflamed both public and investor opinion.

Ultimately the company saw sense and pulled the award, but you have to wonder what kind of mindset leads to these kinds of decisions. With the Swiss public about to vote in a referendum on tougher rules on executive pay, this could hardly have come at a worse time for the business lobby
.

UBS golden hello creates storm

In March UBS announced that the new head of its investment banking division, Andrea Orcel, would receive a “golden hello” worth almost Sfr25m (£17.5m), a sum that Swiss parliamentarians described as “outrageous”.

The loss-making Swiss bank will pay the Italian banker Sfr6.3m in cash and 1.7m shares (worth SFr18.5m) as "replacement awards" in compensation for lost awards from previous employer, Bank of America Merrill Lynch. Orcel who advised RBS on the ill-fated takeover of ABN Amro told the British Banking Standards Commission in January that banks had become "too arrogant, too self-convinced". He has also recently warned 16,000 UBS investment banking employees that half of them would not receive bonuses in 2013. The case reignited the debate around bankers pay. In the same week the Institute of Directors described the latest payouts of bonuses by Royal Bank of Scotland and Barclays as unacceptable.

France targets top pay

France, one of the leading proponents of the EU's cap on banker's bonuses, is drafting legislation that will increase shareholder power over executive remuneration and clamp down on "golden parachutes" for directors, it emerged in March.

France's Prime Minister, Jean-Marc Ayrault, told parliament that he intended to apply similar measures to those imposed on public sector bosses to the leaders of big private companies. The new law will restrict a number of pay practices and introduce greater transparency into the remuneration of executive staff. Draft legislation is expected before the summer. Europe's second largest economy is thus set to follow Switzerland's path, which recently introduced some of the strictest say-on-pay rules in the world. Action is expected elsewhere in the EU too. Angela Merkel, the German chancellor, recently announced her support for tighter regulation of executive compensation.

As the FT pointed out, executive remuneration is not really set by the interplay of supply and demand, because companies do not properly know executives' productivity. Executives are paid so much because power plays a big role and if governments or shareholders want to lower pay, they have to play the power game too, which is what is currently happening in Europe.

EC consults on long-term finance

In March the European Commission (EC) issued a Green Paper and launched a three-month public consultation on how to foster the supply of long-term financing in Europe.

The EC says long-term investment represents spending that enhances the productive capacity of the economy. This can include energy, transport and communication infrastructure, industrial and service facilities, climate change and eco-innovation technologies, as well as education and research and development. The EC says Europe needs long-term investment to support sustainable growth. It says governments, businesses and households need access to predictable long term financing.

Institutional investors are a clear part of the EC's considerations, with several consultation questions focused directly on their role. The paper seeks views on possible incentives to help promote better long-term shareholder engagement, and on how the mandates given to asset managers can be developed to support long-term investment strategies and relationships. It also asks whether the definition of fiduciary duty should be revisited in the context of long-term financing, also a subject being reviewed by BIS in the UK, following a Kay Review recommendation.

The EC says that follow-up could take several forms, legislative and non-legislative.

US stories

HP rocked by AGM rebellion

In March Hewlett-Packard's board faced one of the largest rebellions of a major US listed company in recent years. At HP's AGM shareholders rebuked the board over recent missteps and a number of directors only narrowly survived the vote.

The AGM in Mountain View, California, witnessed a major protest vote against the re-election of five directors. The two longest-serving directors, John Hammergren and Kennedy Thompson, received 46% and 45% of votes against their re-election. Also Chairman Raymond Lane received 41% of the votes against his return, while 20% voted against the lead independent director.

HP is under increasing pressure after a series of disastrous acquisitions, including a $8,8bn write down on its takeover of the British software firm Autonomy, which is itself accused of false accounting that inflated its value. The Californian Public Employee's Retirement System (CalPERS), which holds more than 8m HP shares, expressed "extreme concern with HP's path in recent years". The fund voted against the re-election of five directors.

14.7 % of shareholders protested against the reappointment of Ernst & Young as auditor, with concerns focusing on the relatively high level of non-audit work done by the firm. The firm has been in charge of HP's accounts for the last 14 years and over $20m of its $50m fees for 2012 were for non-audit work.

All 11 members of the board were re-elected with the required majorities but shareholders supported a proposal allowing them to nominate candidates for the board in future years. Shareholder activist Bill Patterson of the CtW Investment Group stressed that this development will not be very effective unless the company's independent directors will actively protect shareholder rights.

HP's chief executive, Meg Whitman, defended HP's board of directors, which has overseen a halving of the company's share price in the last two years, arguing that the "current line-up helps to turn around the company".

As You Sow Proxy Preview 2013

Investors filing shareholder resolutions at US public companies in 2013 are again focusing on political spending, according to As You Sow. Its *Proxy Preview 2013* documents investors' continued appetite for more disclosure of corporate political spending before and after elections, with 125 resolutions filed on this issue accounting for a third of the total filed. Lobbying has grown to be a top issue, with 51 resolutions, up from 40 in 2012. Two early high votes on lobbying - 37% at VISA and 32% at Accenture - suggest investors haven't lost their appetite for more action. The Center for Political Accountability is coordinating about half the political spending proposals, looking at campaign contributions and spending through non-profit intermediary groups which do not have to name corporate funders.

Looking and environmental and sustainability issues, shareholder proponents seek climate change risk assessments, adaptation strategies, and more action on energy efficiency and target setting. Other environmental resolutions focus on promoting sustainable palm oil production, recycling and product responsibility, toxic materials, and water and forest management. The 92 environmental and sustainability resolutions increasingly look to company supply chains, not just direct operations. An important new SEC decision, reversing earlier precedent, now allows queries about taking into account greenhouse gas emissions in the lending portfolios of banks; PNC Financial and JPMorgan Chase have pending resolutions.

Many of the country's largest institutional investors want more diverse boards. In the work-place, companies increasingly are adopting anti-bias policies for lesbian, gay, bisexual, and transgender (LGBT) employees. But there are still at least two dozen proposals on these subjects. Investors also still want companies with long supply chains in developing countries and guarded operations in conflict zones to step carefully, rethink their engagement in some cases, and anticipate and prevent human rights abuses. Many of the 23 human rights proposals in 2013 invoke the new UN Principles on Business and Human Rights that aim to help this process.

NY funds push Exxon on fracking

The New York City Pension Funds have filed a shareowner proposal calling on Exxon Mobil Corporation to release quantitative data on its efforts to safeguard the public and the environment from its hydraulic fracturing ("fracking") operations.

The risks that fracking poses to water and air quality have led to bans and moratoria in the U.S. and around the globe and could directly affect Exxon's long-term value. The shareowners' call for quantitative measurements is consistent with the U.S. Department of Energy's recommendations on shale gas production. The U.S. Department of Energy recommended in 2011 that companies "adopt a more visible commitment to using quantitative measures as a means of achieving best practice and demonstrating to the public that there is continuous improvement in reducing the environmental impact of shale gas production."

Exxon has repeatedly resisted calls that it provide investors with detailed information on its safety measures. The data that Comptroller Liu and fellow shareowners are requesting includes, but is not limited to: the air emissions from fracking that Exxon has reduced per region per year; the number and kinds of community complaints or grievances and whether they remain open or resolved; the goals and systems used to reduce potentially harmful chemicals in fracturing fluids.

