**Lancashire County Council**

**Pension Fund Committee**

**Friday, 18th June, 2021 at 10.30 am in the Council Chamber, County Hall, Preston.**

## Agenda

**Part I** (Open to Press and Public)

| No. | Item | |
|---|---|---|
| 1. | **Appointment of Chair and Deputy Chair of the Committee**<br>The Committee is asked to note the decision taken by full Council on the 27th May 2021 to appoint County Councillor E Pope as Chair of the Committee and County Councillor A Schofield as Deputy Chair. | |
| 2. | **Constitution, Membership and Terms of Reference** | (Pages 1 - 2) |
| 3. | **Apologies** | |
| 4. | **Disclosure of Pecuniary and Non-Pecuniary Interests**<br>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. | |
| 5. | **Minutes of the Meeting held on 12th March 2021**<br>The Committee is asked to confirm the Minutes from the last meeting as an accurate record. | (Pages 3 - 12) |
| 6. | **External Audit 2020/21** | (Pages 13 - 36) |
| 7. | **Lancashire County Pension Fund - 2020/21 budget monitoring report** | (Pages 37 - 42) |
| 8. | **Lancashire County Pension Fund and Lancashire County Council Annual Governance Statement** | (Pages 43 - 54) |
| 9. | **Lancashire Local Pension Board 2020/21 Annual Report** | (Pages 55 - 64) |

Lancashire County Council

**10.** **Lancashire County Pension Fund - Inter-valuation contribution review policy/Admission and Termination Policy** (Pages 65 - 102)

**11.** **Investment Strategy Statement** (Pages 103 - 114)

**12.** **2020/21 Training Record and feedback from members of the Committee on pension related training.** (Pages 115 - 124)

**13.** **Responsible Investment Report** (Pages 125 - 152)

**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 will be held at 10.30am on the 17th September 2021 at County Hall, Preston.

**16.** **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 press and 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)**

**17.** **Annual Administration Report 2020/21** (Pages 153 - 204)

**18.** **Internal Audit Assurance** (Pages 205 - 216)

**19.** **Local Pensions Partnership Update** (Pages 217 - 236)

**20.** **Investment Panel Report** (Pages 237 - 254)

**21.** **Lancashire County Pension Fund - Performance Overview** (Pages 255 - 280)

**22.** **Lancashire County Pension Fund Risk Register** (Pages 281 - 300)

L Sales
Director of Corporate Services

County Hall
Preston

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
None;

**Constitution, Membership and Terms of Reference.**

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

**Executive Summary**

This report sets out the current Constitution and Membership of the Committee following the local government elections in May 2021, together with the Terms of Reference.

**Recommendation**

That the Constitution, Membership and Terms of Reference of the Pension Fund Committee, as set out in the report, be noted.

**Background and Advice**

**Constitution and Membership**

At the meeting on the 27th May 2021 full Council approved the membership of various Committees and related appointments for 2021/22. The constitution of the Pension Fund Committee was approved as 19 on the basis of 12 County Councillors with an additional 7 voting Co-opted members. The following County Councillors have subsequently been appointed to the Committee by the respective political groups.

| | |
|---|---|
| Conservative - 7 | Joan Burrows, Mike Goulthorp, Eddie Pope (Chair), Alan Schofield (Deputy Chair) Scott Smith, Ron Woollam.<br>1 vacancy |
| Labour - 4 | Matthew Brown, Mark Clifford, Frank De Molfetta,<br>1 Vacancy |
| Green 1 | Gina Dowding. |

Nominating bodies have been consulted and confirmation of the following co-opted member appointments received.

Councillor M Smith - representing Blackpool Council
Councillor D Borrow - representing Borough and City Councils
Councillor M Hindley - representing Borough and City Councils (replaces Councillor P Foster)
Ms J Eastham - representing Further Education and Higher Education Institutions
Mr P Crewe - representing Trade Unions

At the time of writing confirmation is still awaited with regard to the co-opted member appointments set out below:

Councillor R Whittle - representing Blackburn with Darwen Council
Vacancy - representing Trade Unions (Mr J Tattersall has resigned from the Committee with effect from the 29th April 2021).

**Terms of Reference**

A copy of the Committee's current Terms of Reference is available to view at Article 7 (Other Committees of the County Council) of the Constitution and is set out in the Minute Book.

**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/Tel |
|---|---|---|
| N/A | | |

Reason for inclusion in Part II, if appropriate
N/A

**Lancashire County Council**

**Pension Fund Committee**

**Minutes of the Virtual Meeting held via Zoom on Friday, 12th March, 2021 starting at 10.30am**

**Present:**

County Councillor E Pope (Chair)

**County Councillors**

| | |
|---|---|
| T Ashton | K Ellard |
| J Burrows | T Martin |
| L Collinge | J Mein |
| G Dowding | A Riggott |
| C Edwards | A Snowden |

A Schofield

**Co-opted members**

Mr P Crewe, Trade Unions
Councillor M Smith, Blackpool Council
Councillor R Whittle, Blackburn with Darwen Borough Council
Councillor D Borrow, Borough and City Councils

**In Attendance:**

Ms M King, Interim Head of Pension Fund, Lancashire County Council
Ms A Devitt, Independent Investment Adviser.
Mr E Lambert, Independent Investment Adviser.
Mr W Bourne, Chair of the Lancashire Local Pension Board.
Mr C Rule, Chief Executive Officer, Local Pensions Partnership (from 11am).
Mr A Taylor, Chief Financial Officer, Local Pensions Partnership.
Mr G Smith, Director of Strategy, Local Pensions Partnership.
Ms J Darbyshire, Director of Administration, Local Pensions Partnership Administration.
Mr S Greene, Head of Pension Fund, Lancashire County Council (observer)

## 1. Welcome and Apologies

The Chair welcomed everyone to the meeting and introduced Sean Greene, the newly appointed Head of the Pension Fund. Apologies were received from Co-opted members Ms J Eastham and presented on behalf of Councillor P Foster.

The Chair also reported that the Fund had won in the LGPS Fund of the Year (assets over £2.5 billion) category at the LAPF Investment Awards in December 2020 and thanked everyone involved.

## 2. Disclosure of Pecuniary and Non-Pecuniary Interests

No disclosures of pecuniary or non-pecuniary interest were made by members of the Committee at this point in the meeting.

## 3. Minutes of the Meeting held on 27th November 2020

**Resolved:** That the Minutes of the meeting on the 27th November 2020 are confirmed as an accurate recorded and signed by the Chair in due course.

## 4. Lancashire County Pension Fund Investment Strategy Statement.

The Committee considered a report on the Investment Strategy Statement which had been updated in relation to the strategic asset allocation, performance benchmarks of the Fund and the transition of Fund investments into asset pools.

**Resolved:** That the updated Investment Strategy Statement, as set out at Appendix 'A' to the report presented, is approved.

## 5. Budget monitoring for period ending 31 December 2020

A report was presented on the income and expenditure of the Fund for the 9 months up to 31st December 2020 together with an updated forecast for the year ending 31st March 2021, which indicated a full year net income of £204.7m, before realised and unrealised profits and losses on investments, against a budget of £219.1m.

It was noted that investment income for the year was below budget, primarily due to the economic impact of the C-19 pandemic and the Interim Head of Fund reassured the Committee that the Fund remained sufficiently healthy to be able to weather short term fluctuations such as this and continue to pay members pensions as they fall due.

**Resolved:** That, having reviewed the report presented, the financial results for the 9 months up to 31st December 2020 and the budget and forecast variances are noted.

## 6. Lancashire County Pension Fund 2021/22 Budget

The Committee considered a report on a one-year budget for the Lancashire County Pension Fund for the year ending 31st March 2022 which had been set to assist with monitoring and assessing the overall position and performance of the Fund.

The Interim Head of Fund reported that whilst the budget showed a reduction in funds available for investment of £37.1m the deficit was primarily due to employer contributions paid in advance as income in 2020/21, which was in line with generally accepted accounting practice and as agreed with the Fund's external auditor.

**Resolved:** That the one-year budget for the Lancashire County Pension Fund for year ending 31st March 2022, as set out in Appendix 'A' to the report presented is approved.

## 7. Lancashire County Pension Fund Strategic Plan 2021-24

A report was presented on the draft 3-year Strategic Plan, which defined the key objectives for the Fund in relation to Governance, Asset and Liability Management, Administration, and Communications, and had been developed in consultation with the Independent Investment Advisers to the Fund and the Actuary.

The Interim Head of Fund confirmed that a concise version of the Plan would be available to members via the new Fund website. She added that the Fund would work with the Pension Board to develop an action plan to implement the communications element of the Plan, including recruiting a specific resource for her Team.

It was also noted that that the Local Pensions Partnership would be subject to a service-based review following its first 5 years of operation.

**Resolved:** That the Lancashire County Pension Fund Strategic Plan for 2020/21 – 2023/24 together with the 12-month update, as set out in the Appendices to the report presented, are approved.

## 8. Pension Administration Strategy Statement Review

The Committee considered a report on the Pension Administration Strategy Statement which had been reviewed by the Local Pension Board on the 19th January 2021. It was reported that the review had not identified any significant changes were required and confirmed that Local Pensions Partnership Administration had met all key performance indicators. The Committee noted that the Communication Strategy for the Fund would also be updated to direct the Fund membership to the Strategy Statement, as recommended by the Board.

**Resolved:** That the Pension Administration Strategy Statement, as set out at Appendix 'A', to the report presented is approved.

## 9. Lancashire County Pension Fund - Admission and Termination Policy/ Inter-valuation contributions review policy

The Committee considered a report on the updated admission and termination policy (incorporating further changes to reflect the employer flexibilities now available to the Fund) together with a new draft inter-valuation contribution review policy, both of which had been reviewed in consultation with the Fund Actuary.

It was noted that responsibility for the employer risk function would transfer back to the Fund's inhouse team from Local Pension Partnership Administration with effect from 1st April 2021 after which the inhouse team would begin to work with the policies in consultation with the Actuary.

**Resolved:**

1. That the updated Admission and Termination Policy and the new Inter-valuation Contribution Review Policy, as set out respectively in

Appendices 'A' and 'B' to the report presented, are approved to enable a short consultation with employers in the Fund up to 30th April 2021.

2. That a further report on the outcome of the consultation specified at 1 above, together with final drafts of both policies, are presented to the next meeting on the 18th June 2021 for approval.

## 10. New Lancashire County Pension Fund Website.

The Committee was informed that the new Lancashire County Pension Fund website had been completed and would go live on the 10th March 2021 and would be demonstrated to members of the Committee at 2pm on the 23rd March 2021.

**Resolved:** That the report is noted.

## 11. Feedback from members of the Committee on pension related training.

Individual members of the Committee gave feedback on their experiences at a number of virtual pension related events which had taken place since the last meeting.

Members of the Committee reported that they had generally found the events referred to in the report useful and informative, though it was suggested that the format of a webinar had not been as user friendly as the internal training workshops. It was also suggested that members of the Committee may benefit from further training with regard to the impact of the McCloud judgement, possibly at a future workshop.

**Resolved:** That the report and feedback given at the meeting in relation to the training received by individual members of the Committee is noted.

## 12. Lancashire County Pension Fund - Training Plan 2021/22

The Committee considered the draft 2021/22 Training Plan which set out the various opportunities available during the year for training members of the Committee and Local Pension Board.

With regard to the discussion under the previous item it was noted that arrangements would be made for some training on McCloud and suggested that training on responsible investment also be included in the programme. A presentation on the findings of the Service Based Review of Local Pension Partnership Investments was also proposed.

**Resolved:** That, subject to the inclusion of training opportunities on the McCloud judgement, Responsible Investment and the outcomes of the Service Based Review of Local Pension Partnership Investments the Training Plan for 2021/22, as set out at Appendix 'A' to the report presented is approved.

## 13. Responsible Investment Report

The Committee considered a detailed report on responsible investment activity during Q4 of 2020 (October to December) which included reference to the Robeco Engagement themes for 2021 and appointment of LPPI's Head of Responsible investment to the LGPS Scheme Advisory Board Responsible Investment Advisory Group

The Chair referred to the All-Party Parliamentary Group for Local Authority Pension Funds inquiry into 'Responsible Investment for a Just Transition' which had issued a call for evidence by a deadline of 30th April 2021.

**Resolved:**

1. That the update on responsible investment activity, as set out in the Appendix to the report presented, is noted and the Terms of Reference for the inquiry into 'Responsible Investment for a Just Transition' referred to at the meeting circulated to members of the Committee for information.

2. That future reporting on responsible investment include a brief synopsis of the Fund's progress in reducing carbon and movement towards a net zero position.

## 14. Approval of 2021/22 Workplan for the Lancashire Local Pension Board

A report was presented on the proposed 2021/22 Work Plan for the Pension Board which had been developed in consultation with the Chair of the Board and the Interim Head of Fund.

The Chair of the Board informed the Committee that he would bring a report to the next meeting on the outcome of the annual review of the effectiveness of the Board which had highlighted the following areas of focus in 2021

- The continuous improvement of the Fund and Local Pension Partnership.
- The Lancashire County Pension Fund Risk Register.
- Communications with the membership of the Fund.

**Resolved:** That the 2021/22 Work Plan for the Lancashire Local Pension Board, as set out at Appendix 'A' to the report presented, is noted.

## 15. Urgent Business - Local Pension Partnership Strategic Update

The Chair informed that meeting that an additional report on the Local Pension Partnership Strategic Update would be presented to the Committee under Part II of the agenda. The report had not been included in the agenda when it was published due to technical difficulties and the Chair had agreed that the report be presented at the meeting as a matter of urgency so that the Committee could review the report and hear from representatives of the Local Pensions Partnership.

A copy of the report had previously been circulated to all members of the Committee by email.

**Resolved:** That the report on the Local Pension Partnership Strategic Update, as circulated to members of the Committee in advance of the meeting, be presented to the Committee as a matter of urgency under Part II of the agenda.

### 16. Date of Next Meeting

It was noted that the next scheduled meeting of the Committee would be held at 10.30am on the $18^{th}$ June 2021 either remotely via Zoom or at County Hall, Preston.

### 17. Exclusion of Press and Public

**Resolved:** That the press and 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 appropriate paragraphs of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading of each item. It is considered that in all the circumstances the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Chair adjourned the meeting for 5 minutes at this point to allow members of the Committee to have a short break before discussing the Part II items on the agenda.

When the meeting restarted the Chair reminded the Committee that since the last meeting it had been announced that Mr M O'Higgins, Chairman of the Local Pension Partnership Board was to step down from that position in June 2021. The Chair thanked Mr O'Higgins for his contribution to the success of the Partnership since its inception in 2015 and wished him well for the future.

The Chair then announced that he would take the additional report (item 24) which had been presented at the meeting as a matter of urgent business as the next item.

### 24. Local Pension Partnership Strategic Update

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

A report was presented on activity by the Local Pensions Partnership, which included updates on shareholder matters and changes at Board level, the financial position of the Partnership Group up to the $31^{st}$ December 2020 and on pension administration and investment management services.

The Committee was informed that the administration service was performing well and on track to achieve the proposed cost savings and that member satisfaction scores for retirements, the Helpdesk and emails were all in excess of targets. It was also noted that the proposed phased implementation of a new pension administration system would build on previous experience and be the main focus of project activity for Local Pension Partnership Administration.

**Resolved:**

1. That the updates set out in the report presented and given at the meeting are noted.

2. That a report on the Year End Review of Progress against Year 1 of the 5 Year Strategic Plan agreed with shareholders in relation to the Local Pension Partnership Group be presented to the Committee in due course.

## 18. Local Pensions Partnership Annual Budget 2021/22, and 4 Year Planning Period

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

Mr Taylor, Chief Financial Officer from the Local Pensions Partnership, presented a detailed report on the proposed 2021/22 budget for the Partnership Group.

In considering the report the Committee discussed the current year forecast, actual budget and the budget for 2021/22 and subsequent 4 years. The operation of the Local Pensions Partnership following the move to a "skinny group" position, with the majority of staff and corporate services being directly employed/dedicated to active subsidiary businesses, was also discussed.

**Resolved:** That the Local Pensions Partnership budget for 2021/22, as set out in Appendices 'A' and 'B' to the report presented, is approved.

## 19. Lancashire County Pension Fund Performance Overview

Exempt information Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

Mr Lambert, Independent Investment Adviser to the Fund, updated the Committee on the performance of the Fund over the last quarter, commenting on areas such as the total portfolio return over different periods, the performance of individual asset allocations, net income progression and the current funding level.

**Resolved:** That the performance of the Fund for the quarter to the end of December 2020, as set out in the report presented, is noted.

## 20. Investment Panel Report

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

Ms Devitt, Independent Investment Adviser to the Fund, presented a report on the performance of global markets/economies and factors which influenced the investment market in which the Fund operated, particularly with regard to the Covid-19 pandemic and the global move towards green finance and transition to a net zero economy. The Committee was also presented with the Minutes from the most recent Panel in November 2020 where discussion had focussed on the performance of the Fund.

**Resolved:** That the report is noted.

All Local Pension Partnership representatives left the meeting at this point.

## 21. Investment Consultancy and Fiduciary Management Investigation Order 2019.

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

A report was presented on the detailed response sent by the Interim Head of the Pension Fund to the Competition Markets Authority confirming compliance with the requirements of the Investment Consultancy and Fiduciary Management Investigation Order 2019 with regard to the setting of strategic objectives for investment consultants.

**Resolved:** That the response from the Head of Fund to the Competition Markets Authority confirming the Lancashire County Pension Fund compliance with the requirements of Part 7 of the Investment Consultancy and Fiduciary Management Investigation Order 2019 is noted.

## 22. Extension to Contract for Custodian

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of 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.

It was reported that the initial 3-year contract for the Custodian for the Lancashire County Pension Fund was due to expire in April 2021 and, in view of the performance over the last 3 years and following discussions with all parties, the Interim Head of the Pension Fund recommended the Committee to approve use of the provision in the existing contract to extend the term for the maximum period of 3 years up to the 15th April 2024.