Comptroller Liu and the NYC Pension Funds filed the first-time shareowner proposal jointly with As You Sow, a nonprofit environmental advocacy group that has been engaging Exxon on its fracking practices and disclosures on behalf of the Park Foundation since 2010. Comptroller Liu said: "Fracking carries significant concerns about poisoned drinking water, toxic chemical leaks, and explosions. Exxon Mobil says, 'Don't worry, we've got it covered' and asks us to take it at its word. Until the company shows us hard data on what it has done to protect the public and environment, shareowners cannot be confident that the necessary safeguards exist."

SEC probes E&Y client lobbying

The Securities and Exchange Commission is exploring whether Ernst & Young broke auditor independence rules by lobbying on behalf of major audit clients.

According to a Reuters report, the SEC is looking at activity undertaken by Washington Council Ernst & Young, the firm's lobbying arm, on behalf of corporate clients like Amgen Inc, CVS Caremark Corp and Verizon Communications Inc. According to the report, the status of the SEC probe is not clear, including whether it could result in civil fines.

The US rules covering auditor independence include a bar on any "advocacy role" on behalf of audit clients. Although this appears to be primarily focused on legal advocacy, some commentators have argued that undertaking lobbying activity is still a breach. It is likely some investors would consider that undertaking lobbying on behalf of audit clients would be inappropriate regardless of if it was a breach or not. Reuters notes that Washington Council Ernst & Young is no longer registered as a lobbyist for Amgen, CVS Caremark or Verizon Communications.

Standard Chartered chair blunder

Standard Chartered chair John Peace was forced into an embarrassing apology in March, after admitting that he had made a "legally and factually incorrect" comment relating to the bank's deal with US regulators.[4]

Last December Standard Chartered accepted a $667m fine as part of a settlement with US regulators over the bank's historical compliance with economic sanctions against Iran. At a press conference in early March, Peace had stated that Standard Chartered "had no willful act to avoid sanctions". Clearly someone from the US was listening, as last Thursday Peace issued an RNS statement clarifying that "Standard Chartered Bank unequivocally acknowledges and accepts responsibility… for past knowing and willful criminal conduct in violating US economic sanctions laws and regulations, and related New York criminal laws." Ouch.

Global stories

Aus fund pulls out of News Corp

The A$1.7 billion First Super pension fund in Australia announced plans to sell its holding in News Corp in January in response to the company's failure to improve its governance.[11]

According to reports the fund, which held around A$7m shares, cited the failure of the company to respond to investors concerns about as the reason for its decision. At the company's AGM in Los Angeles last year a proposal seeking the appointment of an independent chair was backed by two thirds of independent shareholders, but was defeated by the Murdoch family's controlling block holding.

Ahead of the AGM the Church of England sold its shares in News Corp stating that it did not believe that the company was responding to dialogue on the need for governance reform

ACSI says diversity progress poor

Australian companies are not doing enough to improve board diversity, according to the Australian Council of Superannuation Investors (ACSI).[8]

In March ACSI published its annual audit into board diversity of ASX 200 companies. ACSI advocates that ASX200 companies should achieve a benchmark of at least 2 women directors on their boards by 2014. Findings of this year's audit show that 15.5% of ASX200 board members are women. This is an increase of 24 women from 2012. Other Key findings of the research in 2013 include:

- A total of 66% of ASX200 companies – 132 – currently underperform the benchmark that ACSI set in 2010 ie. they only have either one or no women on their boards
- For the first time, all ASX50 companies currently have at least 1 woman on the board
- In aggregate, just 15.5% of board positions are held by women (230 positions) – up from 14% (206) in 2012
- Men hold over 1,000 more board positions than women (1,250 men compared with 230 women)
- A total of 164 individual women serve on ASX200 boards – with 28% holding multiple directorships
- There are no ASX200 company boards that have a majority of women
- The median company board is made up of 6 men and 1 woman
- Only 4% (8) of board chairs are women and 4% (8) of CEOs are women.

An additional 12 companies met the ACSI benchmark of at least 2 women on the board in 2013. At this rate it would take until 2024, rather than 2014, to achieve the ACSI benchmark for all ASX200 companies. ACSI says if the EU directive on gender diversity is ratified – 40% women on boards by 2020 – at the current rate, Australia would not achieve it until 2030.

SHARE 2012 Key Votes Survey

While the majority of Canadian shareholders continue to vote with management, a growing number are giving more care and attention to how they vote, with several key votes in 2012 registering 20% or more of shareholders voting against, according to the SHARE Key Proxy Vote Survey.

One highlighted issue is a shareholder proposal at Enbridge Inc. asking the company to report on the risks associated with First Nations' opposition to the Northern Gateway pipeline. Nearly 30% of shareholders voted for the proposal, noting that First Nations' consent plays a pivotal role in the future of the Enbridge proposal.

"The response on the Enbridge shareholder proposal illustrates that shareholders increasingly recognize the investment risks associated with social and environmental issues when they vote," said Peter Chapman, Executive Director of the Shareholder Association for Research and Education (SHARE). "However many institutional investors, including charitable foundations and trusts, are not yet providing guidance to managers and proxy voting service firms to ensure that voting is aligned with their interests."

The 2012 annual Key Proxy Vote Survey analyzed the voting records of 32 firms with combined Canadian equity holdings in excess of $58 billion in 2012. SHARE has been producing the survey since 2001 with the goal of making proxy voting more accessible and encouraging fiduciaries to more rigorously review the work of those that vote proxies on their behalf.

The vote result at SNC-Lavalin also illustrates the increasing willingness of shareholders to vote against management. At SNC-Lavalin's shareholder meeting in May 2012, nearly one-quarter of votes were lodged against the executive compensation package offered to former CEO Pierre Duhaime, which included $1.9 million in salary continuance plus other benefits. This generous severance package was offered despite the on-going criminal investigation into corruption and bribery charges both in Canada and Libya during Mr. Duhaime's tenure.

Global executive market myth

Less than one percent of chief executives of large global companies were poached from a similar job overseas, destroying the myth that an international market exists for executive talent, according to a report published in February.

Research undertaken by the High Pay Centre found that only four chief executives out of 489 companies for which career histories were publicly available were poached while CEOs of another company in a foreign country. All four companies (Peugeot Citroën, Bayer, Holcim and International Airlines) are in Western Europe. Cross-border poaching of current CEOs therefore amounts to only 0.8% of total CEO appointments in the Fortune Global 500.

The Centre found that only 14 CEOs were poached from another country while occupying a role beneath CEO. 11 of these are in Europe, one in China, one in South Korea and one in Australia. Cross-border poaching from beneath the top level therefore amounts to 2.9% of total CEO appointments. In addition in North America, Japan, Latin America and Eastern Europe, not one CEO was appointed from outside the country where the company is based. And overall 80% of CEO appointments in the world's largest companies are internal promotions; with just 20% being external appointments.