It was noted that during the extended term of the contract there would be a full procurement exercise with regard to awarding a new contract for the provision of custodian services with effect from the expiry of the extended term.

**Resolved:** That the extension of the term of the existing contract with the Custodian is approved for the maximum period of 3 years up to the 15th April 2024.

Both Independent Investment Advisers left the meeting at this point.

**23. Extension of Contract for Independent Advisor to the Fund**

Exempt information as defined in paragraphs 1, 2 and 3 of Part 1 of Schedule 12A of 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 proposed 12-month extension of the current contract of one of the Independent Investment Advisers to the Fund.

**Resolved:** That approval is given to the extension of the contract of the Independent Investment Adviser to the Lancashire Pension Fund Committee, for one additional year up to the 30th June 2022, as provided for in clause 3.1 of the existing contract set out at Appendix 'A' to the report presented, subject to the necessary waiver by Cabinet of the County Council's Procurement Rules being granted.

**Chairs closing remarks.**

Before formally closing the meeting, the Chair took the opportunity to thank Michelle King for all her support over the last 5 months as the Interim Head of the Pension Fund.

He also acknowledged that with the local government elections in May the County Council representatives on the Committee may change before the next meeting on the 18th June 2021 and wished all Councillors well for the future.

L Sales
Director of Corporate Services

County Hall
Preston

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
None;

**External Audit 2020/21**
(Appendix 'A' refers)

Contact for further information:
Sean Greene, Head of Fund, Lancashire County Pension Fund
sean.greene@lancashire.gov.uk

**Executive Summary**

To provide the committee with information on the external audit plan for 2020/21. The plan sets out in broad terms the programme of work required to give an opinion on whether the financial statements give a true and fair view of the financial position and performance of the Lancashire County Pension Fund as at 31 March 2021, and that the accounts have been prepared in accordance with proper accounting practice.

In addition, a revised audit standard – ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures – takes effect for external audits relating to periods beginning on or after 15 December 2019. Further detail on this is provided in this report.

**Recommendations**

The Committee is asked to note the external audit plan as set out at Appendix 'A' for the audit of the Lancashire County Pension Fund for 2020/21, and the fees therein.

**Background and Advice**

The external audit carried out by Grant Thornton aims to provide an opinion on whether the statement of accounts of the Lancashire County Pension Fund give a true and fair view of its financial position and performance, and provide an opinion on the council's value for money arrangements.

The Audit, Risk and Governance Committee has a key role to ensure control and risk management arrangements are effective and therefore an external audit plan was presented to, and noted by, that committee on 26 April 2021.

The audit plan sets out a number of areas including the approach to the audit, the concept of materiality, key risks and dates.

A copy of the plan is attached as Appendix 'A' for information and a representative from Grant Thornton will be available at the meeting to clarify any points.

To comply with International Auditing Standards – Revised IAS 540 - there is a requirement for auditors to request written representations regarding the reasonableness of methods, significant assumptions, and the data used in financial statement figures. The audit is also required to establish an understanding of the management processes in place to prevent and detect fraud related to financial statements and to ensure compliance with law and regulation. They are required to make enquiries as to management's knowledge of any actual, suspected, or alleged fraud and to document management's view on some key areas affecting the financial statements.

To meet these requirements, a series of questions have been issued covering these areas including the key accounting estimates. A response to the questions posed by Grant Thornton is available on request.

**Consultations**
Grant Thornton
Mercer (the Fund Actuaries)
Local Pensions Partnership Investment Limited
Governance & Risk Officer, LCPF

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The response to Grant Thornton will provide information to the external auditor to support their role in determining an opinion on the council's statement of accounts and value for money arrangements for 2020/21.

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

| Paper | Date | Contact/Tel |
|---|---|---|

N/A
Reason for inclusion in Part II, if appropriate

N/A

# Lancashire County Pension Fund audit plan

**Year ending 31 March 2021**

Lancashire County Pension Fund

April 2021



# Contents

**Your key Grant Thornton team members are:**

**Paul Dossett**
Key Audit Partner
T 020 7728 3180
E paul.Dossett@uk.gt.com

**Andy Ayre**
Audit Manager
T 0151 224 7212
E andy.j.ayre@uk.gt.com

**Olalekan Ayilara**
Audit Assistant Manager
T 0161 953 6471
E olalekan.l.ayilara@uk.gt.com




| Section | Page |
|---|---|
| Key matters | 3 |
| Introduction and headlines | 4 |
| Significant risks identified | 5 |
| Accounting estimates and related disclosures | 7 |
| Other matters | 10 |
| Progress against prior year recommendations | 11 |
| Materiality | 12 |
| Audit logistics and team | 13 |
| Audit fees | 14 |
| Independence and non-audit services | 16 |
| Appendix 1: Revised Auditor Standards and application guidance | 18 |


The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Key matters

## Factors

### Pension Fund developments

Following the changes in recent years in switching investment management to LPPI managed funds, comparatively, there have not been significant changes in the pension fund strategy and administration in 2020/21, with little change in the strategic asset allocation. Likewise, a review of the Pension Administration Strategy Statement reported in January 2021 that no significant changes had resulted from the review and the Local Pension Partnership Administration (LPPA) was meeting all key performance indicators.

A new, dedicated website was launched for the Pension Fund in March 2021, bring the Fund in line with other LGPS Funds in England and Wales.

The Fund won in the LGPS Fund of the Year (assets over £2.5 billion) category at the LAPF Investment Awards in December 2020.

### Impact of Covid 19 pandemic

In our 2019/20 audit we held extensive discussions with and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end. It was disclosed in the Pension Fund's statement of accounts that due to guidance set out by RICS Global Valuation Standards, the value of level 3 pooled and level 2 directly held investment properties were reported on the basis of 'material valuation uncertainty'. We included an emphasis of matter on this in our audit opinion to draw users of the statement of accounts to this disclosure. We currently do not expect similar guidance to be issued for the year ended 31 March 2021.

### Other matters

In the period December 2018 to January 2020 the Financial Reporting Council (FRC) issued a number of updated International Auditing Standards (ISAs (UK) which are effective for audits of accounting periods beginning on or after 15th December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates an Related disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process , auditors also need to obtain an understand of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty , or require significant judgement.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, sets out the starting point based on the 2019/20 proposed audit fee recognising there are further additional cost pressures in 2020/21.
- We will continue to provide you with sector updates via our Audit Committee updates.
- There is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. We have rebutted this risk for all types of revenue and expenditure. We have also considered the risk of material misstatement due to fraud related to expenditure, and concluded that this is not a significant risk for the Pension Fund.
- There is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. We have therefore identified a significant risk in regards to management override of control – refer to page 6.
- The Pension Fund's valuer reported a material uncertainty in regards to the valuation of direct properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of direct properties – refer to page 6.

# Introduction and headlines



### Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Pension Fund ('the Pension Fund') for those charged with governance.

### Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lancashire County Pension Fund.* We draw your attention to both of these documents.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Governance committee).

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £92m (PY £84m) for the Pension Fund, which equates to around 1% of your net assets as at 28 February 2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £4.6m (PY £4m).

## Audit logistics

Our interim visit took place in and our final visit will take place in July to August. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £39,300 (PY: £36,000) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| ISA240 Revenue and expenditure recognition – the risk of revenue including fraudulent transactions and expenditure manipulation | Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition.<br>These presumptions can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition.<br>Having considered the risk factors set out in ISA240 and PN10 and the nature of the revenue and expenditure streams at the Fund, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition and expenditure are very limited<br>• classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material<br>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable<br>Therefore we do not consider these to be significant risks for Lancashire County Pension Fund. | The risks of revenue including fraudulent transactions and expenditure manipulation are rebutted for Lancashire County Pension Fund. |

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| Management over-ride of controls | Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We will:<br>• evaluate the design effectiveness of management controls over journals<br>• analyse the journals listing and determine the criteria for selecting high risk unusual journals<br>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence,<br>• gain an understanding of the control environment in the Local Pensions Partnership (LPP) including review of relevant the internal audit reporting during the year, and<br>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |
| Valuation of Level 3 investments | The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.<br><br>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br><br>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.<br><br>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.<br><br>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. | We will:<br>• evaluate management's processes for valuing Level 3 investments<br>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met<br>• review the work of custodians, especially in respect of independent valuations of the fund<br>• for a sample of investments, including indirect property funds, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments, agreeing these to the fund manager reports at that date, and ensure, for indirect property funds, that they are valued in line with the latest RICS guidance. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period<br>• where available review investment manager service auditor report on design effectiveness of internal controls,<br>• review any transfers to the Pool for any level 3 investments during the year, and<br>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. |

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Page 115
Page 21

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Risk and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

# Accounting estimates and related disclosures




### Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

### The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.




## Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty,  we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

## Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and presented to the Audit, Risk and Governance Committee for ratification. We would appreciate a prompt response to these enquires in due course.

## Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

# Other matters

## Other work

The Pension Fund is administered by Lancashire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.





## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

# Progress against prior year audit recommendations

We identified the following issues in our 2018/19 audit of the Pension Fund's financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings Report and followed up in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations and it is still to be addressed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | Issue and Risk<br>Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input.<br>The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.<br>Recommendation<br>Review the authorisation procedures in place over journal input. | Management response in 2018/19 IAS 260 report<br>Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.<br>Updated management response in 2019/20<br>The same personnel-based controls remain in place as in 2018/19, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore an ability to post journals) is carried out at least annually. |

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

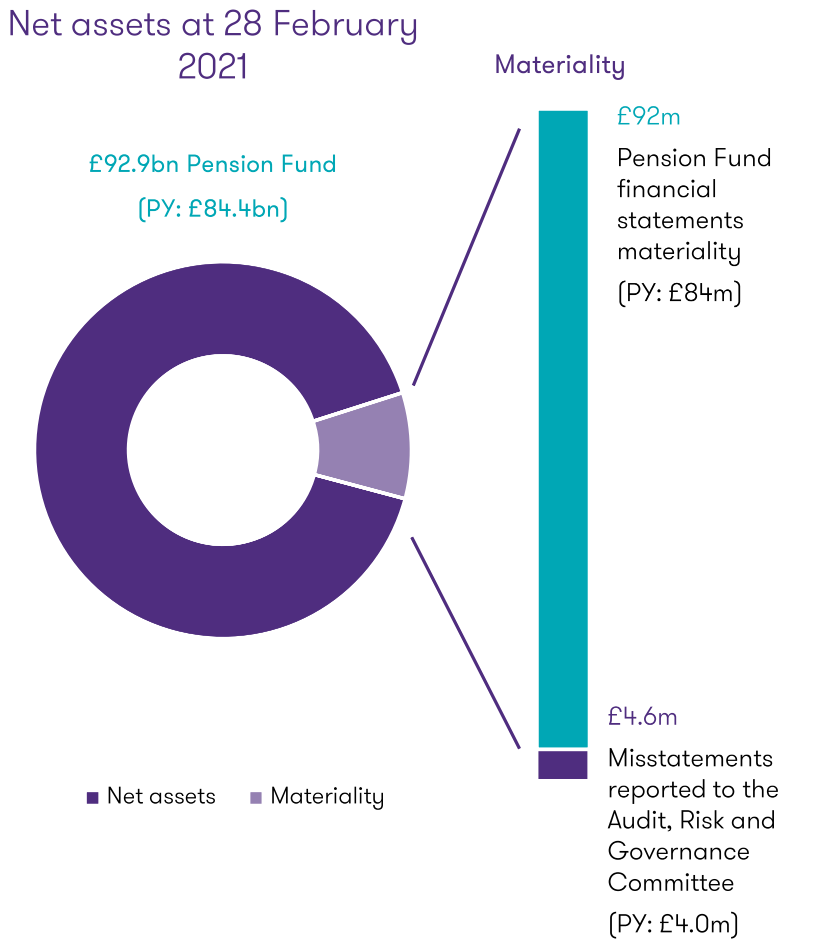
## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £92m (PY £84m), which equates to around 1% of your net assets as at 28/02/2021. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £10k for Senior officer remuneration disclosures.

## Matters we will report to the Audit, Risk and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.6m (PY £4.0m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.



# Audit logistics and team


Page 121
Page 27

### Paul Dossett, Key Audit Partner

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards.

### Andy Ayre, Audit Manager

Andy plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your the first point of contact for discussing any issues.

### Olalekan Ayilara, Assistant Manager

Olalekan's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

### Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

.

In 2018, PSAA awarded a contract of audit for Lancashire County Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £26,310. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit. As part of the 2019/20 actual fee noted below, we included an additional 15% due to the impact of Covid-19 as detailed in the 2019/20 audit findings report.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.




As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance. We would note that all fees need to be agreed with PSAA and that MHCLG have agreed to provide £15m to find local audit in 2020/21 as part of its response to the Redmond Review , issued in December 2020.

| | **Actual Fee 2018/19** | **Actual Fee 2019/20** | **Proposed fee 2020/21** |
|---|---|---|---|
| Lancashire County Pension Fund Audit | £27,810 | £36,000 | £39,300 |
| Total audit fees (excluding VAT) | £27,810 | £36,000 | £39,300 |

### Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

| | |
|---|---|
| Scale fee published by PSAA | £26,310 |
| *Ongoing increases to scale fee first identified in 2019/20* | |
| Raising the bar/regulatory factors | £1,500 |
| Enhanced audit procedures for Directly held Property | £1,250 |
| Enhanced audit procedures for Investments | £1,250 |
| *Additional work due to the impact of Covid-19* | £5,690 |
| ***Actual fee 2019/20*** | **£36,000** |
| ***New issues for 2020/21*** | |
| Increased audit requirements of revised ISAs | £3,300 |
| **Total audit fees (excluding VAT)** | **£39,300** |

# Independence and non-audit services



### Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us.  We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and .

### Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| Audit related | | | |
| IAS19 Assurance letters for Admitted Bodies | 9,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee  for this work is £9,500 in comparison to the total fee for the audit of £39,300 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Non-audit related | | | |
| None | | | |

# Independence and non-audit services



## Services provided by Grant Thornton UK LLP to Local Pensions Partnership

For transparency, we disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons mentioned below.

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Local Pensions Partnership<br>Authorised Contractual Scheme and investment funds structures audit | 354,770 | Self Review | This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public Sector arm of the Firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leads in place for the audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance relevant auditing standards and guidance. |
| Non-audit related | | | |
| None | | | |

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance  that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors  for implementation in 2020/21 audits and beyond.

| | Date of revision | Application to 2020/21 Audits |
|---|---|---|
| ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements | November 2019 | ✓ |
| ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK) | January 2020 | ✓ |
| ISA (UK) 220 – Quality Control for an Audit of Financial Statements | November 2019 | ✓ |
| ISA (UK) 230 – Audit Documentation | January 2020 | ✓ |
| ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements | January 2020 | ✓ |
| ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements | November 2019 | ✓ |
| ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector | November 2019 | ✓ |

# Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|---|---|
| ISA (UK) 260 – Communication With Those Charged With Governance | January 2020 | ✓ |
| ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment | July 2020 | |
| ISA (UK) 500 – Audit Evidence | January 2020 | ✓ |
| ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures | December 2018 | ✓ |
| ISA (UK) 570 – Going Concern | September 2019 | ✓ |
| ISA (UK) 580 – Written Representations | January 2020 | ✓ |
| ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) | November 2019 | ✓ |
| ISA (UK) 620 – Using the Work of an Auditor's Expert | November 2019 | ✓ |
| ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements | January 2020 | ✓ |

# Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|---|---|
| ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report | January 2020 | ✓ |
| ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information | November 2019 | ✓ |
| Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom | December 2020 | ✓ |

Grant Thornton

grantthornton.co.uk

# Agenda Item 7

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
None;

**Lancashire County Pension Fund - 2020/21 budget monitoring report**
Appendix 'A' refers

Contact for further information:
Sean Greene, 01772 530877, Head of Fund, sean.greene@lancashire.gov.uk

**Executive Summary**

Details of the financial performance of the Fund for the year ended 31 March 2021, with a comparison to budget and prior year results, are set out at Appendix 'A'. The data included in the Appendix forms the basis of the year end statutory financial statements.

**Recommendation**

The Committee is asked to review the financial performance of the Fund for the year ended 31 March 2021 and make comments on the variances outlined in the report.

**Background and Advice**

The budget for the financial year ending 31 March 2021 was approved by the Pension Fund Committee on the 6th March 2020.

Budgeted net income to the Fund for the year was estimated at £219.1m before accounting for changes in the market value of investments during the year. This would be available for investment.

Appendix 'A' sets out an adverse variance of £73.8m against budget for the financial year – an additional £59. 3m on the forecast reported to the committee on 12th March 2021. The key variances from budget are set out below. Please refer to Appendix 'A' for a more detailed breakdown of income and expenditure.

**Contributions income**

**Actual £416.3m (Budget £373.1m, forecast at Q3 £417.0m)**

Up-front payments for future service and deficit funding contributions were made by a number of employers within the Fund to cover amounts due for the 3 years to 31 March 2023. These prepayments amounted to £262.2m and were received by the Fund in April and May 2020. Accounting practice requires that these contributions be recognised on receipt rather than be allocated across the 3 financial years to which they relate. The actual income received in the year was higher than budget due to increased uptake of the prepayment option following the budget being set. Other factors include the above budget pay award granted to public sector employees in the financial year.

There was a reduction in the amount of contributions income received compared to the last forecast (Q3 2021). This has arisen mainly as an employer going into administration and exiting the fund had a surplus of £0.5m. The resultant repayment of a surplus has been offset against employer contributions.

**Transfers In**

**Actual £10.8m (Budget £12.5m, forecast at Q3 £10.0m)**

Income from transfers is dependent on the number and timing of new members joining the Fund and is not an item that can be predicted with great accuracy. The actual is within the anticipated range.

**Investment income**

**Actual £146.7m (Budget £214.5m, forecast at Q3 £174.3m)**

Investment income consists mainly of income from the pooled investment funds (85% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds. Over the year investment income received has been below budget by £67.8m.

As referenced in the budget monitoring paper presented to the Committee in March 2021, this has been primarily due to the economic impact of the pandemic. When making the last forecast the expected under recovery of investment income was £40.2m and there was some recovery in global equity distributions expected in the final quarter. However, this was not the case and the actual is £27.6m lower than previously forecast, due to:

- a significant proportion of this is the result of a delay in the distribution for the LPPI Infrastructure Fund which has fallen into the next financial year. Accounting practice is to recognise income on receipt so this will be reported in the next budget monitoring update; and

- Q4 distribution for the LPPI Global Equities Fund was lower than in previous periods, as a result of some companies within the GEF decreasing dividend payments due to the pandemic as well as a slight change in the composition of the portfolio which saw lower-dividend paying companies added.

**Total benefits payable**

**Actual £291.8m (Budget £289.5m, forecast at Q3 £291.8m)**

The forecast for the year is broadly in line with budget, with an overall adverse variance due to lump sum benefits being in excess of budget.

**Transfers out**

**Actual £16.5m (Budget £15.5m, forecast at Q3 £16.2m)**

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. The actual is broadly in line with expectations

**Investment management expenses**

**Actual £114.2m (Budget £70m, forecast at Q3 £82.8m)**

The majority (90%) of the budget was for fees on the pooled investments. These costs are not directly invoiced to the fund but are charged to the pools. However, in line with CIPFA guidance on the reporting of management expenses an accounting adjustment is made to reflect the costs in the accounts. These costs are calculated on the basis of fair value of the pooled investments, with a performance element also payable on some investment manager mandates. The fee information is collected from underlying fund managers in arrears – with some managers reporting only half yearly or annually. As a result, the 'actual' costs for the year include estimates based on previously reported information.

At the last monitoring – presented to the Committee in March 2021 - it was forecast that actual spend (for investment management fees on pooled investments) would be above budget for 2020/21 with an adverse variance of £15.5m. At the year end, actual spend has now risen by £31.4m resulting in a variance of £46.9m - this variance against budget is due to the following factors:

- Investment management costs are calculated on the basis of fair value of the pooled investments, with a performance element also payable on some investment manager mandates. During the year the value of the Fund's assets has increased from £8.4 billion to £9.5 billion and this increase will result in an increase in fees;

- There was a very strong market rally resulting in a number of the Fund’s Private Equity investments making substantial gains which also resulted in an increase in performance-related fees above the level anticipated in 2020.Additionally a high proportion of the Private Equity investments are mature, resulting in a higher level of distributions (and therefore performance related fees, which are often calculated on the distributions of realised investments);

- It should also be noted that some performance fees are paid once a threshold has been met then all the accrued fees to date are paid in that one period which can cover a number of years; and

- in the original budget set in 2020, there was some estimate of performance fees included. However, not all performance fees could be estimated and, as reported in last monitoring report, "It is the Fund's policy to not estimate performance fees

> since they are difficult to predict and can either be an expense or, less often, a reduced cost where negative performance is reflected in a mandate."

Therefore, although the variation in the quarter is large it is not totally unexpected.

Other expenses within this heading include LPP and other investment managers directly invoiced management fees which is showing a spend below budget for the year of £1.2m. The LPP direct costs are calculated on the basis of the market value of non-pooled assets, which is lower than budgeted. Reduction in market value of the non-pooled assets such as direct property holdings also reduces the non-pooled asset fees.

**Fund administration and oversight and governance fees**

**Actual £5.1m (Budget £5.1m, forecast at Q3 £5.1m)**

These cover the cost for administration expenses payable to Local Pensions Partnership Administration comprises core administration services, charged on a cost per member basis in addition to employer risk services and costs such as legal and actuarial fees incurred in running the fund.

**Consultations**

Local Pensions Partnership Investments Limited has been consulted for investment management fee and investment income analysis.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The full year financial performance is included in the Fund's annual report and statement of accounts for the year ended 31 March 2021. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| N/A | | |

Reason for inclusion in Part II, if appropriate

N/A

## Lancashire County Pension Fund
## Fund Account - Year ending 31 March 2021

| | PRIOR YEAR ACTUAL Year ended 31 March 2020 £'000 | BUDGET Year ending 31 March 2021 £'000 | ACTUAL Year ending 31 March 2021 £'000 | Forecast at previous qtr £000 | Change in forecast £000 | BUDGET VARIANCE Year ending 31 March 2021 £'000 | BUDGET VARIANCE Year ending 31 March 2021 % of budget |
|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | |
| **Contributions Receivable** | | | | | | | |
| From Employers | | | | | | | |
| Future service rate contributions | (101,486) | (294,554) | (327,386) | (328,290) | 904 | (32,832) | 11 |
| Deficit recovery contributions | (11,205) | (16,082) | (17,961) | (17,777) | (184) | (1,879) | 12 |
| Pension strain / augmented pensions | (2,752) | (5,037) | (6,432) | (6,824) | 392 | (1,395) | 28 |
| From Employees | (61,534) | (57,466) | (64,478) | (64,105) | (373) | (7,012) | 12 |
| **Total contributions receivable** | **(176,977)** | **(373,139)** | **(416,257)** | **(416,996)** | **739** | **(43,118)** | **12** |
| **Transfers in** | (17,018) | (12,463) | (10,761) | (9,979) | (782) | 1,702 | (14) |
| **Total Investment Income** | (212,631) | (214,494) | (146,700) | (174,324) | 27,624 | 67,794 | (32) |
| **TOTAL INCOME** | **(406,626)** | **(600,096)** | **(573,718)** | **(601,299)** | **27,581** | **26,378** | **(4)** |
| **EXPENDITURE** | | | | | | | |
| **Benefits Payable** | | | | | | | |
| Pensions | 239,299 | 245,702 | 246,868 | 246,539 | 329 | 1,166 | 0 |
| Lump Sum Benefits | 47,803 | 43,767 | 44,928 | 45,233 | (305) | 1,161 | 3 |
| **Total benefits payable** | **287,102** | **289,469** | **291,796** | **291,772** | **24** | **2,327** | **1** |
| **Transfers out** | 20,466 | 15,472 | 16,550 | 16,151 | 399 | 1,078 | 7 |
| **Refund of Contributions** | 1,073 | 716 | 768 | 730 | 38 | 52 | 7 |
| **Contributions Equivalent Premium** | 238 | 239 | (13) | 50 | (63) | (252) | (105) |
| **Investment management expenses** | | | | | | | |
| Investment management fees: | | | | | | | |
| LPP directly invoiced investment management fees | 1,922 | 2,100 | 948 | 810 | 138 | (1,152) | (55) |
| DIRECTLY INVOICED non LPP investment management fees - direct holdings | 2,277 | 1,385 | 662 | 758 | (96) | (723) | (52) |
| Investment management fees on pooled investments | 54,690 | 62,747 | 109,648 | 78,243 | 31,405 | 46,901 | 75 |
| Transition costs | 0 | 120 | 0 | 0 | 0 | (120) | (100) |
| Custody fees | 100 | 60 | 49 | 60 | (11) | (11) | (18) |
| Commission, agents charges and withholding tax | 1,323 | 1,500 | 1,092 | 1,425 | (333) | (408) | (27) |
| LCC recharge for treasury management costs | 58 | 58 | 58 | 58 | 0 | 0 | 0 |
| Property expenses | 6,574 | 2,000 | 1,764 | 1,432 | 332 | (236) | (12) |
| **Total investment management expenses** | **66,944** | **69,970** | **114,221** | **82,786** | **31,435** | **44,251** | **63** |
| **Fund administrative expenses** | | | | | | | |
| Administrative and processing expenses: | | | | | | | |
| LPP administrative expenses | 3,421 | 4,128 | 3,952 | 4,100 | (148) | (176) | (4) |
| Write off of bad debts | 1 | 10 | 5 | 10 | (5) | (5) | (50) |
| **Total administrative expenses** | **3,422** | **4,138** | **3,957** | **4,110** | **(153)** | **(181)** | **(4)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Oversight and Governance expenses** | | | | | | | |
| Performance measurement fees (including Panel) | 74 | 82 | 103 | 82 | 21 | 21 | 26 |
| Lancashire Local Pensions Board | | 15 | 9 | 10 | (1) | (6) | (40) |
| IAS19 advisory fees | (23) | (20) | 11 | 0 | 11 | 31 | (155) |
| Other advisory fees | 121 | 100 | 114 | 110 | 4 | 14 | 14 |
| Actuarial fees | 221 | 100 | 113 | 101 | 12 | 13 | 13 |
| Audit fees | 37 | 26 | 109 | 31 | 78 | 83 | 319 |
| Legal & professional fees | 88 | 60 | 28 | 14 | 14 | (32) | (53) |
| LCC staff recharges | 616 | 616 | 601 | 684 | (83) | (15) | (2) |
| Bank charges | 7 | 5 | 3 | 2 | 1 | (2) | (40) |
| **Total oversight and governance expenses** | **1,141** | **984** | **1,091** | **1,034** | **57** | **107** | **11** |
| **TOTAL EXPENDITURE** | **380,386** | **380,988** | **428,370** | **396,633** | 31,737 | **47,382** | **12** |
| **MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS** | **(26,240)** | **(219,108)** | **(145,348)** | **(204,666)** | **59,318** | **73,760** | **(34)** |

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
(All Divisions);

**Annual Governance Statement 2020/21**
(Appendix 'A' refers)

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
mukhtar.master@lancashire.gov.uk

**Executive Summary**

This report presents the draft Annual Governance Statement for the Lancashire County Pension Fund for approval.

The Annual Governance Statement is a review of the governance arrangements for 2020/2021 and, once approved, will be incorporated into the statement of accounts for Lancashire County Council.

This item is being considered earlier in the year than usual, due to the fact that the decision has been made to combine the LCPF and LCC Annual Governance Statements into a single Annual Governance Statement which will go to the Audit, Risk and Governance Committee for approval in July 2021.

**Recommendation**

The Committee is asked to approve the draft Annual Governance Statement for the Lancashire County Pension Fund as set out at Appendix 'A' to this report.

**Background and Advice**

The purpose of Annual Governance Statement is to enable those charged with the governance of the Fund to review the governance arrangements for the year. Once approved the Annual Governance Statement is incorporated into the statement of accounts.

It has been the case in previous years that a separate statement in relation to the Fund was required as the overall statement prepared by the County Council was not sufficiently detailed to cover the activities of the Fund to provide the necessary assurance. However, it has been decided from this year onwards to combine both the LCPF and LCC Annual Governance Statements into one single statement. This is because CIPFA guidance relating to LGPS Fund Accounts 2020/21 states that in England, where the pension fund accounts form part of the administering authority's statement of accounts then the AGS should also cover the pension fund. Therefore, this year the pension fund governance statement will be included rather than published as a separate document.

The draft statement set out at Appendix 'A' has been produced to ensure that members of the Committee in their role as "those charged with governance" in relation to the Fund are able to review and consider the adequacy of the Fund's governance arrangements and to provide assurance on governance as part of the process of preparing the Fund's report and accounts.

In compiling the Statement, reliance has been placed on the Pension Fund Governance Policy and the contractual arrangements with the Local Pensions Partnership Limited. In addition, the statement reflects the conclusions drawn by the Head of Internal Audit from her work in relation to the Fund during the year and her review of the internal audit of Local Pensions Partnership Limited.

**Consultations**

Head of Legal and Democratic Services and Head of Internal Audit.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

A sound Annual Governance Statement which reflects the reality of the operation of the Fund represents a key assurance for members that the control framework is operating appropriately to manage risk

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

| Paper | Date | Contact/Tel |
|---|---|---|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

# Lancashire County Pension Fund

# Draft Annual Governance Statement 2020/21

***Introduction***

The Lancashire County Pension Fund (the “Fund”) is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund. While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Ensuring that the Fund has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Lancashire County Council).

At 31 March 2021 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 177,843 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

***The Pension Fund's Responsibilities***

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, scheme members' money is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility, the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement – which was updated in January 2021 - is available through the following link appendix-a.pdf (lancashirecountypensionfund.org.uk)

In addition, the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance.  The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering

Good Governance in Local Government" (2016 edition). The Framework defines the seven core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance.

***The Purpose of the Governance Framework***

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2021.

**The Fund's Governance Framework**

The key elements of the systems and processes that comprise the Fund's governance framework are:

***The identification and communication of the Fund's objectives and intended outcomes to Fund members and employers***.

The Fund has clear objectives as outlined in the funding strategy statement and other strategy documents. It has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed on funding position, strategy and other developments. This is supported by the role of the Local Pension Board.

***Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements***

The Pension Fund Committee is responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives. In addition, periodic reviews of strategy statements and policies are undertaken.

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

***Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.***

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund – governance, asset and liability management, administration and communication. Many of these functions are now performed under contract by Local Pension Partnership Limited (LPPL). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities, cashflow and funding level.

Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk.

The administration service is undertaken by Local Pensions Partnership Administration Limited (LPPA), which is a subsidiary of LPPL. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the performance/activities of LPPA and the Head of Fund meets with representatives of LPPA on a quarterly basis.

***Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication***.

Appropriate guidance documents and constitutional documents provide the basis on which the management of the Fund is undertaken. The Terms of Reference of the Pension Fund Committee are set out in Article 7 of the Constitution of the County Council and include matters reserved to Full Council, Employment Committee and Officers (Head of Fund, Director of Corporate Services and the Section 151 Officer). The Investment Panel and the Lancashire Local Pension Board have separate Terms of Reference which are also set out in Article 7 of the Constitution. This information is also communicated in the LCPF Governance Policy Statement. In addition, agreements are in place covering the provision of services by LPPL and its subsidiaries.

***Development, communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.***

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of county council elections.

***Review of the effectiveness of the Fund's decision-making framework including delegation arrangements.***

The Pension Fund Committee reviews governance arrangements, decides on pension functions to be delegated to officers and appoints suitable advisors to the Investment Panel. The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

In addition, the Pension Fund Committee conducts an annual appraisal, with the purpose of reviewing and improving its efficiency and effectiveness.

***Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.***

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis.

The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund, including risks associated with managing scheme assets and pension liabilities;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk.

The Coronavirus global pandemic presents a major risk to the Fund. Therefore, in addition to the main risk register, the Fund continues to operate a risk register solely dedicated to Covid-19.

The risk register is reviewed quarterly to ensure that each risk is effectively managed or reduced and is regularly reported to the Pension Fund Committee and the Local Pension Board.

***Fulfilling the core functions of an Audit Committee***

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

***Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful***

The various LGPS Regulations (covering both the structure and benefits payable by the Fund and the investment of funds) and the Pension Regulator Code of Practice, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated in-house team that identify changes to regulations and monitor change using the risk register. LPPA has a Risk & Compliance function to ensure all administration activities comply with the Code of Practice and public sector pensions legislation and use a pension's administration system specifically designed for the LGPS. In addition, the Pension Fund Committee and Local Pension Board have specific roles regarding compliance activities.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPPL's custodian. Local Pensions Partnership Investment Limited (LPPI) - the investment arm of LPPL - is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

***Assurance provided by internal audit***

Assurance over the Pension Fund is available to the Council from its own Internal Audit Service, and work undertaken by Deloitte for the Local Pension Partnership Limited (LPPL).

| Audit work | Assurance |
|---|---|
| **Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service** | |
| Recovery of overpayments | Limited |
| Accounting through the council's general ledger | Substantial |
| **Assurance provided by Local Pensions Partnership Limited own internal auditors** (Note that Deloitte disclaims any liability to the county council) | |
| **LPPA** | |
| Benefits administration calculations | Effective |
| Benefits administration: quality assurance and on hold process review | Effective with scope for improvement |
| Data quality | Effective |
| **LPPI** | |
| Investment valuations – Phase 1 | Ineffective; but all high-risk actions have subsequently been closed |
| Investments portfolio monitoring | Effective with scope for improvement |

| Audit work | Assurance |
|---|---|
| Senior manager certification regime (SMCR) | Effective with scope for improvement |
| Cyber security follow-up | All actions arising have been closed |

***Whistle blowing and receiving and investigating complaints from the public***

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually to the Local Pensions Board.

***Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.***

The Training Policy of the Lancashire County Pension Fund sets out the approach to support the learning/development needs of individuals with responsibility for the strategic direction, governance and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition, prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake continuing professional development relevant to their role.

***Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.***

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Member communications – such as Annual Benefit Statement for active members and newsletters for active, deferred and pensioner members;
- Engagement events – including workshops, conferences and guidance materials provided to employers;
- Fund website - provides information about investments and governance arrangements, as well as all relevant fund publications;
- Member website and portal - which contains transactional capability for members and employers;
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

***The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.***

The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the pension fund is LPPL. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement The Role of the Chief Finance Officer in Local Government, and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

***Review of Effectiveness***

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2020/21 were:

- Monitor the impact of Covid19 with the continued development and monitoring of a separate risk register;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPPL including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken by LPPA on employer risk. This work is being brought in-house from 1 April 2021.

***Actions Planned for 2021/22***

The following specific actions are proposed for during 2021/22:

- To develop an employer risk framework and effective in-house employer risk services;
- Planning and preparation work for the 2022 valuation, including engagement with employers;
- Review the governance arrangements of the Fund in light of the implementation of a single code of practice and expected government response to the Good Governance Project by the Scheme Advisory Board;
- Implementation of the regulations following the McCloud judgement in line with statutory deadlines;
- To undertake a Service Based Review of LPP and its subsidiaries.

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
None;

**Annual Report - Lancashire Local Pension Board**
(Appendix 'A' refers)

Contact for further information:
Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer,
mike.neville@lancashire.gov.uk

**Executive Summary**

The Annual Report of the Lancashire Local Pension Board is presented for consideration by the Committee. If approved the annual report will be incorporated into the Lancashire County Pension Fund Annual Report for 2020/21.

**Recommendation**

That the amended Annual Report of the Lancashire local pension Board, as set out at Appendix 'A' to this report, is recommended to the Pension Fund Committee for approval and inclusion in the Lancashire County Pension Fund Annual Report.