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Appendix 'B'

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2013

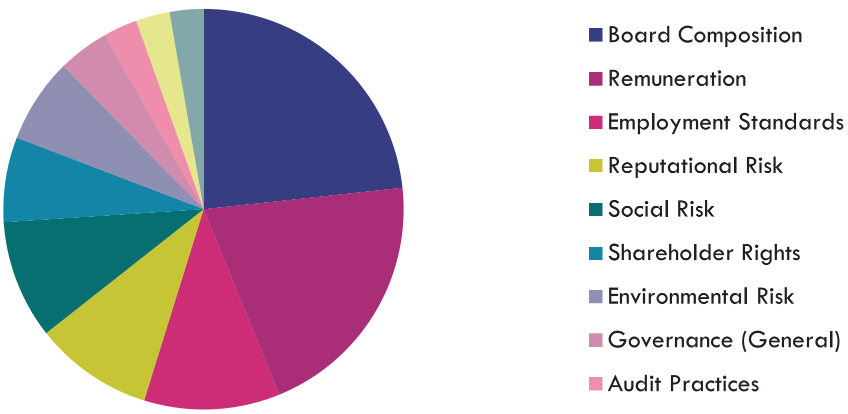
Local Authority Pension Fund Forum

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

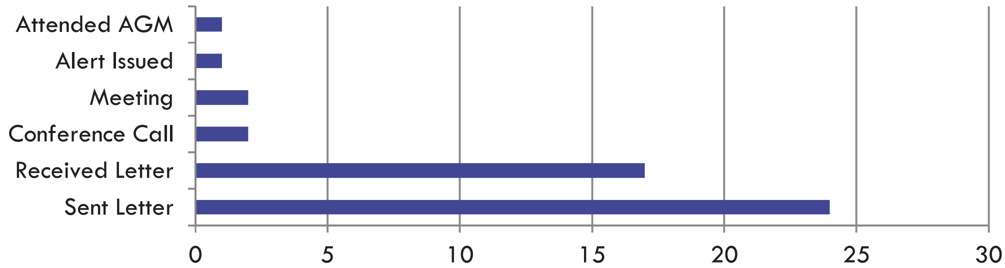
ENGAGEMENT SUMMARY

JANUARY TO MARCH 2013

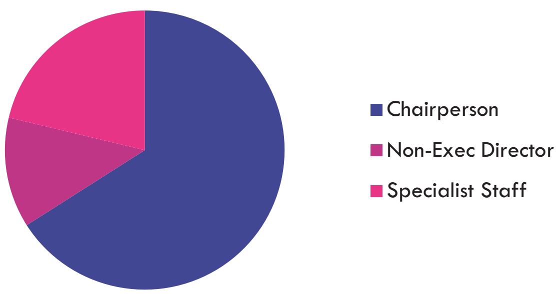
Topics



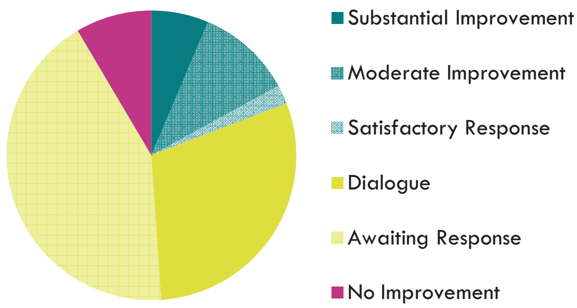
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Launched LAPFF's new 'Expectations for Executive Pay,' and sent the document to the FTSE 350 Chairmen for consideration.
- Met with the chairman of **British American Tobacco** to discuss health risks related to the manufacture and sale of tobacco products.
- Attended the **Lonmin** AGM to enquire about the company's ongoing response to issues flagged up by the violent strike at its Markiana mine.
- Received reply from **Tesco** on questions raised regarding business risks and labour concerns at its Fresh & Easy operations in the United States.
- Engaged in ongoing dialogue with **National Express** on disparity in application of global labour standards
- Wrote to **JP Morgan & Chase** welcoming the decision by the remuneration committee to reduce the CEO's remuneration following the recent trading scandal and subsequent financial losses in its London offices.
- Held a conference call with **Comcast** regarding separation of chair and CEO, majority voting and the company's dual class share structure.
- Participated in an investor call with directors of **Hewlett Packard** regarding the controversial takeover of **Autonomy** and subsequent questions raised about its Auditors.
- Met the senior independent director at **Société Generale** to discuss the concentration of power held by the joint chair/chief executive.

THE FORUM IN THE NEWS

LAPFF's new expectations on executive pay - Financial News, Investment & Pensions Europe, Bloomberg, The Independent

EU reviews accounting rules - CityAM

New LAPFF Chair – Municipal Journal, Investment & Pensions Europe, Professional Pensions, Portfolio International

Investor concern over flaring of natural gas – CSR Wire

Pension funds & infrastructure investing – The Guardian

View more press coverage: http://lapfforum.org/TTx2/press/in-the-news

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF initiated engagement this quarter with the two British listed tobacco companies in an effort to understand how they manage health and liability risks, as well as how they are planning for future restrictions on the sale of tobacco products. The Forum Chair met with the Chairman of **British American Tobacco** to discuss members' concerns regarding social and health concerns, regulatory risks, and voluntary restrictions on marketing and advertising.

Increasingly, companies are approaching the Forum to proactively seek its views on key governance issues. We were pleased when **Standard Chartered** and **Legal & General** contacted LAPFF this quarter seeking meetings to discuss governance issues. These approaches from companies are a testament to the progress LAPFF has made in positioning itself as the leading shareholder advocacy body that brings a unique perspective to the debate from local authority funds.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

Continuing previous engagement, LAPFF met with the senior independent director of **Société Generale**, to follow up on a shareholder resolution, co-filed by LAPFF member, West Yorkshire, for the separation of powers at the head of the company.

Following on its engagement in 2012, LAPFF wrote to **JP Morgan & Chase**, welcoming the company's decision to adjust the CEO's pay downward this year as a result $6 billion in losses from the "London whale" trading scandal. Last year LAPFF had expressed concern about remuneration at the company. In its letter, LAPFF also reiterated the call for the company to appoint an independent Chair.

> "We've been a long-time believer in linking pay to performance, and we think that linkage was made in this case"
>
> *- California State Teachers Retirement System (CalSTRS) on JP Morgan Remuneration decision*

The Forum held a conference call with **Comcast** to discuss concerns regarding the joint Chair/CEO position, majority voting, and the dual class share structure. We were also pleased to receive a letter from **Flir Systems** indicating that following engagement by shareholders, the company has agreed to declassify the board and implement majority voting for directors.

We received responses from several companies that we wrote to last quarter to congratulate them on achieving a good governance rating in LAPFF's annual Global Focus List review. The companies welcomed LAPFF's effort to write and acknowledge the positive governance practices they had implemented. Finally, we wrote follow up letters to companies that had not responded to our request to meet, sent in December 2012.

Financial Reporting & Audit

The Parliamentary Commission on Banking Standards has heard more evidence highlighting the problems with accounting standards. Head of Financial Stability Andrew Haldane said on 21st January 2013:

Parliamentary Commission on Banking Standards

Pat McFadden MP: "Is this [IFRS] not like driving only with a rear-view mirror?"

Professor Stella Fearnley: "I think it is driving with a blindfold."