**Background and Advice**

At the meeting on the 20th April 2021 the draft Annual Report for the Pension Board (which highlighted key areas of activity undertaken during 2020/21 and included information on attendance at meetings, participation in training and the cost associated with the operation of the Board) was presented. After considering the draft the Board **Resolved:**

1. That, subject to an amendment to show Mr T Pounder as having attended the Board on 19th January 2021, the 2020/21 Annual Report of the Lancashire Local Pension Board, as set out at Appendix 'A' to the report presented, is approved.

2. That the Annual Report referred to at 1 above is recommended to the Pension Fund Committee on the 18th June 2021 for approval and inclusion in the Lancashire County Pension Fund Annual Report.

After the meeting the draft was updated with regard to Mr Pounder's attendance in accordance with the Board's decision. However, while preparing some other information for inclusion in the LCPF Annual Report Officers realised that some of the figures in the approved draft regarding Board member attendance at training events was incorrect. As result the training information was reviewed and the draft amended. A table on Board member attendance at meetings was also updated so that so that it included the 20th April 2021 meeting, completing the 2020/21 programme of four meetings as reported in previous Annual Reports for the Board. The Chair of the Board was consulted on the amendments and agreed them.

A copy of the updated draft Annual Report was then circulated for approval using the Written Resolution Procedure whereby all Employer/Scheme Member representatives on the Board are consulted by email on the proposal and asked to indicate whether or not they support the recommended course of action. The decision of the Board will be based on a simple majority of the responses received and will be reported to the subsequent Board in July so that it is a matter of record. The Chair of the Board also receives a copy of the written resolution for his information but is not entitled to vote.

Members of the Pension Board were consulted on the written resolution below on the 28th May 2021 and sufficient positive responses received for the resolution to be passed.

**Written Resolution of the Lancashire Local Pension Board – 12th May 2021**
**Revised 2020/21 Annual Report of the Lancashire Local Pension Board.**

**Resolved:**

1. That the amended version of the 2020/21 Annual Report of the Lancashire Local Pension Board, attached as Appendix 'A' is approved and substituted for the one agreed by the Board on the 20th April 2021.

2. That the amended Annual Report referred to at 1 above is recommended to the Pension Fund Committee on the 18th June 2021 for approval and inclusion in the Lancashire County Pension Fund Annual Report.

The amended Annual Report, as approved by the Pension Board is attached as **Appendix 'A'** to this report.

**Consultations**

All members of the Pension Board.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

There are no risks associated with this report.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| N/A | | |

Reason for inclusion in Part II, if appropriate
N/A

**Lancashire Local Pension Board – Annual Report 2020/21**

The Lancashire County Pension Fund's Local Pension Board (the Board) has been up and running for nearly six years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee (the Committee) and we are not an executive body. Because Board members explicitly represent either employers or scheme members, we also have a representative role in the governance structure of the Fund.

After six years, the Board has established an effective way of using its members' expertise to add value to the Committee's work. We create an annual Work Plan to ensure that we cover all the activities we should and that our workflow is aligned with that of the Committee. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the Committee. If we believe something requires particular attention, we may make a formal recommendation which requires a response.

We are always aware that our role is to assist the Committee and a good relationship between the two bodies is absolutely essential. I meet with County Councillor Pope (Chair of the Committee) regularly and participated in as many Committee meetings during the year as I was able to. We also regularly welcome County Councillor Pope to meetings of the Board, and I can confidently assert that the two bodies work closely together.

This year has been extraordinary because of the various restrictions imposed as a result of the Covid-19 pandemic. At an operational level the Fund, and to a large extent the Local Pensions Partnership (LPP) staff who provide the bulk of services to the Fund, have worked from home. Our focus this year has therefore been on monitoring the maintenance of service levels to employers and members. I discuss this in more depth later on.

**Membership of the Pension Board**

The Board has nine members: four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve a maximum eight-year term, except for the Chair whose period of office is four years. Apart from the Chair, none of the Board members are remunerated other than for expenses incurred in attending meetings or training.

During the year, there were two changes to the membership of the Board. County Councillor Matthew Salter replaced County Councillor Peter Britcliffe as one of Lancashire County Council (LCC) representatives and after the meeting in January 2021 Keith Wallbank, a Scheme Member representative, resigned. Following advertisement and interviews, this vacancy is to be filled by Kevin Ellard, who will attend his first meeting in July 2021 following formal approval of the appointment by full Council. I would like to thank Peter and Keith for their time on the Board.

The Board had to cancel its April 2020 meeting because County Council policies imposed under the pandemic restrictions did not at that time allow meetings either in person or by webinar. Instead reports for information that would have been discussed at the meeting, including our regular activities, matters considered by the Committee and an update on administration and investments during the pandemic, were circulated to all members by email.

All four meetings in the period covered by this report were held by webinar and we have in place a process for making decisions electronically where that is required. Like many other organisations, we have found that virtual meetings are not as satisfactory as face to face but it has been possible for us to fulfil our duties. They have, however, made it easier for Fund Officers or other presenters to attend our meetings to support the reports on the agenda. We hope to be able to return to in-person meetings in July 2021.

The Board has a budget to cover both its expenses and to allow it to commission reports if required. During the year the cost of running the Board came to £8,649.15.

**Attendance of Board members at meetings.**

Each year the Board agrees a programme of four meetings, the first being in July followed by meetings in October, January and April so that each Board meeting follows a meeting of the Pension Fund Committee. Details of individual members' attendance at Board meetings together with in year changes to the membership of the Board, are set out below.

| Name | Representing | 14th July 2020 | 13th October 2020 | 19th January 2021 | 20th April 2021 |
|---|---|---|---|---|---|
| W Bourne | Independent Chair | ✓ | ✓ | ✓ | ✓ |
| County Councillor M Salter | Employer rep – LCC | ✓ | ✓ | ✓ | ✓ |
| T Pounder | Employer rep - LCC | ✓ | Apologies | ✓ | ✓ |
| S Thompson | Employer – Unitary, City, Borough, Police & Fire | ✓ | ✓ | ✓ | Apologies |
| C Gibson | Employer rep - Others | ✓ | ✓ | ✓ | ✓ |
| K Haigh | Scheme Member rep | ✓ | ✓ | ✓ | ✓ |
| Y Moult | Scheme Member rep | ✓ | ✓ | Apologies | ✓ |
| D Parker | Scheme Member rep | ✓ | ✓ | ✓ | ✓ |
| K Wallbank | Scheme Member rep | ✓ | ✓ | ✓ | Resigned |

**Changes to the membership of the Board**

County Councillor M Salter replaced County Councillor P Britcliffe as an employer representative (Lancashire County Council) on the Board in June 2020. Subject to approval by full council Mr K Ellard will fill the vacancy for a scheme member representative on the Board following the resignation of Mr K Wallbank on the 20th January 2021

**Training**

The Board is under a legal obligation to ensure its members maintain their levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual efficiency review, which becomes an agenda item at our next meeting. Internal training workshops during this year were conducted by webinar in conjunction with the Committee, with recordings being made available for those unable to attend. This appeared to increase participation levels considerably and in future the majority of Fund training is likely to be done in this way. Board members will still have opportunities to attend external training events during the year and are expected to complete the online training modules from The Pension Regulator's Public Service toolkit.

**Internal training workshops**

July 2020 - Asset safety and cyber security.
September 2020 - Feedback from the Investment Panel following review of the LCPF Funding Strategy Statement
November 2020 - The new responsible investment Dashboard report for Pension Fund Committee.
January 2021 - Update from Local Pensions Partnership Administration.
February 2021 - Local Pensions Partnership Budget.
March 2021 - Local Pensions Partnership Communications and the new LCPF website.

Note - The Board also received a presentation in advance of the meeting on the 13th October 2020 regarding internal audit assurance over the Lancashire County Pension Fund.

The table below shows the number of internal/external training events which individual Board members have attended during the period 1st April 2020 to 31st March 2021.

| Name | Internal events | External Events |
|---|---|---|
| W Bourne | 6 | 1 |
| County Councillor M Salter | 6 | 0 |
| T Pounder | 5 | 0 |
| S Thompson | 5 | 0 |
| C Gibson | 3 | 1 |
| K Haigh | 7 | 0 |
| Y Moult | 6 | 0 |
| K Wallbank | 3 | 0 |
| D Parker | 8 | 1 |

Note – the number of external events held during 2020 was significantly reduced due to the Covid-19 pandemic though some events were held remotely.

Further information about the Board, including minutes and public papers, can be viewed on the Lancashire Pension Fund website at the following link - lancashirecountypensionfund.org.uk

**Activities**

The year was dominated by the challenges presented to all pension funds by the Covid-19 pandemic. The Local Pension Partnership (LPP) responded admirably to the national imposition of working from home. While there was some impact in the initial months as processes were re-organised, their administration team were quick to adapt to the new working environment. The Board received regular updates at meetings and between them in the early days.

The separation of LPP's administration and investment functions into two independent units, Local Pensions Partnership Administration (LPPA) and Local Pensions Partnership Investments (LPPI), has led to some challenges. The Board is supportive of the decision to create two more focused entities but needs to assure itself that there will be cost and efficiency savings from returning some of the shared functions, such as IT and Human Resources, back to the Fund. For example, it now has to find resource from within the County Council to support its own website rather than relying on LPP resources.

Regardless of the consequences of the pandemic, the core of the Board's work remains one of oversight. At every meeting, we look at any breaches of the regulations and consider the Key Performance Indicators agreed with LPP as indicators or performance levels. I mentioned last year that we were looking for a full review of these and during the year LPPA developed considerably more detailed Key Performance Indicators which have improved our ability to monitor and comment on the data. This should help us understand how effectively the Fund is delivering its services to members and thereby assist the PFC in the crucial role of monitoring LPPA's performance properly.

Over the year, in our scrutinising role alongside the Committee, we reviewed the Fund's Responsible Investment Policy, compliance with the Stewardship Code and The Pension Regulator's Code of Practice, the Risk Framework, the Governance Statement, and the Admissions and Terminations policy. The wide range of expertise among Board members as well as their experience as users, either employers or members of the Fund, means the Board is well placed to provide useful and relevant feedback to the Committee.

We have spent significant time on the Internal Audit function. Our concern here, which I have mentioned in previous reports, is that the assurance statements we receive from LPP (in future LLPA and LPPI) depend on their internal control processes and functions operating correctly. We are not able to see the detail of LPP's own internal audit reports and the scope of the County Councils internal audit of the Fund's operations does not cover LPPA, where the bulk of the work is done. In the absence of any independent verification the Board can only place partial reliance on LPP's assurance statements. We therefore proposed the commissioning of an external report to provide us with independent assurance on LPP's internal controls. At the time of writing an initial update on progress is expected to be presented to the Board in April 2021.

One of the Board's formal objectives is to assist the Committee in ensuring the Fund is managed efficiently and effectively. As part of this we review changes to the risk register at every meeting and have offered some suggestions on the format so that it is able to provide timely pointers where the Committee should focus its attention. This is still a work in progress, but I believe it will, in due course, form another part of the continuous improvement in the Fund's governance.

A lot of regulatory change is expected in the next year. The Pensions Regulator is reviewing the Code of Practice 14 which the Local Government Pension Scheme falls under and has launched a consultation on its proposal to combine it with nine other codes covering pension funds. The Ministry for Housing, Communities and Local Government is also expected to publish new guidance on maintaining investment strategy statements, including further requirements on pooling in 2021. The recommendations made in the Scheme Advisory Board's Good Governance project are likely to be implemented in separate new statutory guidance. Finally, new legislation is expected to increase the requirements to disclose pension funds' exposure to climate change risks.

The Board's role will be to act as a second pair of eyes to help the Committee ensure the Fund is compliant with these changes as they become legal or regulatory requirements.

Under the Board's Terms of Reference, I am required to make a statement in respect of my annual review of the Board's effectiveness. I conducted this in January 2021, and the recommendations I made were relatively minor as reported to the Board in April 2021. I believe the Board operates effectively and efficiently and is able to fulfil its legal and regulatory requirements fully.

I would like once again to finish by thanking the officers at the County Council who support us in our duties, and in particular to thank Abbi Leech (Head of Fund) who left the Council towards the end of 2020 , Michelle King who took over as Interim Head of Fund and welcome Sean Greene who has recently been appointed to the role. As part of the annual review I speak individually to each Board member and I can record full agreement that in a year which was more challenging than most we have been ably and effectively supported by the whole team. I am again delighted to recognise that publicly in this report.

**William Bourne**, Independent Chair of the Lancashire Local Pension Board
April 2021

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
(All Divisions);

**Lancashire County Pension Fund - Inter-valuation contribution review policy/Admission and Termination Policy**
(Appendices 'A' and 'B' refer)

Contact for further information: Colin Smith, 01772 534826, Technical Pensions Lead, colin.smith@lancashire.gov.uk

**Executive Summary**

Following a review and consultation with employers, drafts of the updated Admission and Termination policy and a new inter-valuation contribution review policy have been finalised, as set out in the Appendices to this report.

Draft versions of both policies were presented to the Committee on 12th March 2021 and were subsequently referred to employers for comment. The consultation period has now expired and, as no comments were received which require the drafts to be amended, they are presented for approval.

**Recommendation**

The Pension Fund Committee is asked to approve the inter-valuation contribution review policy and the Admission and Termination policy set out at Appendix 'A' and Appendix 'B' respectively.

**Background and Advice**

The current admission and termination policy has been in place since August 2020 when the policy was amended to incorporate further changes to legislation covering exit credits, allowances for the on-going effects of the McCloud judgement and generally to bring the policy in line with the Funding Strategy Statement which had been amended in March 2020.

This latest review incorporates changes to legislation covering provisions introduced by the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 which were laid on 27 August 2020 with an implementation date of 23 September 2020.

The changes were made following discussions with our actuaries and now, following the closure of a consultation with the employers in the Fund where no responses were received, the policy statements remain unchanged from the drafts approved at the last Committee and are set out in Appendices 'A' and 'B' for approval.

A summary of the key changes as previously reported at the last Committee are set out again below for ease of reference.

The policies reflect the employer flexibilities that now exist around employer risk and are intended to allow the Fund to have the flexibility to react appropriately to the wide range of circumstances that may occur, particularly on termination.

In summary the main changes to the admission and termination policy are the inclusion of options to spread termination payments and allowances for deferred debt agreements. The policy on each is broadly similar in that the Fund will consider applications, basing decisions principally on the best interests of the Fund and the covenant and circumstances of the outgoing employer.

In terms of the new Inter-valuation contributions review policy, the new regulations provide the Fund with the ability to review employer contributions between valuations. The Fund and employers now have the following flexibilities:

- The Fund may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

- The Fund may review the contributions of an employer where there has been a significant change in the employer’s covenant.

- An employer may request a review of contributions from the Fund if they feel that either point 1 or point 2 applies to them.

This draft policy details the Fund’s approach on reviewing employer contributions between valuations, including the circumstances under which a review may take place, and the methodology of that review.

The Fund, in maintaining employer contributions at appropriate levels, aims to mitigate risk as far as possible, within its risk management framework. The inter-valuation contributions review policy reflects this framework.

**Consultations**
Mercers – Fund Actuary
Scheme Employers participating in the Lancashire County Pension Fund

**Implications**:
This item has the following implications, as indicated:

**Risk management**
It is good practice to review the policy to ensure it is up to date and that the Fund and participating employers are protected from the downside risk of an employer exiting.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| N/A | | |

Reason for inclusion in Part II, if appropriate
N/A

Appendix A

# INTER-VALUATION CONTRIBUTION REVIEW POLICY

# Lancashire County Pension Fund

**JUNE 2021**

**Lancashire County Council**

**lancashirecountypensionfund.org.uk**

Lancashire County Council as administering authority of Lancashire County Pension Fund

## A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on reviewing employer contributions between valuations, including the circumstances under which a review may take place, and the methodology of the review. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS), and is to be considered part of that document.

## POLICY OBJECTIVES

### *RISK MITIGATION*

The Fund, in maintaining employer contributions at appropriate levels, aims to mitigate risk as far as possible, within its risk management framework. The inter-valuation contributions review policy reflects this framework.

### *EFFICIENT PROCESSES*

The Fund aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

### *COSTS OF MANAGING CONTRIBUTION REVIEWS*

Where an employer instigates the review, the Fund may pass on relevant adviser costs to the employers being reviewed, and will also recover its own costs from employers, but will aim to conduct the reviews in a manner that seeks to minimise these costs. Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

## B – CONTRIBUTION REVIEWS

### BACKGROUND

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

- The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

- The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

- An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

*Regulation reference: Regulation 64A of the Local Government Pension Scheme Regulations 2013/2356*

### POLICY STATEMENT

The Fund may conduct a review when:

- There has been a significant changes to the employer's membership which will have a material impact on their liabilities.
- There has been a significant change in the employer's covenant

Where the funding position for an employer significantly changes solely due to a change in assets (and/or changes in actuarial assumptions), contribution reviews are not permitted. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change.

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the [6] months leading up to the next actuarial valuation date.
- However, where there has also been a material change in covenant, a review will be considered on a case by case basis which will determine if and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

The employer would be required to pay the costs of any review conducted at their request following completion of the calculations and is only permitted to make a maximum of [two] requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority). Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

## SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

***1) Significant changes in the employer's liabilities***

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of an employer
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iii. A bulk transfer into or out of the employer
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals

b) Two or more employers merging including insourcing and transferring of services

c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than [5%] of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions.

***2) Significant changes in the employer's covenant***

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

c) Where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's covenant.

Whilst in many cases the regular covenant monitoring requested by the Administering Authority will identify these changes, in some circumstances (for example where a Deferred Debt Agreement is in place) employers will be required to agree to notify the Administering Authority of any material changes that may affect their covenant. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements.

Additional information may be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where there has been a significant change to employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy.

## PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

# Admission and Termination Policy

# Lancashire County Pension Fund

**JUNE 2021**

**Lancashire County Council**

**lancashirecountypensionfund.org.uk**

Lancashire County Council as administering authority of Lancashire County Pension Fund

## A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an employer's participation in the LCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS), and is to be considered part of that document.

### POLICY OBJECTIVES

#### *RISK MITIGATION*

The Fund, in managing the admissions and exit process, aims to mitigate risk as far as possible, within its risk management framework. The admissions and exit process reflects this framework.

#### *EFFICIENT PROCESSES*

The Fund, in managing the admissions and exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

#### *COSTS OF MANAGING ADMISSIONS AND TERMINATIONS*

The Fund will pass on relevant actuarial costs to both new and terminating employers but at the same time operate a model that seeks to minimise these costs. The Fund will also recover its own costs from employers and apply a charging framework that encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.

It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.

#### *LCPF 'DEFAULT' POSITION*

This policy has been subject to consultation with employers in 2020 and 2021.Where the term 'default position' is used within this policy it is assumed that any existing or aspirant employer has made itself aware of, and accepts, existing policy and practice, unless specifically stating otherwise. In practical terms this means where there is a requirement (on the Fund) to consult with employers around aspects of the admissions/entry process, the Fund will assume employers accept its default position unless the employer expressly states otherwise. Should an employer wish to deviate from the Fund's default position then the Fund's charging framework will reflect the additional cost of doing so.

The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members who transfer to another employer, as a result of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement, retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.

*Please see the glossary for an explanation of the terms used throughout this document*.

## B - ENTRY TO THE FUND

### BACKGROUND

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme (LGPS) (the "Regulations"). Unlike other employers, such as county councils, district councils, academies and further and higher education corporations, who are named within the Regulations as bodies having an automatic right to participation in the LGPS, admission bodies do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the LGPS.

The Council as Administering Authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status MUST be submitted to the Council, as Administering Authority, in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should be submitted at least three months before the proposed transfer or admission date.

*Regulation reference: Regulation 3 (5), 4 (2) (b) and Schedule 2 part 3 paragraph1 and 12 (a) of the Local Government Pension Scheme Regulations 2013/2356*

The regulations above detail the criteria under which an admission body may enter into an admission agreement with the Lancashire County Pension Fund. Those criteria are set out below specifically under the terms of Schedule 2 Part 3 paragraph 1 and Regulation 4 (2) (b):

*Schedule 2 Part 3 paragraph 1*

a) *a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);*
b) *a body, to the funds of which a Scheme employer contributes;*
c) *a body representative of*
    i. *any Scheme employers, or*
    ii. *(ii) local authorities or officers of local authorities;*
d) *a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
    i. *the transfer of the service or assets by means of a contract or other arrangement,*
    ii. *a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),*
    iii. *directions made under section 497A of the Education Act 1996;*
e) *a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme*

*Regulation 4 (2) (b)*

*Where a person's entitlement to be a member of an NHS Scheme is by reason of employment by—*

- *i. a Care Trust designated under section 77 of the National Health Service Act 2006,*
- *ii. an NHS Scheme employing authority as a result of a prescribed arrangement under section 75 of that Act, or section 33 of the National Health Service (Wales) Act 2006, or*
- *iii. the Care Quality Commission as a result of a transfer of employment from the Commission for Social Care Inspection, in connection with its dissolution under Part 1 of the Health and Social Care Act 2008;*

*Then that person can be designated as eligible for membership of the Scheme in an admission agreement made between an Administering Authority and one of the bodies specified in (i) to (iii) above if the person was an active member immediately before becoming employed by one of those bodies; and the person is not an active member of an NHS Scheme in relation to that employment.*

## POLICY STATEMENT

**a) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (d) (i) (formerly known as Transferee Admission Bodies)**

Admissions under this criterion relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement. The Fund's policy is to accept these admissions but may not do so if there are unaddressed concerns around the prior compliance, with the Fund's Pensions Administration Strategy Statement (PASS), of an existing admitted employer. The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers proactively to ensure they understand and meet PASS commitments.

Unless exceptional circumstances are identified the Fund's default position will be for the admitted body to commence from a 100% funded position and be closed to all but those eligible employees identified at the point of transfer.

In addition where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and Administering Authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund. The Fund reserves the right to insist on security even if the transferring employer does not agree.

**b) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Regulation 4 (2) (b)**

An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.

**c) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (a) (formerly known as Community Admission Bodies) and the remaining criteria under schedule 2 Part 3 excluding a) above**

The Fund will expect an existing scheme employer to act as guarantor in respect of an admission (normally the Fund will require this to be a scheduled body of suitable standing). Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Head of the Lancashire County Pension Fund.

Where an admission is agreed, following a risk analysis agreed by the Administering Authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund.

In all cases an admission body must accept and agree to meet the conditions of participation detailed at Appendix 1 and the clauses set out within Lancashire County Pension Fund's standard draft admission agreement.

The value of any bond may be reviewed by the Fund periodically, and where appropriate the Fund may require an increase in (or reduction of) any bond as required. Similarly, the Fund may review the value of any security, and require additional protection where this is deemed necessary.

The Fund's default position is that it will not amend its standard Admission Agreement template; should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £35 per hour

## FUTURE SERVICE CONTRIBUTION RATES AND DEFICITS

In line with the philosophy of minimising costs for all involved, the Fund will use models (where possible) provided by the Fund actuary which will set interim future service contribution rates (FSR) and deficits according to the principles set out below.

Models are used in respect of new academies, Parish or Town Councils and the admission of an employer in respect of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement (in certain circumstances).

Where the parameters fall outside those specified within the models below, admissions will normally involve a full actuarial assessment of relevant parameters. Any risk issues will be addressed by the Fund with a view to minimising risk exposure to itself.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However, the Administering Authority reserves the right to determine that an employer specific deficit recovery period will apply.

### *1 - ACADEMIES*

The new Academy will generally be an ex-Local Education Authority (LEA) school from one of the Fund's three employers with LEA status. Where this is the case:

- The FSR will be set at the previous employer's existing FSR rate, which will apply until the next valuation

- The opening deficit will be calculated using an actuarial model which allocates a share of the LEA's deficit at the most recent valuation of the Fund, such that the academy’s deficit contributions are the same before and after conversion

- The deficit recovery period will be consistent with that of the LEA

At the next valuation a 'stand-alone' FSR and deficit will be calculated by the Fund's actuary. The Fund's general deficit recovery policy will be used to determine deficit payments, unless its risk management framework determines that a different period be applied, either at the academy creation stage or at subsequent triennial valuations

Where a new academy joins the Fund as an independent free school or via its status as part of a multi-academy Trust which is already a Fund employer, and where the pre-Academy status school was not the responsibility of either Lancashire County Council, Blackburn with Darwen Borough Council or Blackpool Borough Council, no opening deficit will typically be assigned. The FSR applied will initially match the LEA area in which the multi academy trust or stand-alone free school is based. At the next triennial valuation a 'stand-alone' FSR and deficit will be assigned to the new academy based on their individual circumstances.

Academies which were previously schools under an LEA outside of the three existing LCPF LEA employers will only be able to join LCPF if they join a Multi Academy Trust (MAT) which is already a Fund employer. If an academy leaves one MAT and joins another which is not a LCPF employer, any deficit will be allocated to the previous MAT.

Given that there are a growing number of academy chains (or multi academy trusts), which operate as single employers with common policies in regard to issues such as ill health and early retirement and common sets of employer discretions, the Fund will offer the option of pooling to academy chains as part of subsequent valuation exercises.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

### *2 – PARISH OR TOWN COUNCILS*

Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved. The factors cover future service only, and so assume that the employer is fully funded on admission. If this is not the case then cases are referred to the Fund actuary for assessment.

Similarly, cases will also be referred to the Fund actuary if any member has an earlier period of LGPS service that they wish to link to service with the Parish or Town Council or, additionally, where exceptional circumstances are identified.

The temporary FSR will apply until the next valuation, at which stage a 'stand-alone' FSR for the Parish or Town Council will be calculated by the Fund actuary.

The proforma provided by the Fund actuary to establish the temporary rates will be updated following each valuation of the Fund.

### 3 –PROSPECTIVE ADMISSION BODIES FALLING UNDER SCHEDULE 2 PART 3 1 (D) (I) (FORMERLY KNOWN AS TRANSFEREE ADMISSION BODIES)

**SMALL CONTRACTORS**

Admission agreements often relate to bodies that have taken on work on behalf of a scheme employer by means of a contract. Such bodies will have an opening FSR matching the transferring employer's FSR where the criteria set out below are met (unless the body and the outsourcing scheme employer agree otherwise at the outset of the contract):

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under these circumstances the FSR used throughout the lifetime of the contract will that of the original transferring employer (including any changes following triennial valuations).

Under this approach the original transferring employer assumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In particular, where an admission takes place under this approach, then both the admission body and original transferring employer accept that the admission body is not entitled to any exit credit, or responsible for any termination payment, when the admission agreement ends.

**OTHER ADMISSION BODIES**

Where the above criteria are not met, then, at the point of admission, the FSR will be set by the Fund actuary, and reassessed at each following valuation. At the end of the admission any identified deficit or surplus will be dealt with in line with the approach set out in section C of this policy document. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In line with the approach adopted for the 2019 valuation, the FSR and deficit (where applicable) at the point of admission will not include any employer-specific allowance for the “McCloud” judgment, but will be calculated using the 2019 valuation assumptions which included a margin of prudence in respect of the judgment. The employer will be informed of the potential McCloud cost for their specific membership for budgeting purposes.

### ALTERNATIVE APPROACHES

Transferring employers will be able to propose the use of other models, security arrangements or termination deficit calculations. However the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach Fund permission will be required and any additional costs incurred will be passed on to the admission body and/or transferring employer (as appropriate).

## C - EXITING THE FUND

### BACKGROUND

Lancashire County Pension Fund must obtain an actuarial assessment showing the exit position when a body ceases to be a scheme employer or no longer has any active members. This exiting employer may, depending on the details of their admission to the Fund, be liable for the exit position, be this a "termination payment" due to the Fund or an "exit credit" due to the exiting employer. This applies equally to all scheme employers participating in the fund, regardless of whether an admission agreement is in place. The purpose of settling of the exit position is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit, and that any excess assets above this are allocated appropriately.

Once the exiting employer has left the Fund their assets and liabilities within the Fund, including any termination payment that cannot be recovered from the exiting employer, will become the responsibility of the guarantor or successor body within the Fund where one exists, or the responsibility of the Fund as a whole (i.e. all scheme employers) otherwise.

This document sets out the Fund's standard polices when employers exit the Fund. However, the Fund reserves the right to apply a different approach should individual circumstances warrant it.

*Regulation reference: Regulation 64 of the Local Government Pension Scheme Regulations 2013/2356;*

### POLICY STATEMENT

A termination assessment will normally be carried out for bodies who cease to be a scheme employer within Lancashire County Pension Fund, the actuarial cost of which will be charged to the exiting employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer as detailed in part B (section 3 – small contractors) of this policy statement.

### EXIT CREDITS AND TERMINATION PAYMENTS

The Fund's policy on termination payments and exit credits is:

a) **Where there is no Fund guarantor** any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus assessed on the termination assumptions will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then "orphaned", and so become the responsibility of the Fund as a whole (i.e. all scheme employers).

b) **Where a guarantor exists** who would subsume the assets and liabilities of the outgoing employer, **and there is no "risk-sharing" arrangement** (meaning the exiting employer is responsible for their final position in the Fund), any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then the responsibility of the guarantor. (Depending on circumstances, the Fund may demand immediate payment of any unrecovered termination amount from the guarantor).

c) **Where a guarantor exists and there is a risk sharing agreement**, the assets, liabilities and any deficit or surplus will be subsumed by the guarantor (this will be adjusted as appropriate in any cases where there is a partial risk sharing arrangement).

Where a guarantor attempts not to underwrite the residual liabilities, the Fund will challenge this (and seek to recover any related costs from the guarantor). However should the guarantor be successful, the basis of assessment on termination will assume the liabilities are orphaned and thus the "corporate bond" approach will apply (as detailed in the "funding assumptions for termination calculations" section below).

### *EXIT CREDITS AND TERMINATION PAYMENTS – EMPLOYERS WITH A GUARANTOR*

Where an exiting employer has a guarantor within the Fund, other than for "small contractors" as defined above, it will be necessary to determine which of b) and c) above applies. In such cases the Fund's policy will be as follows:

- The Fund will contact both the exiting employer and the guarantor to confirm whether there is a "risk-sharing" arrangement in place, and to ask for any evidence of this

- Where both sides agree as to the nature of the arrangement, the termination assessment will be progressed in line with the agreed approach

- Otherwise, the Fund's normal policy will be to proceed assuming the exiting employer is responsible for any termination payment, and so is entitled to any exit credit

Once the termination is complete, the two parties will be notified of the outcome. At that point either party will have 1 month to dispute the outcome. If this happens then payment of any exit credit will be put on hold, and the dispute will be resolved as follows:

- In the first instance, the two parties will be expected to resolve the dispute "externally", without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored

- Where this does not lead to a resolution, then the case will be handled in line with the Fund's Internal Dispute Resolution policies

- Where this does not resolve the issue, the case will be referred to the Pensions Ombudsman

The Fund may seek to recover any costs associated with the dispute resolution process as part of the final termination settlement.

Where an exit credit may be payable the Fund will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount and subsequent treatment, and this is reflected in the processes laid out in this document.

## FUNDING ASSUMPTIONS FOR TERMINATION CALCULATIONS

The LCPF policy is that a termination assessment will be made based on a corporate bond funding basis, unless the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the exiting employer's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the exiting employer if a shortfall emerges in the future (after the admission has terminated).

If, instead, the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the LCPF policy is that the employer's valuation funding basis (suitably updated as advised by the Fund actuary) will be used for the termination assessment. The guarantor or successor body will then, following any termination payment or exit credit made, subsume the remaining assets and liabilities of the exiting employer within the Fund. This may, if agreed by the successor body and the Fund, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

Where the exiting employer is a stand-alone academy, the corporate bond basis will be used, as although the DfE provide a guarantee in these circumstances, they are not an employer in the Fund, and the nature of that guarantee does not include long-term responsibility for the liabilities. This policy will also apply to other exiting employers with a similar guarantee.

Where the exiting employer is an academy that is part of a MAT which is remaining within the Fund, the ongoing funding basis will normally be used, as the MAT would be responsible for the ongoing assets and liabilities. In practice in some circumstances the Fund and the MAT may agree that no termination calculation is necessary, in which case the MAT will take over the deficit contributions of the former academy.

The funding and corporate bond financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, to reflect changes in market conditions (and other factors where the Fund deems it appropriate following advice from the Fund actuary), at the relevant employing body's cessation date.

| 31 March 2019 | Valuation funding assumptions | Corporate bond assumptions |
|---|---|---|
| | | |
| Discount Rate | 3.8% p.a. | 2.4% p.a. |
| CPI price inflation | 2.4% p.a. | 2.4% p.a. |
| Pension increases/indexation of CARE benefits | 2.4% p.a. | 2.4% p.a. |

The above valuation funding discount rate of 3.8% includes a margin of prudence in relation to the McCloud judgment in line with the 2019 valuation approach. For termination assessments this margin will be removed, and instead allowance for McCloud will be based on the employer's actual membership profile, as detailed below.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption for the corporate bond approach. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

Therefore, the corporate bond approach for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% p.a. used in the 2019 valuation for ongoing funding and contribution purposes.

Notwithstanding the above, at the discretion of the Fund a “minimum risk” approach may be used for the calculation of the termination assessment. Under such an approach the discount rate would be linked to long-term gilt yields rather than corporate bond yields, along with a higher allowance for future mortality improvements than used at the actuarial valuation. If this were to be applied then the employer would be notified when termination was being discussed.

## MCCLOUD

In July 2020 the government issued a consultation detailing their proposed remedy in the McCloud case. While the consultation is currently ongoing, the Fund expects that the recommendations will largely be adopted. Therefore an allowance will be made within the termination assessment to reflect this.

The Fund’s standard approach will be to assess the McCloud cost for members who were active immediately prior to termination, in line with the approach adopted for the assessments at the 2019 valuation – namely to extend the age related protections to all members who joined the Fund prior to 1 April 2012.

Non-active members will not be assessed, as the data required to calculate any costs for members who have already left service or retired is not typically readily available. Given the nature of the underpin, it is not expected that the costs for this group of members will be material in most cases.

This approach is designed to be proportional and pragmatic. However, should individual circumstances warrant it the Fund reserves the right to perform a more detailed assessment.

## NOTIFICATION OF TERMINATION

In many cases, termination of an employer’s participation is an event that can be foreseen, for example, because the organisation’s operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer’s minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer.

In this case, employers are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body’s approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

## TERMINATION AND EXIT CREDIT PAYMENTS

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment, within 30 days of formal notification.

In line with the governing regulations, any exit credits will be paid to the exiting employer within 6 months of cessation (subject to availability of data, co-operation of the relevant parties and the need to resolve any disputes), or such longer period as may be agreed in the individual case.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination.

## ALTERNATIVES TO TERMINATION AND IMMEDIATE PAYMENT

The Fund's default policy is for any termination payment due to the Fund to be paid (adjusted for interest where appropriate) following the termination assessment in line with the approach stated above.

However, at the sole discretion of the Administering Authority, suspension of the termination payment, instalment plans over an agreed period, or a "Deferred Debt Agreement" may be agreed to.

If an employer wants to use one of these options, they must make a request in writing covering the reasons for such a request. Any deviation from the default policy will be based on the Administering Authority's assessment of whether the employer is likely to take on new members in the near future (for a suspension notice only), whether the full exit debt is affordable, and whether it is in the interests of taxpayers to adopt any of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and whether any security is required and available to back the arrangements, and will apply a proportionate approach depending on the relative materiality of the amounts involved.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated [TO BE CONFIRMED].

### *1 – SUSPENSION NOTICE*

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the Administering Authority, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.

### *2 – SPREADING OF EXIT PAYMENT*

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

2. For this purpose, where necessary the Administering Authority may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

3. Depending on the length of the spread period and the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.

4. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

5. The initial process to determine whether an exit debt should be spread may take up to [3] months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

6. If the Administering Authority's assessment confirms that the potential exit debt is not immediately affordable, the Administering Authority will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:

    a. The spreading period that will be adopted (this will be subject to a maximum of [5] years).
    b. The initial and annual payments due and how these will change over the period.
    c. The interest rates applicable and the costs associated with the payment plan devised.
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit-spreading period including the supply of updated information and events that would trigger a review of the situation.
    f. The views of the Actuary, covenant, legal and any other specialists necessary.
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).