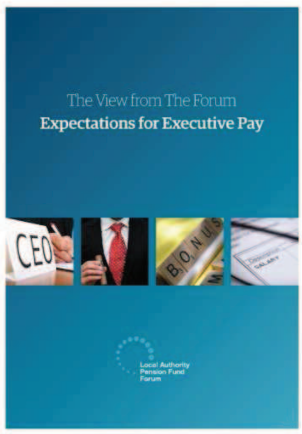
"On our back-of-the-envelope estimates, the extent of structural under-provisioning by the UK banks pre-crisis ran to tens of billions of pounds – non-trivial amounts of money, which should have been set aside. Deducted from capital, that would have shown UK banks in somewhat less rude health than appeared to be the case in 2005 and 2006."

On the basis of the LAPFF banks post-mortem report, by the middle of 2008, UK banks were underprovided (i.e. loans were overvalued) by almost £100bn.

The International Accounting Standards Board (IASB), the Big 4, and Institute of Chartered Accountants of England and Wales (ICAEW) have taken an approach of denying the problem with IFRS. However there are signs from written evidence from Baroness Hogg of the Financial Reporting Council (FRC) that the FRC position is moving. Furthermore the ongoing FRC consultation on the Sharman Review of Going Concern reflects the concern that it is only possible to make a fair assessment of going concern status on the basis of prudent accounting policies.

Executive Pay

In March, LAPFF launched a new document outlining fifteen key considerations for companies when setting executive pay. 'Expectations for Executive Pay' calls into question the recent steady increase in executive awards and sets out a new vision for executive pay. Features include a request that companies set incoming executive pay below that of their predecessor, discontinue the use of peer benchmarking for the purpose of pay, and phase out long-term incentive plans. The Forum expects to engage with corporate boards on these fifteen principles in an effort to address investor and stakeholder concerns about pay.



MANAGING ENVIRONMENTAL RISK

Climate Change

As part of its involvement with the Carbon Disclosure Project (CDP), LAPFF has joined the carbon action group which asks companies to implement cost effective carbon emissions reductions which deliver a satisfactory return on investment. Targeted engagement for 2013 will be oriented around member holdings.

LAPFF continues to be a signatory to CDP and to CDP water disclosure which engages companies to disclose their exposure to water risks and opportunities.

"Currently the world's forests store 283 billion tons of carbon in their biomass"

-UN Food & Agriculture Organisation

Environmental Risk Management

The **Forest Footprint Disclosure** project published its annual review, which indicated that 100 companies agreed to disclose information on their use of forest products, a 15% increase from 2011. Companies new to the disclosure process this year included **Colgate-Palmolive Co.**, **Groupe Danone**, **Gucci**, and **HJ Heinz Company**. Several British firms were highlighted as leaders: **Sainsbury's**, **Marks & Spencer**, **BSkyB**, and **British Airways**. LAPFF is an investor supporter of the Forest Footprint Disclosure project, which canvasses companies' use of key commodities with known ties to deforestation, namely soy, beef, palm oil, biofuels, and timber.

Given the substantial public interest in shale gas development in the UK, LAPFF wrote to **BG Group** and **Centrica** seeking information on the company's intentions for shale gas development in the UK. The Forum is aware of the potential economic value of domestic shale gas development, but is also interested in monitoring the environmental and social risks.

TARGETING SOCIAL ISSUES

Employment Standards

Members of the Forum attended the annual meeting of platinum miner **Lonmin** this quarter to question the company on its response to the violent strike at its Marikana mine in August 2012. LAPFF wrote to the Chairman last August expressing condolences for the loss of life and urging restraint and caution with regard to the company's negotiations with striking workers. Fourty-six people were killed when violence erupted at the company's South African mine.

Lonmin's Plan

1. Improve union relations
2. Empower employees through share ownership & cooperation
3. Improve work-life balance for migrant workers
4. Revise the shift system to make better use of assets
5. Improve housing and accommodation

LAPFF was pleased by the Chairman's remarks at the Lonmin AGM, which highlighted the company's commitment to improve living conditions for workers, reconsider the company's shift-work structure, and engage more productively with communities and workers. Richard Greening, LAPFF Executive member and representative of Islington Pension Fund, spoke at the AGM to encourage the board to take steps to address the labour and human rights concerns at the mine. A follow up discussion with the corporate secretary following the meeting provided LAPFF with further insights into the company's plans to address some of the underlying concerns of the miners.

LAPFF received a response from **Tesco** regarding its letter on the company's labour practices and its business strategy in the US. Tesco's Fresh & Easy brand has been struggling, and the company announced it is selling the business. A request to meet with board members has been unsuccessful, however LAPFF plans to follow up with relevant senior managers. **National Express** and LAPFF also have an ongoing dialogue regarding its human capital management practices and union relations in the US.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS

© James Stringer

LAPFF is a member of an investor coalition led by Universities Superannuation Scheme (USS) seeking to raise concerns with policy makers on the detrimental impact of IFRS on company accounts. The group met with Andy Haldane and others at the **Bank of England** in February 2013 to express its concerns and hear the views of the Bank on IFRS.

LAPFF also co-signed a letter with other global investors to **US regulators** calling for improvements to the country's corporate governance regime. The letter is a follow up to a similar letter signed by LAPFF in 2009.

CONSULTATION RESPONSES

Two consultation responses were submitted this quarter. The first was to the **Financial Services Authority (FSA)** on the UK listing rules. LAPFF argued against the proposal for a two-step process for electing directors and reiterated that it should raise the 25% threshold.

The second consultation was in response to the **Financial Reporting Council (FRC)** on financial reporting disclosure. In this response, LAPFF opted to write a letter to Baroness Hogg expressing concern about the consultation itself and choosing not to answer the specific consultation questions. In the Forum's view, the FRC consultation fails to address the key issues of financial reporting failures. LAPFF's pointed to a previous meeting with Baroness Hogg in which the Forum expressed serious concerns about the role that IFRS has in distorting financial reporting.

All consultation responses submitted by LAPFF can be viewed on our website.

NETWORKS & EVENTS

- **Employee Engagement** – 'Practically Positive' research presentation
- **Forest Footprint Disclosure project** – annual review launch
- **Beyond business as usual** – Food Ethics Council report
- **PRI signatory event** – panel discussions on responsible investment
- **Sustainable Capitalism** – Tomorrow's Finance event
- **PIRC corporate governance conference** – presentation on LAPFF's new strategy on executive pay

ANNUAL ELECTIONS

Cllr Kieran Quinn of Greater Manchester Pension Fund was elected as LAPFF's new Chair at the January annual meeting, with Ian Greenwood and Cameron Rose appointed as Vice-Chairs. Cllr Geoffrey Watt retired from the LAPFF Executive Committee and the Executive thanks him for his contribution to the Forum over the last several years. Cllr Patricia Glasman of Merseyside Pension Fund and Cllr John Gray of Newham were elected to the Executive.