7. The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to allow spreading of the termination payment. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

### *3 – DEFERRED DEBT AGREEMENT*

As opposed to paying the exit debt, an employer may request to participate in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA).

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will firstly consider whether it would be in the best interests of the Fund to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

2. For this purpose, where necessary the Administering Authority may request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

3. The Fund may request security to protect the Fund before entering into such an arrangement.

4. This could include a lump sum up front to reduce the size of any potential termination debt.

5. The initial process to determine whether a Deferred Debt Agreement should apply may take up to [3] months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

6. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

    a. What security the employer can offer (generally the Administering Authority won't enter into such an arrangement unless they are confident the employer can support the arrangement on an ongoing basis, but in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements.

b. The funding assumptions and investment strategy that would be applied to the employer.
c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
d. What the updated secondary rate of contributions would be required up to the next valuation.
e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
f. The advice of the Actuary, covenant, legal and any other specialists necessary.
g. The responsibilities that would apply to the employer while they remain in the Fund.
h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
i. The circumstances that would trigger changes to the deferred debt agreement, including a cessation of the arrangement and an exit payment (or credit) becoming payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

7. The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

8. For employers that are successful in entering into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

## D - CHARGING STRUCTURE

### 'TARIFF' CHARGES – RECOVERY OF LCPF ADMINISTRATION COSTS

- Admission agreement - £1,000
- New Academy – £350

### 'NON-TARIFF' CHARGES – RECOVERY OF LCPF COSTS

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where 'late' admissions occur, the 'tariff' rates above will be doubled. 'Late' within this context means where the admission agreement is signed by the prospective admitted body after the transfer date and the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which the transfer date occurs.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

### RECOVERY OF OTHER COSTS

Actuarial, Legal and any other costs incurred by LCPF in direct relation to an admission will be recovered from the new employer.

## E - RISK MANAGEMENT

When an employer is admitted to the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with LCPF, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations – for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk, and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an aspirant admitted body joins the Fund under the exceptional circumstances route (as specified in section 2 above) the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

# GLOSSARY

### Actuarial Valuation:

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

### Administering Authority:

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

### Admission bodies:

A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

### CPI:

Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

### Corporate bond basis:

An approach where the discount rate used to assess the liabilities is determined based on the yields of AA-rated corporate bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted for employer accounting purposes, and also is usually adopted when an employer is exiting the Fund.

### Covenant:

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

### Deficit:

The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

### Deficit recovery period:

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**Discount Rate:**
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

**Employer's Future Service Contribution Rate:**
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**Funding or solvency Level:**
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**Funding Strategy Statement:**
This is a key governance document that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

**Guarantee/guarantor:**
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**Letting/transferring employer:**
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**Liabilities:**
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:**
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility

(particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**Members:**
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Minimum risk basis:**
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may sometimes be adopted when an employer is exiting the Fund.

**Orphan liabilities:**
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**Recovery Plan:**
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**Scheduled bodies:**
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. Scheduled bodies include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Scheme employers:**
Any organisation that participates in the LGPS, including admission bodies.

**Valuation funding basis:**
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

## Appendix 1

## Conditions of Participation

1. **PAYMENTS**

1.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.

1.2 The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3 The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.

1.4 Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by the Administering Authority and notified to the Admission Body. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.5 Where the Admission Body certifies that:

1.5.1 an eligible employee aged 55 or more, is retiring by reason of redundancy or in the interests of efficiency; or

1.5.2 an eligible employee is voluntarily retiring on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions; or

1.5.3 an eligible employee who is a deferred member of the Scheme requests that their benefits are brought into payment early on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions;

and immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits as certified by an actuary appointed by the Administering Authority. Such sum to be paid (unless other terms are agreed between the Administering Authority and the Admission Body) within thirty (30) calendar days of receipt by the Admission Body of the written notification.

1.6 The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.

1.7 If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

## 2. ADMISSION BODY’S UNDERTAKINGS

The Admission Body undertakes:

2.1.1 to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2 to comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734);

2.1.3 to adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;

2.1.4 to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

2.1.5 to notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.1.6 to notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment ;

2.1.7 to immediately notify the Administering Authority (and the Scheme employer where appropriate) in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.

2.1.8 Where the admission agreement exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract then employees are only eligible for continued participation of the LGPS where they are "employed in connection with" the contract. "Employed in connection with" shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.

3. **ACTUARIAL VALUATIONS**

3.1 The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2 Upon termination of this Agreement the Administering Authority must obtain:

3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former eligible employees as at the date of termination; and

3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

the costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

4. **TERMINATION**

4.1 An Admission Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate the Agreement to the other party or parties to the Agreement.

4.2 The Agreement shall terminate automatically on the earlier of:

4.2.1 the date of the expiry or earlier termination of the Contract ; or

4.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations.

4.3 The Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

4.3.1 the insolvency winding up or liquidation of the Admission Body;

4.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;

4.3.3 the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;

4.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
(All Divisions);

**Investment Strategy Statement**
(Appendix 'A' refers)

Contact for further information:
Sean Greene, Head of Fund, Sean.Greene@lancashire.gov.uk

**Executive Summary**

The Investment Strategy Statement sets out the Strategic Asset Allocations for the Pension Fund and regulations state that this should be kept under review and revised from time to time and at least every three years. At a recent meeting of the Investment Panel it was recommended that the Investment Strategy Statement should be updated in response to the sale of Heylo Housing.

**Recommendation**

The Pension Fund Committee is asked to approve the recommended changes to the Strategic Asset Allocations as shown in the table below (and reflected in the Investment Strategy Statement in Appendix 'A').

**Background and Advice**

Local Government Pension Scheme regulations require administering authorities to prepare and maintain an Investment Strategy Statement (ISS). An updated version of the ISS was approved by the Pension Fund Committee in March 2021.

On the 29th April 2021 the Investment Panel met to consider the investment of proceeds from the sale of Heylo Housing (details of this meeting are included in another agenda item) and agreed that rather than investing sales proceeds across all asset classes, it was preferable to allocate proceeds to the Global Equities, Credit and Infrastructure asset classes, which represented a marginal change that could be accommodated within the existing Strategic Asset Allocation.

However, it was also agreed that the Pension Fund Committee be informed of the sale and allocation of proceeds and asked to consider updating target allocations within the Strategic Asset Allocation – the sales proceeds equate to a 1% increase in Global Equities, Credit and Infrastructure asset classes.

There is no requirement to update tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The minor changes are set out in the table below:

| Asset Class | Benchmark weight (%) | Recommendation from Investment Panel | Revised Benchmark weight (%) |
|---|---|---|---|
| Global Equities | 44.5 | Increase by 1% | 45.5 |
| Private Equity | 5.0 | No change | 5.0 |
| Fixed Income | 1.5 | No change | 1.5 |
| Credit | 17.0 | Increase by 1% | 18.0 |
| Real Estate | 12.5 | No change | 12.5 |
| Legacy Shared Ownership | 3.0 | See note below | 0.0 |
| Infrastructure | 15.0 | Increase by 1% | 16.0 |
| Diversifying strategies | 0.0 | No change | 0.0 |
| Cash | 1.5 | No change | 1.5 |
| **Total** | **100.0** | No change | **100.0** |

**Note -** the Legacy Shared Ownership asset class will cease because of the sale of Heylo Housing.

**Consultations**

Investment Panel and Local Pensions Partnership Investment Limited

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The Investment Strategy Statement must be reviewed at least every three years and is key to governance of the Fund.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| The Local Government Pension Scheme (Management and Investment of Funds) Regulations | 2016 | Sean Greene 01772 530877 |

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

# Investment Strategy Statement

**Updated June 2021**

lancashirecountypensionfund.org.uk

Lancashire County Council as administering authority of Lancashire County Pension Fund

# Contents


| | |
|---|---|
| Introduction | 2 |
| Investment Objectives | 2 |
| Investment Governance | 2 |
| Asset Allocation Framework | 3 |
| Risk Management | 6 |
| Environmental Social and Corporate Governance (ESG) Policy, and approach to social investments | 6 |

# Introduction

Lancashire County Council ("LCC") is the administering authority of the Lancashire County Pension Fund (the "Fund"). This Investment Strategy Statement ("the Statement") has been prepared in accordance with DCLG guidance on Preparing and Maintaining an Investment Strategy Statement (July 2017) and after taking appropriate advice.

As set out in the Regulations, the Pension Fund Committee (the "Committee") will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change in relation to any matter contained in this Statement, changes will be reflected within six months of the change occurring.

The Regulations require all Administering Authorities to take "proper advice" when formulating an investment strategy. In preparing this document and the overall investment strategy the Committee has taken advice from the LCPF Investment Panel (the "Panel", a panel of independent advisors appointed by LCC for the purpose of providing advice on pension related matters) and Local Pension Partnership Investment Limited (LPP I) which is a FCA regulated investment manager with specific expertise and regulatory permissions to provide advice on investments.

In 2000, the Government commissioned a 'Review of Institutional Investment in the United Kingdom' by Paul Myners. Following the report the Government issued a set of investment principles which have subsequently been reviewed by HM Treasury. The Fund has considered the principles and considers that it is compliant with them.

**2. Investment Objectives**

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due.

In order to meet this overriding objective the Committee maintains an investment policy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;

- Contribute towards achieving and maintaining a future funding level of 100%;

The Fund will use its influence as a large institutional investor to encourage responsible long-term behaviour, which includes exercise of voting rights and ownership, delegated to LPP I and overseen by the Committee.

### 3. Investment Governance

The Committee is responsible for approving and reviewing on a regular basis an overall Investment Strategy and determining asset allocation to such asset classes as the Panel consider appropriate. This includes setting the higher level objectives and risk tolerances of the Fund. The Committee, in conjunction with the scheme's actuary, sets the required rate of return needed to achieve its objectives and the risks it is willing to take. Once these parameters are established, the Committee will determine the strategic asset allocation or policy portfolio that it believes has the highest probability of succeeding.

The Panel will:

- review the Fund's long term investment strategy and where necessary make recommendations to the Committee;
- propose strategic and/or tactical asset allocations, with input from LPP I
- set and monitor the range of asset allocations used by LPP I
- consider appropriate risk management strategies to include the matching of pension liabilities with suitable investments, possibly involving derivatives, and where necessary make recommendations to the Committee;
- consider foreign exchange hedging strategies relating to the equity and/or other asset allocations and where necessary make recommendations to the Committee;
- monitor and review the investment activity; and
- review and report on the performance of the Fund and where necessary make recommendations to the Committee.

The implementation of the asset allocation is delegated to LPP I. LCC is a founding shareholder of LPP I and maintains ongoing corporate governance controls but plays no direct role in investment management activities.

LPP I is responsible for managing 100% of the assets of the Fund. The large majority of the Fund's assets have been transitioned into investment pooling vehicles, also managed by LPP I, as illustrated in the table below. A small minority of assets remain on the balance sheet of the Fund as "legacy assets".

| **Asset class** | **Percentage of total assets in pools** |
|---|---|
| Public Equity | 100% |
| Fixed Income | 100% |
| Diversifying Strategies | 100% |
| Credit | 91% |
| Infrastructure | 84% |
| Private Equity | 98% |
| Real Estate | 64% |
| **Total** | **90%** |

## 4. Asset Allocation Framework

To pay benefits over time the Fund needs to generate a rate of return that is at least equal to the actuarial discount rate. The starting point for considering asset allocation is a simple portfolio of bonds and equities. However, this basic portfolio does not maximise diversification and therefore risk adjusted return.

In order to prudently diversify sources of risk and return, the Fund allocates capital across a wide variety of different asset classes. To be added to the portfolio, asset classes are first judged for suitability; they have to be well understood by the Committee, consistent with the Fund's risk and return objectives; and they have to make a significant contribution to the portfolio by improving overall return and risk characteristics. In addition, the new asset classes have to be less than perfectly correlated with equities and bonds, so that the Fund benefits from increased diversification. The Fund has identified a total of eight asset classes that, combined, may form the policy portfolio.

The eight asset classes shown in the table below have different exposures to economic factors (GDP growth and inflation) and combine different geographies and currencies. In assessing suitability the Committee has considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund's liabilities and managing risk.

| Asset Class | Long-Term Return Drivers | Economic Growth * | Inflation * | Geography | Currency |
|---|---|---|---|---|---|
| Global Equity | - Economic growth<br>- Dividend income<br>- Earnings growth<br>- Change in company valuation | + | +/ - ** | Diversified | Diversified |
| Private Equity | - Economic growth<br>- Company growth<br>- Earnings growth<br>- Change in company valuation<br>- Availability of finance<br>- Illiquidity premium | + | +/ - ** | Diversified | Diversified |
| Fixed Income | - Yield (minus credit losses)<br>- Valuation increases as bonds approach maturity<br>- Change in yield | - | - | Diversified | Diversified |
| Credit | - Yield (minus credit losses)<br>- Valuation increases as bonds approach maturity<br>- Change in yield<br>- Illiquidity premium | + | - | Diversified | Diversified |
| Real Estate | - Rental yield (minus expenses)<br>- Rental growth<br>- Capital growth | + | +/ - ** | Predominantly UK | Predominantly GBP |
| Infrastructure | - Dividend income<br>- Dividend growth<br>- Capital growth | + | + | Predominantly UK | Predominantly GBP |
| Diversifying Strategies | - Diversified | Low correlation | Low correlation | Diversified | Diversified |
| Cash | - Yield | + | - | Predominantly UK | Predominantly GBP |

**Sensitivities shown are to positive shocks, i.e. if growth and inflation surprise on the upside.*

*** Property, public and private equities expected to provide partial inflation protection.*

The Committee, advised by the Panel, have determined benchmark weights to each asset class which it believes to be best suited to meeting the long term objectives of the Fund. It has also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The benchmark weight and tolerances are shown in the table below. The weights are to be maintained within the ranges, as long as the Fund can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities investments will not be "forced" and under/over allocations may be made to any asset class whilst also remaining within the tolerance ranges. Should any allocation fall outside of the range the Committee shall seek to bring the allocation back within the range as soon as suitable opportunities are identified.

The Panel review the Strategic Asset Allocations (see below) and recommend any changes to the Committee. This table sets out the Strategic Asset Allocations approved by Committee in September 2020. In addition, the Committee and/or the Panel review any exposures which arise outside these tolerances and advise appropriate action.

| Asset Class | Benchmark weight (%) | Range (%) |
|---|---|---|
| Global Equities | 45.5 | 40-50 |
| Private Equity | 5.0 | 0-10 |
| Fixed Income | 1.5 | 0-5 |
| Credit | 18.0 | 12.5-22.5 |
| Real Estate | 12.5 | 7.5-17.5 |
| Infrastructure | 16.0 | 10-20 |
| Diversifying strategies | 0.0 | 0-5 |
| Cash | 1.5 | 0-5 |
| **Total** | **100.0** | |

Each asset class has its own specific investment objective (benchmark and investment performance target) and within each asset class there are further diversification controls.

**Global Equities** - The objective is to outperform the MSCI All Country World, net dividends reinvested, GBP Index over the full market cycle which is considered to be at least seven years (the "Benchmark"). Equity investments are made via LPP I, by investing in underlying funds which may be managed by LPP I ("Internal Mandates"), or by external third parties ("External Mandates").

**Private Equity** - The objective is to outperform the MSCI World SMID, net dividends reinvested, in GBP Index and provide investors with access to attractive private equity opportunities. All new investments will include, but not be limited to the following sectors: Buyout, Venture Capital, Growth Equity, Special Situations/Distressed and Upstream Energy.

**Real Estate** – The objective is to gain cost effective, diversified exposure to UK and international property assets that meet its investment objectives: to generate a return in excess of UK CPI inflation; earn predictable cash flows; and provide a partial hedge against inflation. The largest exposure of the portfolio will be to traditional sectors of the UK commercial real estate market. A smaller allocation will be made to value-added and opportunistic investments. The benchmark is the MSCI UK Quarterly Property Index.

**Infrastructure** – The objective is to gain cost effective, diversified exposure to global infrastructure assets located predominantly in the UK or otherwise in OECD nations. These investments seek to generate a satisfactory risk adjusted return; improve diversification; provide predictable cash flows; and indirectly hedge against inflation. The benchmark is the UK CPI + 4% pa net over a 10 year period

**Fixed Income** – The objective is to outperform the Bloomberg Barclays Global Aggregate (GBP Hedged) Index. The LPPI Pool will pursue this aim by investing in underlying funds which include Internal Mandates and External Mandates.

**Credit** – The objective is to gain cost effective exposure to diverse sources of return linked to global credit markets and credit instruments. The LPP I pool will pursue this aim primarily by allocating capital to investment vehicles or pooled funds which include External Mandates. The benchmark is an equally-weighted blended composite consisting of the S&P LSTA Leveraged Loans Index (GBP-Hedged) and the Bloomberg Barclays Multiverse Credit Index in GBP.

**Diversifying Strategies** – The objective is to gain cost effective exposure to diversifying sources of return distinct from global equity beta and bond duration. The LPP I pool will pursue this aim primarily by allocating capital to investment strategies which include External Mandates. The benchmark is the HFRI Fund of Funds Conservative (GBP-Hedged) Index.

**Cash** – Cash is managed at the Fund level by LCC until needed or drawn by LPP I for investment purposes. The benchmark is 1 month GBP LIBOR.

**5. Risk Management**

The overriding objective of the Fund in respect of its investments is to maximise return within an acceptable and understood level of risk.

Key risks to the Fund as outlined in the Funding Strategy Statement are:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term especially as there is a large concentration of investments with LPP with the resultant risk of personnel change
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly higher than anticipated
- Demographic risks
- Regulatory changes
- Changes to national pension requirements and/or Inland Revenue rules

These risks are monitored and managed with diversification being a very important risk management tool. As described in the section on Asset Allocation, the Fund will seek to maintain a diversified exposure to several different asset classes, geographies, and currencies.