Cllr Kieran Quinn, Chair
Greater Manchester Pension Fund

Cllr Patricia Glasman
Merseyside Pension Fund

Cllr John Gray
LB of Newham

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Bellway	Board Composition, Shareholder Rights	Awaiting Response
BG Group	Environmental Risk, Climate Change	Satisfactory Response
BNP Paribas	Board Composition, Remuneration	Awaiting Response
British American Tobacco	Social Risk, Reputational Risk	Dialogue
Burberry	Board Composition, Remuneration	Awaiting Response
Carnival Corp	Remuneration, Employment Standards	No Improvement
Centrica	Environmental Risk, Social Risk	Awaiting Response
Coach Inc.	Board Composition, Remuneration	Awaiting Response
Cognizant Technology Solutions	Shareholder Rights	Awaiting Response
Comcast Corp	Board Composition, Shareholder Rights	No Improvement
CRH plc	Governance (General)	Substantial Improvement
Deutsche Post	Employment Standards, Reputational Risk	Dialogue
Flir Systems	Board Composition, Remuneration	Moderate Improvement
Freeport McMoran	Remuneration, Social Risk	Awaiting Response
Hewlett Packard	Audit Practices	No Improvement
Imagination Technologies	Shareholder Rights, Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Dialogue
Inditex	Board Composition, Remuneration	Dialogue
JP Morgan	Remuneration, Board Composition	Moderate Improvement
Legal & General	Remuneration	Dialogue
Lindt & Sprungli	Board Composition, Remuneration	Awaiting Response
Lloyds Banking Group	Finance & Accounting	Substantial Improvement
Lonmin	Employment Standards, Reputational Risk	Dialogue
Marshalls	Governance (General)	Substantial Improvement
National Express	Employment Standards, Reputational Risk	Dialogue
National Grid	Climate Change	Awaiting Response
RBS	Finance & Accounting	Dialogue
Reckitt Benckiser	Environmental Risk	Moderate Improvement
Resolution Ltd	Campaign (General), Audit Practices	Awaiting Response
Rio Tinto	Climate Change	Awaiting Response
Société Generale	Board Composition	Moderate Improvement
Standard Chartered	Board Composition	Dialogue
Svenska Handelsbanken	Board Composition	Dialogue
Tesco	Employment Standards, Reputational Risk	Dialogue

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £115 billion.

Aberdeen City Council
Avon Pension Fund
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
Enfield
Falkirk CC
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hillingdon LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lewisham LB
Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

PIRC

www.lapfforum.org

Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: All

Internal audit annual report 2012/13, including the audit plan 2013/14
(Appendix 'A' refers)

Contact for further information:
Rachel Tanner, 01772 534904, County Treasurer's Directorate
rachel.tanner@lancashire.gov.uk

Executive Summary

A copy of the internal audit annual report for the Lancashire County Pension Fund is attached at Appendix 'A'. Based on the internal audit work undertaken during the year we are able to provide substantial assurance over the internal control environment for the pension fund and pension administration.

The report also sets out the plan of work to be undertaken by the county council's internal audit service for the coming financial year in respect of the pension fund. The plan amounts to a total planned resource of 85 days.

Recommendation

The Committee is requested:

1. to consider and note the annual report for 2012/13.

2. to consider and approve the audit plan for 2013/14.

Background and Advice

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Internal Audit Service to provide a written report to those charged with governance which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents our opinion based upon the work we have performed during 2012/13 for the Lancashire Pension Fund.

The audit plan is intended to provide assurance to the Pension Fund Committee and to the chief executive and leader of the council who are jointly required to sign an Annual Governance Statement (AGS), incorporating a statement of internal control. As the county council is responsible for the administration of the pension fund, including the provision of systems, controls and governance, the AGS also embraces the activities of the pension fund.

Lancashire County Council

Consultations

In deriving the audit plan the internal audit team has:

- Discussed with senior management the risks and related controls associated with the pension fund and;

- Made its own assessment of the risks facing the pension fund.

The information derived from these consultations has been incorporated into the audit plan.

Implications:

This item has the following implications, as indicated:

Risk management

This report supports the Pension Fund Committee in undertaking its role which includes providing independent oversight of the adequacy of the pension fund's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Rachel Tanner County Treasurer's Directorate X 34904

Reason for inclusion in Part II, if appropriate:

N/A

Appendix 'A'

Lancashire County Council: Pension Fund

Internal Audit Service

Annual report for the year ended 31 March 2013, including the proposed internal audit plan 2013/14

Lancashire County Council

Contents

1 Introduction

1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires the head of internal audit to provide a written report to those charged with governance, timed to support the Annual Governance Statement, which includes an opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, including the control environment. This report presents our opinion based upon the work we have performed.

1.2 This report covers the period 1 April 2012 to 31 March 2013.

Acknowledgements

1.3 We are grateful for the assistance that has been provided to us by staff in the County Treasurer's Directorate in the course of our work.

2 Assessment of internal controls

Overall opinion

2.1 Based on the internal audit work undertaken during the year we are able to provide **substantial** assurance over the internal control environment for the pension fund and pension administration.

2.2 It is our opinion that there is a generally sound system of internal control which is adequately designed and controls are being consistently applied in the majority of areas reviewed, although there are some areas where control needs to be strengthened.

2.3 Management responses to the findings from our work have been positive and indicate that action has or will be taken where issues have been identified. Whilst recognising there are a small number of control issues which need to be addressed, our detailed findings identify good areas of effective control.

Key issues and themes arising during the period

2.4 The findings of the individual reviews are briefly set out in the following paragraphs.

2.5 We are able to provide substantial assurance over the pension administration procedures operated during the year which included consideration of both manual and ICT controls.

2.6 In respect of the manual controls we considered:

- transfer of the payment of pensions to the Altair system;
- authorisation of new members;
- retirement calculations;
- death grant calculations;
- employee and employer contributions to the scheme and
- transfers into and out of the scheme.

We have made two recommendations to ensure the appropriate cancellation of tasks within the Altair system, in order that performance statistics can be fully relied upon and the appropriate separation of duties is operated within the system.

2.7 We found the ICT controls operated within the system were of a reasonable standard overall, but highlighted improvements were required in relation to the business continuity and disaster recovery arrangements to effectively mitigate the impact of system loss or disruption. We are aware that this area has been given priority during the year and work is continuing to address the issues raised.

2.8 In relation to pension fund assets and investments our work has encompassed three reviews consisting of the new investment strategy, the new accounting arrangements and third party assurance reports produced for three of the investment managers.

2.9 Our review of the investment strategy focused specifically on the procurement arrangements operated for the selection of a bench of investment managers for the global equity mandate. The selection and procurement process was undertaken in line with procurement regulations and we were able to provide substantial assurance. We have made one recommendation to further enhance the governance arrangements in this area, to ensure Investment Management Agreements are in place for all the selected investment managers whether or not they have been allocated funds to manage.

2.10 From April 2012 the pension fund was established as a separate organisation with a separate general ledger to that of the county council as part of the upgrade of the county council's financial systems. We have reviewed the new accounting arrangements and provided a substantial assurance opinion indicating that the procedures are adequately designed and operating effectively in the majority of areas reviewed. A small number of recommendations have been made to further enhance the controls in place.

2.11 Our review of the third party assurance reports produced for three of the fund manager's systems enabled us to conclude that reliance can be placed on the control statements which did not identify any significant control issues.

Fraud/ special investigations

2.12 There were no days used in the investigation of suspected financial irregularities in relation to the pension fund.

Implications for the Annual Governance Statement

2.13 On the basis of our work during 2012/13, we are aware of no internal control weakness that requires disclosure in the Annual Governance Statement.