The asset class pools described above are also subject to a number of constraints to allow for intra-asset class diversification, including sector, country, manager, and maximum exposure to a single asset.

Operational risk is minimised by having custody of the Fund's financial assets provided by Northern Trust, a regulated, external, third party, professional custodian. Equivalent arrangements are in place where investments are made into pooled vehicles, such as those managed by LPP I.

**Performance measurement**

Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate.

The performance of the pooling arrangements is monitored via regular reporting and through quarterly Panel meetings. Performance for LPP I is measured against the policy portfolio benchmark. LPP I seeks to outperform the policy portfolio on a risk adjusted basis, via active sub-asset class selection, selecting the best stocks/managers for each of the pools and by implementing investments in a low cost manner. Performance for the investment pools is measured against widely used and transparent benchmarks and appropriate targets.

Where performance falls short of expectations the Committee and the Panel will identify the cause of this underperformance and will respond appropriately. In practice, the Fund would expect to work collaboratively with LPP I to identify and remedy the cause of any underperformance.

**6. Environmental Social and Corporate Governance (ESG) Policy, and approach to social investments**

The Fund is committed to being a long-term responsible investor. It is an integral part of the way the Fund is managed. The Responsible Investment Policy of the Fund is available at this link. Lancashire Fund Information - Lancashire County Council.

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
None;

**Feedback from members of the Committee on pension related training and 2020/21 Training Record.**
(Appendix 'A' refers)

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

**Executive Summary**

A copy of the 2020/21 Training Record for the Committee is presented for information together with details of training involving members which has taken place since the last meeting.

**Recommendation**

The Committee is asked to note the contents of the 2020/21 Training Record as set out at Appendix 'A' to this report together with any feedback from individual members given at the meeting in relation to training they have received.

**Background and Advice**

The Training Policy of the Lancashire County Pension Fund sets out the approach to supporting the learning/development needs of individuals with responsibility for the strategic direction, governance and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

During the last year members of the Committee had opportunities to participate in various training sessions including internal workshops, external conference/seminars and presentations, the majority of which were held remotely due to the continuing Covid-19 related restrictions.

The participation by individual Committee members in training events each year is noted in the Training Record which informs the Lancashire County Pension Fund Annual Report. A copy of the 2020/21 Training Record (covering the period 1st April 2020 to 31st March 2021) is attached as Appendix 'A' to this report.



Lancashire County Council

Below is a list of pensions related external conferences/events or internal workshops which members of the Committee have participated in since the last meeting and individual members are invited to provide feedback on their experiences.

| Date | Event | Participants |
|---|---|---|
| 23rd March 2021 | LGPS, climate change and building community wealth beyond the pandemic. | County Councillor L Collinge |
| 23rd March 2021 | Workshop – Local Pension Partnership Communications<br><br>Demonstration of the new LCPF website. | County Councillors - K Ellard, J Mein, L Collinge, G Dowding, E Pope and A Schofield. Co-opted members - Mr P Crewe, Councillor R Whittle, Councillor D Borrow and Ms J Eastham. |
| 18th/19th May 2021 | PLSA Local Authority Conference 2021 | County Councillor E Pope and Co-opted member Mr P Crewe |
| 9th June 2021 | Induction Session for newly appointed County Councillors on Pension Fund Committee (and existing members of Committee) | County Councillors - M Clifford, F De Molfetta, E Pope, A Schofield, S Smith and R Woollam. Co-opted members - Mr P Crewe and Councillor D Borrow |

**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 may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Policy and Framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

**Financial**

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure that the members of the Pension Fund Committee and the Lancashire Local Pension Board are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

Any delegate fee, travel or accommodation costs associated with external training are met from the Lancashire County Pension Fund.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| Participation at external Conferences and Events approved by the Head of Fund under the Scheme of Delegation to Heads of Service | 9th March 2021 | Mike Neville (01772) 533431 |
| Attendance sheet for internal pension related workshop/induction session. | 23rd March 2021<br>9th June 2021 | Mike Neville (01772) 533431 |

Reason for inclusion in Part II, if appropriate
N/A

**2020/21 Training record for Pension Fund Committee**

**County Councillors (members of the Committee)**

| Date(s) | Workshop, pre-Committee briefing, event, Conference, Seminar. | Venue | Provider | Hours |
|---|---|---|---|---|
| **County Councillor T Ashton** | | | | |
| None | | | | |
| **County Councillor J Burrows** | | | | |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| **County Councillor L Collinge** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 8 July 2020 Postponed | Local Authority Responsible Investment Seminar update | Hertfordshire | Scheme Advisory Board | - |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Via Zoom | E Lambert and A Devitt | 1.30 |
| 8 Sept 2020 | Pension Trustee Circle - Virtual ESG Roundtable | Online | European PF Investment Forum | 1.00 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 12 Nov 2020 | LGPS Investors Focus on ESG, Responsible & Sustainable Investing Conference | Online | SPS | 3.00 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 23 Mar 2021 | LGPS, climate change and building community wealth beyond the pandemic. | Online | Platform London | 1.30 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **County Councillor G Dowding** | | | | |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 4th Feb 2021 | Responsible Investment for the LGPS | Webinar | CIPFA | 1.00 |

| | | | | |
|---|---|---|---|---|
| **County Councillor C Edwards** | | | | |
| 14 May 2020 Cancelled | ESG & Impact Investing for Pension Funds Conference | London | SPS | N/A |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **County Councillor K Ellard** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Via Zoom | E Lambert and A Devitt | 1.30 |
| 8 Sept 2020 | Pension Trustee Circle - Virtual ESG Roundtable | Online | European PF Investment Forum | 1.00 |
| 12/14 Oct 2020 | PLSA Annual Conference | Online | PLSA | 28.45 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Operations Director LPPA. | 1.30 |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **County Councillor T Martin** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 18 Feb 2021 | Workshop Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| **County Councillor J Mein** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Via Zoom | E Lambert and A Devitt | 1.30 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Ops Director LPPA | 1.30 |
| 4th Feb 2021 | Responsible Investment for the LGPS | Webinar | CIPFA | 1.00 |

| | | | | |
|---|---|---|---|---|
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP)<br>Mukhtar Master (LCC) | 1.25 |
| **County Councillor E Pope (Chair)** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Via Zoom | E Lambert and A Devitt | 1.30 |
| 12/14 Oct 2020 | PLSA Annual Conference | Online | PLSA | 28.45 |
| 13 Oct 2020 | Presentation – Internal Audit assurance over LCPF | Via Zoom | A Leech/R Lowry (LCC)<br>G Smith (LPP) | 1.00 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 12 Nov 2020 | LGPS Investors Focus on ESG, Responsible & Sustainable Investing Conference | Online | SPS | 3.00 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 2 Dec 2020 | Local Authority Pension Fund Forum Webinar Series 2020 | Online | LAPFF | 10.50 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Operations Director LPPA. | 1.30 |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 9/11 Mar 2021 | Investment Conference 2021 | Online | PLSA | 25.00 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP)<br>Mukhtar Master (LCC) | 1.25 |
| **County Councillor A Riggott** | | | | |
| None | | | | |
| **County Councillor A Schofield (Deputy Chair)** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Zoom | Northern Trust | 1.00 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 23 March 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP)<br>Mukhtar Master (LCC) | 1.25 |

| | | | | |
|---|---|---|---|---|
| **County Councillor A Snowden** | | | | |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| **County Councillor S Clarke (replaced by County T Ashton – full Council July 2020)** | | | | |
| None | | | | |

**Co-opted Members**

| **Date(s)** | **Workshop, pre- Committee briefing, event, Conference** | **Venue** | **Provider** | **Hours** |
|---|---|---|---|---|
| **Mr P Crewe (Trade Union Representative)** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Online | Northern Trust | 1.00 |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Online | E Lambert and A Devitt | 1.30 |
| 11 Nov 2020 | Local Authority Update | Online | PLSA | 12.00 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Operations Director LPPA. | 1.30 |
| 26 Jan 2021 | Local Government Pension Scheme Update Webinar | Webinar | Local Govt Association | 1.50 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **Mr J Tattersall (Trade Union Representative)** | | | | |
| None | | | | |
| **Councillor D Borrow (Borough and City Councils representative)** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Online | Northern Trust | 1.00 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Operations Director LPPA. | 1.30 |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |

| | | | | |
|---|---|---|---|---|
| **Councillor P Foster (Borough and City Councils representative)** | | | | |
| None | | | | |
| **Councillor M Smith (Blackpool Council)** | | | | |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Online | E Lambert and A Devitt | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| **Councillor R Whittle (Blackburn with Darwen Council)** | | | | |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Online | E Lambert and A Devitt | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 12 Jan 2021 | Workshop – update from Local Pensions Partnership Administration | Via Zoom | Rachel Blundell, Operations Director LPPA. | 1.30 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **Ms J Eastham (FE and HE Sector representative)** | | | | |
| 7 Jul 2020 | Workshop on Asset safety and cyber security | Via Webex | Northern Trust | 1.00 |
| 19 Aug 2020 | Implementation of McCloud Workshop | Webinar | CIPFA | 3.00 |
| 1 Sept 2020 | Feedback from Investment Panel following review of the LCPF Funding Strategy Statement | Via Zoom | E Lambert and A Devitt | 1.30 |
| 3 Nov 2020 | Workshop on the Responsible Investment Dashboard | Via Zoom | F Deakin (LPP) | 1.30 |
| 19 Nov 2020 | Presentations to Committee members on Divestment. | Via Zoom | M Zanderbergen, D Soobiah C Krosinsky & RJ Tomlinson | 1.45 |
| 26 Jan 2021 | Local Government Pension Scheme Update Webinar | Webinar | Local Govt Association | 1.50 |
| 18 Feb 2021 | Workshop – Local Pensions Partnership 2021/22 budget | Via Zoom | Adrian Taylor Chief Finance Officer, LPP | 1.20 |
| 23 Mar 2021 | Workshop – LPP Communications and demonstration of new LCPF website. | Via Zoom | Chris Dawson (LPP) Mukhtar Master (LCC) | 1.25 |
| **Councillor I Moran (replaced by Cllr P Foster – Lancashire District Leaders July 2020)** | | | | |
| none | | | | |

**Pension Fund Committee**
Meeting to be held on Friday, 18 June 2021

Electoral Division affected:
(All Divisions);

**Responsible Investment Report**
(Appendices 'A' and 'B' refer)

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
mukhtar.master@lancashire.gov.uk

**Executive Summary**

Responsible Investment encompasses a range of stewardship activities associated with Lancashire County Pension Fund (the Fund) fulfilling its duty to act in the best long-term interests of fund beneficiaries.

Set out at Appendix 'A' is a report from the Local Pensions Partnership which provides the Committee with an update on responsible investment matters during the first quarter of 2021 (January to March).

**Recommendation**

The Committee is asked to agree the process by which the LCPF responsible Investment Policy will be refreshed this year and to note the subsequent report.

**Background**

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Ltd (LPPI) and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement and the Responsible Investment Policy approved by the Committee at its meeting in March 2018.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the first quarter of 2021 (January - March).

Other matters of note for the Committee:

**Review of the LCPF Responsible Investment Policy**

The current Responsible Investment Policy for the Fund was developed and published in 2018. At that time the Committee set up a task and finish working group to develop the policy which was subsequently presented to the Committee for consideration and was approved in March 2018.

The policy is due to be reviewed and updated this year, with a view to a revised policy being presented to the November 2021 Committee for approval.

The Pension Fund Committee needs to agree the process they wish to adopt for reviewing and revising policy this year.

**Query from the last Pension Fund Committee Meeting**

At the Committee's last meeting a request was made for a simple synopsis setting out the Fund's position and longer-term ambition in relation to portfolio decarbonisation. The request was for text which can be used in response to queries from residents on the subject.

Following discussion with LPPI, the following text has been produced which reflects that LCPF's ambition on climate change is set out within the Fund's RI Policy, with LPPI responsible for implementing this as the Fund's asset manager.

*LCPF recognises climate change as a systemic risk and a long-term investment concern for the Fund, as it poses material risks across all asset classes with the potential for loss of value including via stranded assets.*

*Understanding and managing the risks faced from climate change is a core priority in our Responsible Investment Policy.*

*We are working with our asset manager Local Pensions Partnership Investments (LPPI) to gain a better understanding of the risks our portfolio faces and to ensure climate change considerations feature within investment decision-making through ESG integration (the evaluation of material Environmental, Social and Governance factors).*

*Our goal is to secure sustainable investment returns in order to pay pension benefits and the consideration of sustainability includes whether current and prospective investments face value risk from climate change and the stages of a shift towards more environmentally sustainable economic activity.*

*The long-term trend we are seeking is a reduction in exposure to brown (fossil fuel related) and an increased investment in green (renewable energy and carbon reducing activities) over time. This reflects that we need investment returns to pay pensions now and into the future through a portfolio resilient to the phases and challenges of the global energy transition underway.*

*We receive reporting from LPPI on how our portfolio is positioned, including information on the share of brown and green investments we hold. Our infrastructure portfolio includes direct investments in renewable energy generation both in the UK and abroad via solar, wind, hydro and waste, but we are also investing in companies and projects which are contributing to decarbonisation through the substitution of more modern and efficient materials and technology.*

*Meanwhile, we have a low exposure to conventional energy (fossil fuel companies) in our listed equities portfolio (0.6%), and the carbon footprint of that portfolio (which is measured annually) is decreasing steadily over time.*

*An external benchmark (the Transition Pathway Initiative) is being used to track the value of our exposure to globally high-emitting listed companies from sectors including not just conventional energy but airlines, auto, cement, steel, shipping, and chemicals.*

*Global high emitters are a relatively low proportion of our listed equities portfolio (<15%) and all these companies are being objectively assessed by TPI on the quality of their transition planning and disclosure, which is helping LPPI to identify the companies which need close monitoring, and engagement to encourage improved performance.*

**Local Authority Pension Fund Forum (LAPFF)**

LAPFF business meetings continue to be held online.  The last meeting covered topics such as:

- Material implications of socio-economic diversity;
- Mining and Human Rights;
- Say on Climate – voting and engagement – fossil fuel extracting companies;
- Climate Change and nature-based solutions;
- Draft LAPFF Workplan 2021/2022.

Papers from the meeting can be made available on request.

**Lancashire County Pension Fund ("The Fund") Response to Palestine Solidarity Campaign**

A member of the Committee received an on-line letter campaign arranged by the Palestine Solidarity Campaign (PSC) which is calling on LGPS pension funds to place an embargo on all investments in companies active in occupied Palestine.

As stated above the Fund has a Responsible Investment Policy, the purpose of which is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments.

A key principle is to effectively financially manage material ESG risks to support the Fund's requirement to protect returns over the longer term, ensuring that the Fund has sufficient assets to meet its pension liabilities. Another key principle is that a robust approach to effective stewardship is applied. This is important as the Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour

The Fund is responsible for setting an overall investment strategy including responsible investment. Local Pensions Partnership Investment Limited (LPPI) as the provider of pension investment management services has discretion to manage the Fund’s assets within the scope of the overall investment strategy. In turn, the Fund oversees investment activity and performance of LPPI via regular performance and RI monitoring.

The Fund currently has a low exposure to companies on the United Nations list of businesses active in Palestine. Investment is limited to two companies from a total of 112 companies on the list which in value equate to less than 0.7% of the Global Equities Fund and these investments are at the global parent company level rather than in specific business segments identified as active in the occupied territories.

LPPI does take account of material investment risks for the companies invested in, which includes the type and extent of their activities in conflict areas.

**Other relevant areas**

The government is considering new legislation to stop public bodies from imposing their own approach or views about international relations, and preventing boycott, divestment, or sanctions campaigns against foreign countries. Also, the government is consulting on the robustness of occupational pension scheme trustees’ policies and practices on social factors. Any sector wide developments in this area will be considered in the development of the Fund's responsible investment policy.

The Fund is a member of Local Authority Pension Fund Forum (LAPFF), a voluntary association of local authority pension funds focusing on corporate governance to protect the long term value of local authority pension funds. LAPFF has engaged with companies operating in the Israeli settlements/occupied Palestinian Territory and intends to continue to engage with companies to promote acceptable human rights conduct and impact, not only in this region but globally. To date, LAPFF’s engagement with several companies whereby they are operating in the Israeli settlements/occupied Palestinian Territory has focused on requests for these companies to produce robust, independent, and credible human rights impact assessments (HRIAs) in line with the UN Guiding Principles on Business and Human Rights. The Fund will continue to actively engage with LAPFF.

**Consultations**

Frances Deakin, the Head of Responsible Investment at the Local Pensions Partnership, was consulted regarding this report.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor oversight and lack of independence.

Responsible investment practices underpin the fulfilment of the Fund's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments and enable the Committee to monitor the activities undertaken.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| Robeco Active Ownership Report Q1-2021 | 01/01/21 to 31/03/21 | Mukhtar Master (01772) 532018 |

Reason for inclusion in Part II, if appropriate
N/A

## 1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard and the Quarterly Active Ownership Report (available from the online Pensions Library). It covers stewardship in the period 1 January to 31 March 2021 plus insights on current and emerging issues for client pension funds.

[R] This symbol indicates a term explained in the reference section at the end of this report.

Key takeaways for the period:

- LPPI has submitted annual reporting (as a signatory to the Principles for Responsible Investment) for the period 1st January to 31 December 2020.
- RI priorities identified by LPPI for the year ahead place focus on transparency, systematic ESG integration, social factors, and climate change sustainability.
- Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.85% of the portfolio.
- Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 3.40% of the portfolio.
- LPPI has joined other investors in supporting a clear set of expectations for how banks should demonstrate alignment with the goals of the Paris Agreement.
- An-internet based letter campaign is underway by the Palestine Solidarity Campaign specifically targeting the LGPS

## 2. RI Dashboard – portfolio characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix B.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. There have been minimal changes compared with the position reported at Q4 2020.

<u>Listed equities (Dashboard p1)</u>

*Sector Breakdown*
Categorised by GICS[R] the largest sectoral exposures for the GEF are information technology (23%) consumer staples (13%) and industrials (13%).