3 Internal audit work undertaken

3.1 Work carried out during 2012/13 was in accordance with the audit plan presented and approved by the Pension Fund Committee in May 2012. Details of the assurance provided, and key issues identified for each of the areas covered are set out in the 'Summary of our Findings and Assurance' table attached at page 7. This shows that 67 days were spent on delivering the full audit plan against planned audit activity of 75 days.

3.2 This work has been undertaken with liaison with the council's external auditors to minimise any duplication in planned coverage.

3.3 A number of areas of work were completed on or just after the end of the financial year. A number of reports were still in draft at the time of writing this report. As all reports have been discussed with the appropriate managers, we feel it is appropriate to include our opinion for these reviews in the summary of findings.

4 Internal audit plan 2013/14

4.1 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA.

4.2 The plan again focuses on two distinct areas which cover the governance and management of the pension fund's assets and pension administration. The audit reviews identified under each of these areas is explained in more detail below.

Pension Fund

4.3 We have included audit resources within the 2013/14 plan to review that arrangements for investing pension funds are in accordance with the approved investment strategy. We will consider the adequacy and effectiveness of the governance arrangements for making investment decisions through the Investment Panel through to reporting those decisions to the Pension Fund Committee. (20 days)

4.4 We will again provide assurance over the adequacy and effectiveness of the accounting arrangements operated for the pension fund. (10 days)

4.5 As part of the pension fund's ongoing review of the current fund manager mandates, we will review the adequacy of the processes employed for the procurement of the property fund mandate. (10 days)

4.6 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA. This will involve using statutory reporting from the investment managers and custodian in the first instance. These documents will be used to gain assurance over the external investment management activities where appropriate. (3 days)

Pension administration

4.7 In the same way that we are required to consider controls over the county council's corporate financial systems, any assessment of the risks to the pension fund will require our assurance over the key controls over the administration of the fund. This year's work will be focussed on testing the key controls we documented as part of last year's review, including the system for auto enrolment of new employees. (30 days)

4.8 In addition to the main pensions administration review, we will provide assurance over the system operated for the collection of employer contributions. (5 days)

Follow Up

4.9 Audit resources have been identified to ensure that all reviews are followed up and our findings are re-assessed as the actions previously agreed with management are implemented. (2 days)

General Management

4.10 An allocation of 5 days has also been made to cover other management and tasks in support of the internal audit service to the pension fund:

- Attendance at meetings;
- Liaison with external audit; and
- Central reporting.

4.11 The proposed plan amounts to 85 days, which is an increase of 10 days to the 2012/13 audit plan. This is not reflective of a perceived increase in risk surrounding the pension fund, but relates to the cyclical nature of some of the audit reviews we undertake. We have not reviewed the system for collecting employer contributions over the last three years and feel it is timely to include this area in the audit plan this year.

5 Scope, responsibilities and assurance

5.1 Details of the scope of our work, and management's and internal audit's responsibilities regarding systems of risk management, internal control are explained in pages 8 and 9. This sets out the basis of our assessment and limitations on the assurance that we can provide.

Access to this report and responsibility to third parties

5.2 We have prepared this report solely for Lancashire County Council, and the Pension Fund Committee. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the Treasurer to the Fund, and the Pension Fund Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.

5.3 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

6 Summary of findings

Overall summary and assurance provided

6.1 We have set out in the table on page 7 below a brief summary of each review undertaken during this year. This sets out the planned and actual days we have spent on each review, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business. The key issues/comments encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.

6.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

6.3 ***System adequacy***: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

6.4 ***System effectiveness***: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

6.5 It is therefore possible that a system would, if operated as intended, provide adequate control over its inherent risks, but that lapses in controls in practice leave the system exposed to risk.

6.6 It is also possible that a system may be inadequate in its design, but is nonetheless operating as intended, albeit with inbuilt weaknesses that mean that the control objectives cannot be met.

6.7 Ideally, a system will be adequately designed to achieve its control objectives, and operated effectively in practice.

6.8 The table below indicates briefly with simple ticks (✓) and crosses (x) our overall assessment of each system we have reviewed during the year and the assurance you may take from its operation in supporting effective internal control.

Summary of our findings and assurance

Review area	**Audit days**			**Assurance**		**Key issues / Comments**
	Planned	Actual	Variation	Adequacy	Effectiveness	
Audit Areas						
Pensions administration – manual controls & ICT controls	25	32	7	✓	✓	Action has been agreed to address the issues raised to improve the control arrangements.
				Substantial assurance		
New investment strategy – global equity procurement arrangements	25	15	(10)	✓	✓	Action has been agreed to address the issue raised to improve the control arrangements.
				Substantial assurance		
New accounting arrangements	10	10	0	✓	✓	A draft report was issued in May 2013 for management consideration.
				Substantial assurance		
Third party assurance reports	5	3	(2)	✓	✓	We noted that the expected key controls were in place and assurance was provided on them in the reports.
				Reliance can be placed on the assurance reports		
Follow up	5	2	(3)	✓	✓	This related to the follow up of recommendations for the 2011/12 pension fund reviews.
				Full assurance		
Planning and management	5	5	0	-	-	This time relates to the production of the annual plan and report, planning/ progress meetings and general advice.
Total Days	**75**	**67**	(8)			

Summary of our findings and assurance

1. Scope, responsibilities and assurance

Approach

1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.

1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.

1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

1.7 No limitations have been placed on the scope or extent of the work we carried out during the year by the management or staff of the County Treasurer's Department.

Limitations on the assurance that internal audit can provide

1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Audit assurance levels

1.10 The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Agenda Item 13

Pension Fund Committee
Meeting to be held on 7 June 2013

Electoral Division affected: All

External Audit
Lancashire County Pension Fund Annual Audit Plans 2012/13

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2012/13 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:

  – give a true and fair view of the financial position of the Pension Fund as at 31 March 2013 and of its expenditure and income for the year then ended; and

  – have been prepared in accordance with proper accounting practice.

The Audit Plan, setting out the process that underpin the audit is at Appendix A. The Plan was reported to the Council's Audit and Governance Committee on 24 March 2013.

Recommendation

The Committee is asked to note the External Audit plan for the audit of the County Pension Fund for 2012/13, and the fees therein.

Lancashire County Council

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on. These are:

- the appointment of 5 new fund managers and transfer of investments to them to use in new global equities portfolios;
- increasing complexity of the internally managed portfolio;
- widening of the company vehicle used to make infrastructure investments;
- work undertaken to investigate and resolve the unexplained imbalance on the pension fund bank reconciliation last year; and
- the three key elements of the fund accounts being investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £41,505. This is £7,336 higher than the scale fee of £34,169 set by the Audit Commission as notified to you in the external auditor's letter of 16/12/2012. The external auditor considers that the changes in the investment portfolio of the pension fund resulting in the transfer of significant funds between fund managers, an increase in the overall number of managers and the increasing complexity of the financial instruments involved have given rise to additional risks which require additional audit work. The revised fee is £25,495 (38%) less than the audit fee in the previous year of £67,000.

(Note: The scale fee set by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the County Treasurer.

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

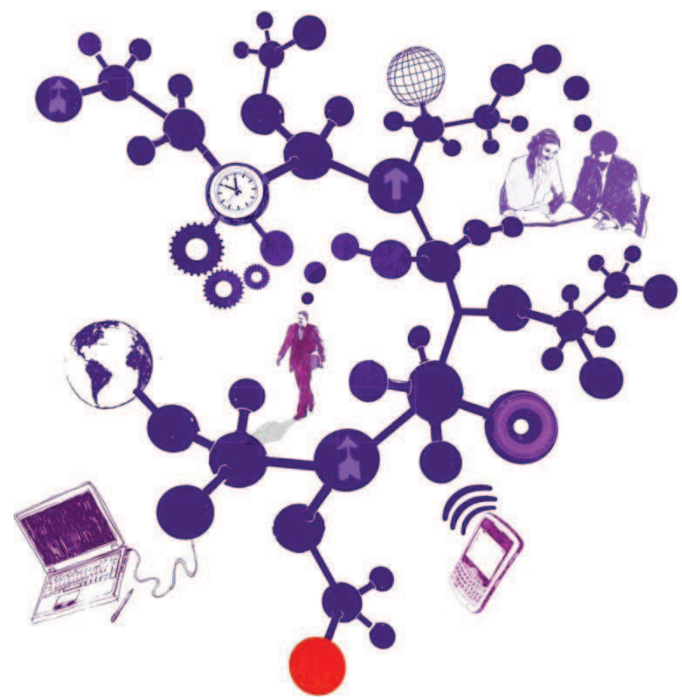
Appendix 'A'

Grant Thornton

The Audit Plan for Lancashire County Pension Fund

Year ended 31 March 2013

11 March 2013



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Executive
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E ian.m.pinches@uk.gt.com

Contents

Understanding the business of your pension fund

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Change in fund managers

- In response to the need to improve financial returns for the pension's fund, the fund has appointed 5 new managers with an unconstrained global equity mandate. £1.5bn has been transferred from existing equity mandates to these managers during 2012/13.

2. Increasing complexity of investments within internally managed fund

- As part of the diversification of investments, the internally managed funds are being targeted towards more fixed income and credit instruments including senior secured loan debt, (£130m), emerging markets local currency, (£230m), absolute return funds (£230m) and credit opportunities funds (£230m).

3. Investment in new infrastructure company

- During 2012/13 the fund has invested in a coal mining company (£24m), using the Red Rose infrastructure company structure to do so.

4. Bank reconciliation

- A potential mis-classification of monies between the County Council and the Pension Fund was identified in 2011/12 and detailed work has been undertaken by the Fund during 2012/13 to investigate the unexplained variance within the bank reconciliation.

Our response

1. We will:

- review the reconciliation of funds transferred from 3 existing fund managers to the transition fund manager and on to the 5 new fund managers to gain assurance over the completeness of the transfer
- obtain and review independently produced controls assurance reports for the new fund managers.

2. We will:

- review the nature of these investments and the methods being used to estimate the fair value of those investments at 31/3/2013
- we will assess the appropriateness of the valuation bases and assumptions being used to arrive at a fair value.

3. We will:

- review the contractual arrangement between the pension fund and mining company and the impact this has had on the company structure for Red Rose Infrastructure Ltd
- assess the appropriateness of the valuation of this investment within the context of the contractual terms.

4. We will:

- review the arrangements for regular bank reconciliations to gain assurance that pension fund transactions are being correctly reflected in its bank account and accounting records.
- review the exercise completed to assess the reasons for the previous difference and any resultant accounting adjustments.

Developments relevant to your pension fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

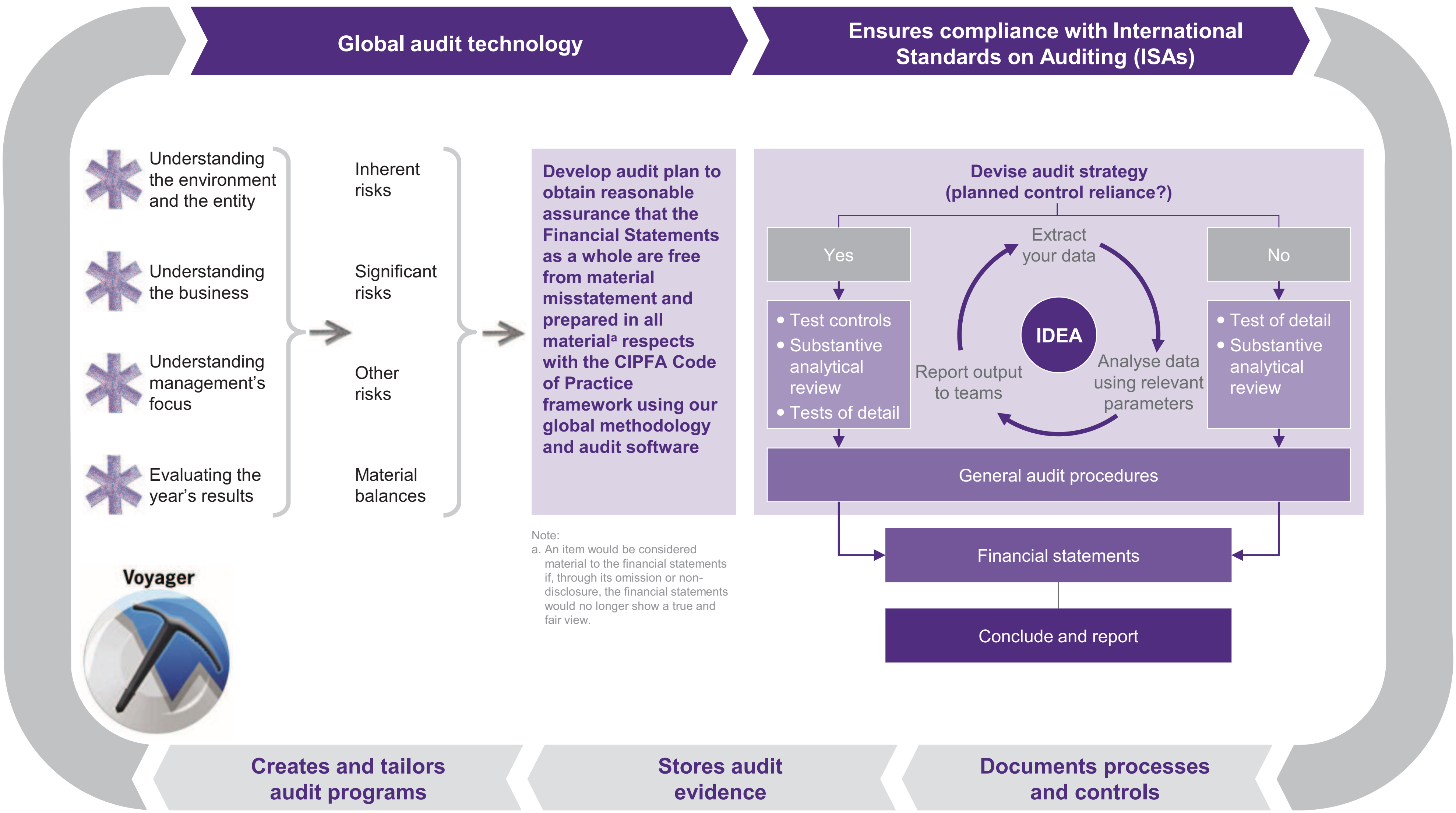
Developments and other requirements

1.Financial reporting	2. LGPS 2014	3. Financial Pressures – scheduled and admitted bodies	4. Financial Pressures – Pension fund	5. Triennial valuation
• CIPFA have published a revised set of example accounts for pension funds in 2013.	• Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014. • Planning for the proposed changes in governance and regulation of pension funds.	• Where contributing bodies are offering early retirement and redundancies there is additional work for the pension fund administration team in dealing with the severance arrangements.	• Pension funds are increasingly needing to withdraw from investment assets to fund the demand on benefits payable that is not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.	• The need to provide information to and have a regular dialogue with the actuary in respect of the triennial revaluation of the fund will create additional work for the pension fund staff.

Our response

• We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing	• We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.	• We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.	• We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance. • We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.	• We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct. Completeness and accuracy of contributions may be mis-stated.	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable (including lump sums)	Yes	Benefit payments	Medium	Other	Accuracy, completeness and validity of payments to members may be mis-stated.	Yes	✓
Payments to and on account of leavers (including death benefits)	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	X
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	×
Investment management expenses	Yes	Investments	Low	None		No	✓
Investments	Yes	Investments	Medium	Other	Valuation of investments is mis-stated. Evidence of existence and ownership may not be available. Incorrect or insufficient disclosure.	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	X
Current liabilities	No	Benefit payments, investments	Low	None		No	x

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of Lancashire County Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	We have rebutted this presumption and therefore do not consider this to be a significant risk for Lancashire County Pension Fund because: • The nature of the pension fund's revenue is, in many respects, relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties to reduce the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies. They are supported by separately sent schedules and are directly attributable to gross pay. This makes any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. This is then subject to agreement between the transferring and receiving funds. We will complete our normal substantive testing procedures around the Pension Fund's material revenue streams.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedures
Investments	Investment activity not valid. Valuation of investments is mis-stated. Evidence of existence and ownership may not be available. Incorrect or insufficient disclosure.	We will: • review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances. • select a sample of the individual investments held by the Scheme at the year end and test the valuation by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation for unquoted investments and direct property investments. The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. • test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers. • review the latest controls assurance reports for each fund manager and the custodian • review the detailed investments disclosures for compliance with code requirements and agreement to underlying records.
Benefit Payments	Benefits improperly calculated /claims liability understated	We will • select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds. We will test, by reference to the member files, to ensure appropriate documentation is held and that internal control procedures operated by Lancashire County Pension Fund have been followed. • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. The movements on membership statistics will also be compared to transactions in the accounting records.
Contributions	Recorded contributions not correct. Completeness and accuracy of contributions may be mis-stated.	We will • test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies. • rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Interim audit work

Scope

Our interim audit work is due to take place in March 2013. This will include our consideration of:

- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented in line with our understanding in areas where we have identified a risk of material misstatement
- a review of the Information Technology (IT) controls environment
- testing of controls relating to the receipt of contributions and the payments of pension benefits (taking assurance from the work of internal audit where possible)
- review of the reconciliation of the transfer of investments from the existing equity mandates to the transition manager and then onto the 5 new fund managers
- review of the reconciliation of the pension fund bank account and clearance of the unexplained difference reported last year
- review of the contractual arrangements for the new infrastructure investment, its impact on company structures and the planned method of valuation
- review of the new style investments entered into within the internally managed portfolio and the planned method of valuation
- review of the work undertaken by the pension fund on its private equity portfolio, in particular to assess whether this review provides an additional source of assurance over the valuation of such investments.

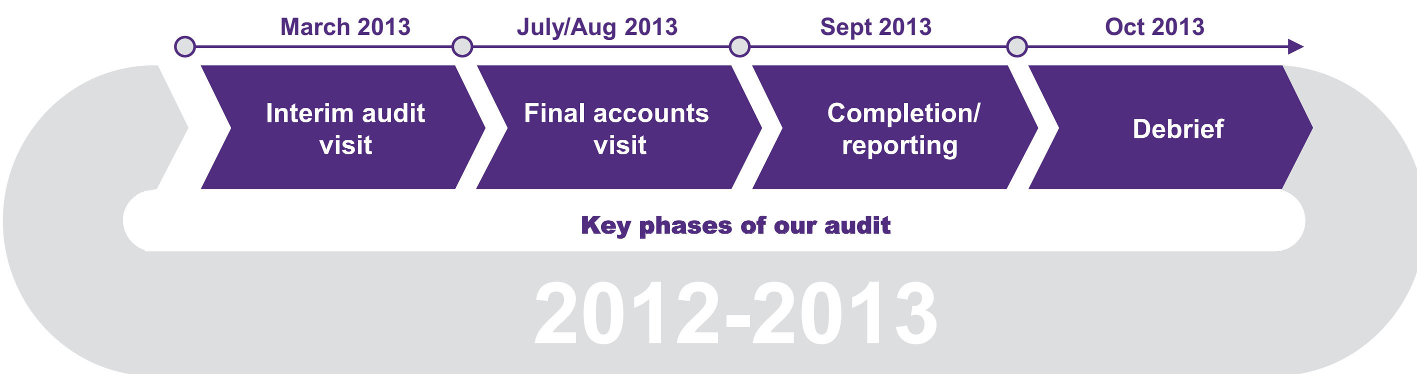
Reporting

If we identify any significant risks of material mis-statement as a result of this work we will adjust our testing strategy accordingly and report this to management immediately.

Our progress report to the meeting of the Audit and Governance Committee in June 2013, will update members on the outcome of our interim work and any resultant changes in testing strategy if a change has been made.

Logistics and our team

The audit cycle



Date	Activity
November	Planning meeting
March	Interim site work
March	The audit plan presented to the Audit and Governance Committee
June	The audit plan presented to Pension Fund Committee
July	Year end fieldwork commences
August	Audit findings clearance meeting
September	Audit and Governance Committee meeting to report our findings
November	Pension Fund Committee meeting to report our findings
Sept	Issue opinion of the financial statement and annual report

Our team

Karen Murray **Engagement Lead** T 0161 234 6364 M 7880 456 205 E karen.l.murray@uk.gt.com	**Saima Ashraf** **Auditor** T 0161 234 6396 E saima.ashraf@uk.gt.com
Fiona Blatcher **Manager** T 0161 234 6393 M 0788 045 6196 E [fiona.c.blatcher@uk.gt.com	We will seek advice from our financial services team as necessary.
Ian Pinches **In-charge** T 0161 234 6359 E ian.m.pinches@uk.gt.com	**Pete Lancaster** **IT Auditor** M 0796 262 4 214 E pete.lancaster@uk.gt.com

Fees and independence

Fees

	£
Pension fund audit	41,505

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations.

The fee is above the scale fee of £34,169 set by the Audit Commission and reported to you in our fee letter of 16/12/2012. Changes in the investment portfolio and its increasing complexity give rise to additional audit risks for which we need to complete additional work .

The revised fee is £25,495 less than the 2011/12 audit fee of £67,000 and represents a 38% reduction on the previous year's fee.

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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