Comparing the GEF with its benchmark (MSCI ACWI) [R] gives insight into how sector exposures for the fund differ from a global market index. The length of each horizontal bar indicates by how much exposures differ in total (+ or –) compared with the benchmark, which is the outcome of active managers making stock selection decisions rather than passively buying an index.

The GEF continues to be underweight conventional energy (GEF 0.6% versus 3.3% for MSCI ACWI) indicating a much lower exposure to companies extracting, transporting, storing, and supplying fossil fuels. This is in line with the Fund's stance on climate change.

*Top 10 Positions*
The top 10 companies (10 largest positions) make up 23.5% of the total LPPI GEF. There has been no change in ranking since last quarter for the top 7 companies; Estee Lauder has moved to 8th, Autozone has entered the list at 9th, and SPDR Gold Shares have remained 10th with Apple displaced from the list.

*Portfolio ESG Score*
The GEF's Portfolio ESG score has risen from 5.1 (Q4) to 5.2 (Q1). In the same period the equivalent score for the benchmark increased from 4.9 (Q4) to 5.0 (Q1).

*Transition Pathway Initiative (TPI)*
Monitoring against TPI [R] Management Quality ratings confirms the GEF continues its relatively low exposure to highly carbon intensive activities. By value, only 13% of the GEF is in the globally high emitting companies under TPI assessment (unchanged from Q4). This is despite TPI rating coverage expanding by 44 additional companies in Q1.

The number of GEF companies in scope of TPI scoring has decreased by 8 (Q4 36, Q1 24). This reflects the expansion of the TPI universe (44 new companies brought within rating) and a change in the portfolio (liquidation of an external manager mandate which involved positions being sold).

Of the 24 companies in TPI scope:

- 91% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). This is down from 95% in Q4 and mainly reflects one new holding rated poorly by TPI.
- 7 companies are scored below TPI 3 and under monitoring.
- no extractive fossil fuel companies score below TPI 3 (100% compliance with LPPI's target for this sector).

<u>Other asset classes (Dashboard p2)</u>

*Private Equity*
Sector and geographical exposures are largely unchanged from Q4. The portfolio has a strong US presence (43%) and largest sector exposure is to Information Technology (34%).

*Infrastructure*
Sector and geographical exposures are largely unchanged from Q4. The portfolio is predominantly focussed within the UK/Europe (43% / 37%) and is 61% utilities (supply of power and water).

Through a new investment by GLIL Infrastructure, the Fund will be helping to fund the development of the UK's sustainable energy infrastructure via an investment in Smart Meter Assets. https://www.glil.co.uk/media/glil-infrastructure-and-arcus-acquire-smart-meter-assets
The Real-World Outcomes section of the dashboard features further examples of socially positive infrastructure investments. Pages 6-7 share information on the renewable energy generation Fund investments are helping to produce in the UK (sufficient to power more than 1 million homes) and feature investments in railway infrastructure directly supporting the

railway transport industry in the UK and helping to create highly skilled jobs, ease transport congestion, and reduce emissions.

*Real Estate*
Sector and geographical exposures are unchanged from Q4.
The portfolio is 74% UK assets and has a 37% weighting to industrial uses (logistics).

*Green & Brown Exposures*
Calculation of the Fund's exposure to Green and Brown activities focusses specifically on equity assets (listed equity, private equity, and infrastructure) plus green bonds within fixed income. Figures give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to real world decarbonisation, principally through renewable energy generation, but include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

For the first time, the dashboard presents information on the trend in green and brown exposures (commencing in Q4 2019). Quarterly changes in Green and Brown exposure reflect multiple factors at play including funds reaching maturity, assets being revalued, and investments being made and sold. The total value of the LCPF portfolio (as the denominator) also affects brown and green % shares quarterly.

Compared with Q4 2020, both brown and green exposures have changed.

Brown activities are 2.85% of the portfolio (Q4 2.99%). Noting a downward valuation for one infrastructure fund, the main cause of the reduction is a shift in LCPF's proportionate ownership of the total LPPI Infrastructure pool relative to other investors. This reflects the effects of the phasing and timing of drawdowns and allocations within investment tranches. A smaller relative share of the total infrastructure pool (compared with Q4) translates to a lesser share of brown (and green) assets held by the pool.

Green activities are 3.4% of the portfolio at Q1 (Q4 3.84%). The reduction reflects the decreased ownership share of the LPPI infrastructure pool (as described above) but is more heavily reflective of the sale of a legacy bio-gas asset on LCPF's behalf which was not part of the LPPI infrastructure Pool.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 81% of total green exposure. LCPF's green exposure is 98% via infrastructure investments.

### Core Stewardship

This section of the report gives an overview of stewardship activities in the last quarter. Client pension funds delegate day to day implementation of the Partnership's approach to RI to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equity Fund (GEF) *(Dashboard page 3)*

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI is publicly available from the LPP website within quarterly shareholder voting reports.

The period January to March 2021 encompassed 62 meetings and 603 proposals voted. LPPI voted at all meetings where GEF shares entitled participation.

a) Company Proposals

LPPI supported 95% of company proposals in the period.
Opposition voting concentrated on

- the election of directors (addressing individual director issues, overall board independence, and over-boarding)
- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards).

**Insights – Director related**

Diversity
At Canon, Inc (Japan: Technology Hardware, Storage & Peripherals) LPPI voted against the re-election of three representative directors.
At Korea Shipbuilding & Offshore Engineering Co (South Korea: Construction Machinery & Heavy Trucks) LPPI voted against an insider director.
At both companies voting reflected the absence of any female board members. (Results not disclosed).

Overboarding and Independence
At Fomento Economico Mexicano (Mexico: Soft Drinks), LPPI voted against the bundled slate of director nominations due to the presence of three overboarded directors, an insufficiently independent Board, and the practice of the bundled slate. (Result not disclosed)

At Max Financial Services Limited (India: Life & Health Insurance), LPPI voted against one director due to attendance being below 75% without a satisfactory explanation. Result: 10.0% against.

At Svenska Handelsbanken AB (Sweden: Diversified Banks), LPPI voted against the election of three director nominees on the grounds they would serve as non-independent directors on an Audit Committee with an already insufficient level of independence. (Results not disclosed)

**Insights – Non-salary compensation**

LPPI voted against six remuneration proposals across six companies.
LPPI voted against the say on pay at:

Starbucks (USA: Restaurants) where analysis highlighted the second consecutive use of a "one-time" pay award and insufficient rationale for a significant long-term performance award being paid entirely in cash. Result: 52.5% Against.

Becton, Dickinson and Company (USA: Health Care Equipment), opposing the use of one time pay awards to offset the lower value of long-term performance shares for NEOs. The company acknowledged the low award was not solely due to the pandemic and did not provide sufficient justification for the one-time award. Result: 33.0% Against.

Hologic, Inc (USA: Health Care Equipment) due to a lack of clarity in aspects of the Long-Term Incentive Plan, the lack of stretch in performance targets, and concerns around payments to a retiring NEO not yet eligible for them. Result: 31.0% Against.

**Insights - Shareholder Proposals**

LPPI voted on six shareholder proposals, supporting three (50%).

At Visa (USA: Data Processing & Outsourced Services) LPPI supported a resolution to provide shareholders the right to act by written consent (as a means to raise important matters outside the normal annual meeting cycle). Result: 40.8% For.

At Apple (USA: Technology Hardware, Storage & Peripherals), LPPI supported the proposal to expand the rights of shareholders to nominate Board members, setting this at the greater of 20% of the board or at least two candidates. Result: 34.2% For.

At Becton, Dickinson and Company (USA: Health Care Equipment), LPPI supported the proposal to reduce the ownership threshold for shareholders to call a special meeting from 25% to 15%. Result: 45.8% For.

**Shareholder Engagement**

Company and manager engagements are underway on an ongoing basis, directly through board seats and Limited Partner Advisory Committees (LPAC) for private market assets, and more conventionally through shareholder engagement with listed companies.

LPPI's engagement partner Robeco has completed a fifth full quarter of engagement activity. The RI Dashboard (page 4) presents engagement headlines for the quarter which confirm the Robeco Active Ownership Team undertook 53 activities in total, and the predominant focus (by topic) was environmental management.

Page 5 of the Dashboard summarises the current status of each live engagement theme (as it stood at the end of Q1). Robeco have reformatted the summary of Results by Theme to show them grouped according to whether they are E,S or G themes.

21 themes were live at the end of Q4. Of these, 4 themes (Sound Environmental Management, Sound Social Management, Good Governance, and Global Controversy Engagement) are evergreen, the remaining 17 are thematic and reflect priorities identified through a combination of Robeco research and client input. Each theme is scheduled to last approximately three years, with progress continually tracked against clear objectives.

The Active Ownership Report (a copy of which is available for Committee members to view in the online Pensions Library) provides detailed narrative on thematic engagements underway with listed companies (representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund).

Each quarter, we provide further insights into one of the live themes underway by the Robeco Active Ownership Team.

Case study – Digital Innovation in Healthcare

Robeco commenced the Digital Innovation in Healthcare theme in 2019. At its launch, healthcare was considered under pressure. Demographic and socio-economic trends, in combination with competitive pressures such as increased regulation and pricing, were acting to erode healthy operating margins. Robeco believe digital innovation will not only protect margins through increased productivity, but result in better health outcomes at lower cost, contributing to Sustainable Development Goal 3 (good health and well-being).

One example is telehealth, an umbrella term referring to remote healthcare. By streamlining the health care system, patients with low-complexity issues can be treated outside of health care facilities, improving the capacity to treat patients with acute medical needs. Telehealth can also enhance access by reducing barriers to treatment, for example time or distance. Healthcare has been an industry traditionally slow to adopt technology for a number of complicated reasons. Due to the interconnected nature of treatment, collaboration is required between multiple stakeholders - governments, pharmaceuticals, healthcare providers, insurers, and patients - to make progress and gain benefits.

The main objective of the engagement is to explore how digitalisation of the health care sector can reduce pressure on health care. The companies under engagement for LPPI are HCA Healthcare Inc and Anthem Inc.

The engagement is focussed on the foundations and capabilities for digital innovation as a route to adoptable solutions.
The areas of focus are:

- Digital strategy: encouraging digital expertise across all levels of the organisation (including the Board) to unlock opportunities from data.
- Sectoral collaboration: generation of data standards which can be used to collaborate and innovate across firms, while remaining cautious and responsive to patient privacy concerns.
- Innovation management: pushing for the successful use and integration of new digital technologies within R&D.
- Sales and marketing innovation: modernising sales and marketing to save costs and the enhancing of pricing discipline through reliable data.
- Cybersecurity: improving risk management for all actors in the health care sector, reflecting patient trust is critical to the success of digital strategies.

Progress so far for LPPI’s companies under engagement is neutral to positive.
At HCA, Robeco held a conference call with the CFO which produced a positive view of the firm’s digital strategy, noting board oversight of cybersecurity and significant investment in it, plus successful efforts to streamline workflows through tech, and explore partnerships with tech companies to further innovation.

At Anthem, Robeco has gained comfort around the approach to cybersecurity (following improvements driven by reflections on a 2015 hack) and learnt more about the digital strategy, including targets to eliminate paper applications and invest in capacity to insource data functions to improve quality. As this theme enters its second half, Robeco note an expectation of further positive outcomes as trust is built in the dialogue between parties involved.

## 3. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which provide opportunities for shared learning and a platform for collective action. The following are headlines for 2021 Q1.

**Investor Expectations of Banks**

LPPI has joined other investors (co-ordinated by the IIGCC [R] ) in publicly supporting a clear set of investor expectations for how the banking sector should demonstrate alignment with the goals of the Paris Agreement.

The expectations address the position of the banking sector as a funding provider and encourage the sector to steadily eliminate financing of fossil fuel and other misaligned activities inconsistent with a 2050 emissions target of net zero, while increasing finance to zero and low-carbon solutions which will assist its achievement.

**Workforce Disclosure Initiative (WDI)**

LPPI is a member of the Workforce Disclosure Initiative. Our subscription (and participation) support the development of more transparent reporting by listed companies and facilitate engagement on workforce related issues as part of our stewardship (the consideration of material social and governance matters).

WDI are currently gearing up for the 2021/22 cycle of company engagements and LPPI will be seeking to participate, by engaging with companies held within the internally managed global equities portfolio which are not yet disclosing and asking them to consider completion and submission of the detailed annual questionnaire.

**LGPS Scheme Advisory Board (SAB) – RI Advisory Group (RIAG)**

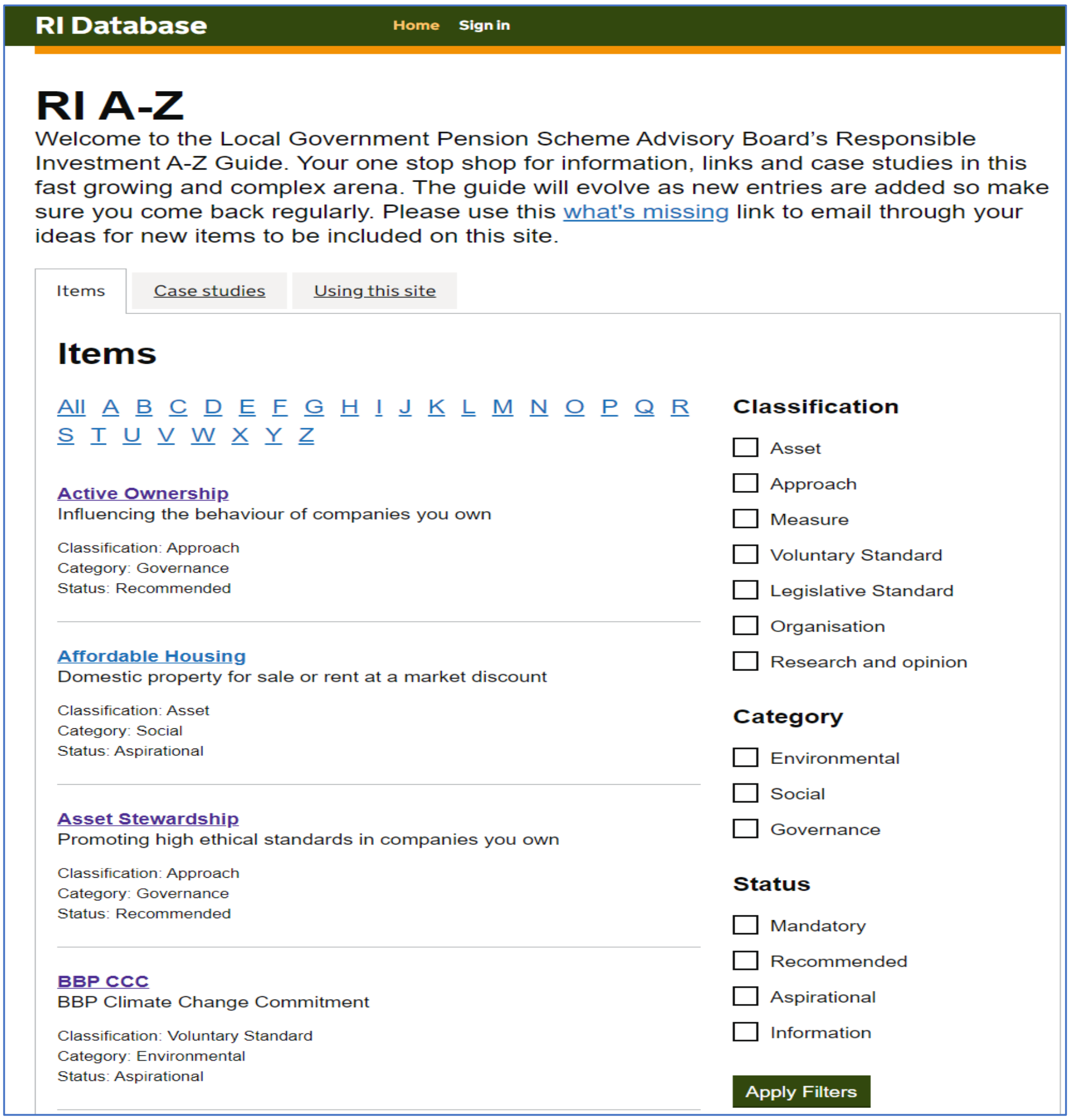
A new webpage has been launched which records the work of the new SAB RIAG
LGPS Scheme Advisory Board - RIAG Meetings (lgpsboard.org)

The group is chaired by Sandra Stewart (Greater Manchester Pension Fund) and assembles a wide cohort of members with secretariat by the Local Government Association. https://lgpsboard.org/index.php/riag-membership LPPI's Head of RI is one of three Pool representatives.

The RIAG's initial meeting (3rd March 2021) agreed terms of reference and began the review of an online RI Database which group members will help to maintain and develop. The database is now live on-line and offers an accessible A to Z guide or "one stop shop" of Responsible Investment information. The new resource is open access and will develop over time as an assistance to LGPS pension fund members and stakeholders. It is designed to demystify the hundreds of terms (and many acronyms) that routinely crop up as part of RI and to support pension fund committee and local pension board members in their duties.

Client funds are encouraged to take a look at the A to Z and to provide feedback on any matters they feel could usefully be added, something which can be quickly and easily done using the “what’s missing” link.

An image of the front page is shown below, which demonstrates that the A to Z has search and filter facilities, assistance on how to use the site, and a space for case studies that Pension Schemes are encouraged to contribute.




The RIAG’s second meeting (14th April 2021) was attended by MHCLG and confirmed a consultation paper is under development on compulsory reporting in line with recommendations by the Taskforce on Climate related Disclosure (TCFD). TCFD proposals for LGPS pension funds are expected to mirror the DWP requirements for Trust based Pension schemes which have already been published, with requirements likely to commence in 2022 with first reporting for financial year 2022/23.

LPPI will provide further information to client pension funds once the consultation paper has been issued.

## 4. Other News and Insights

**Principles for Responsible Investment (PRI)**

LPPI submitted detailed annual reporting for the period 1st January to 31 December 2020 at the end of April.

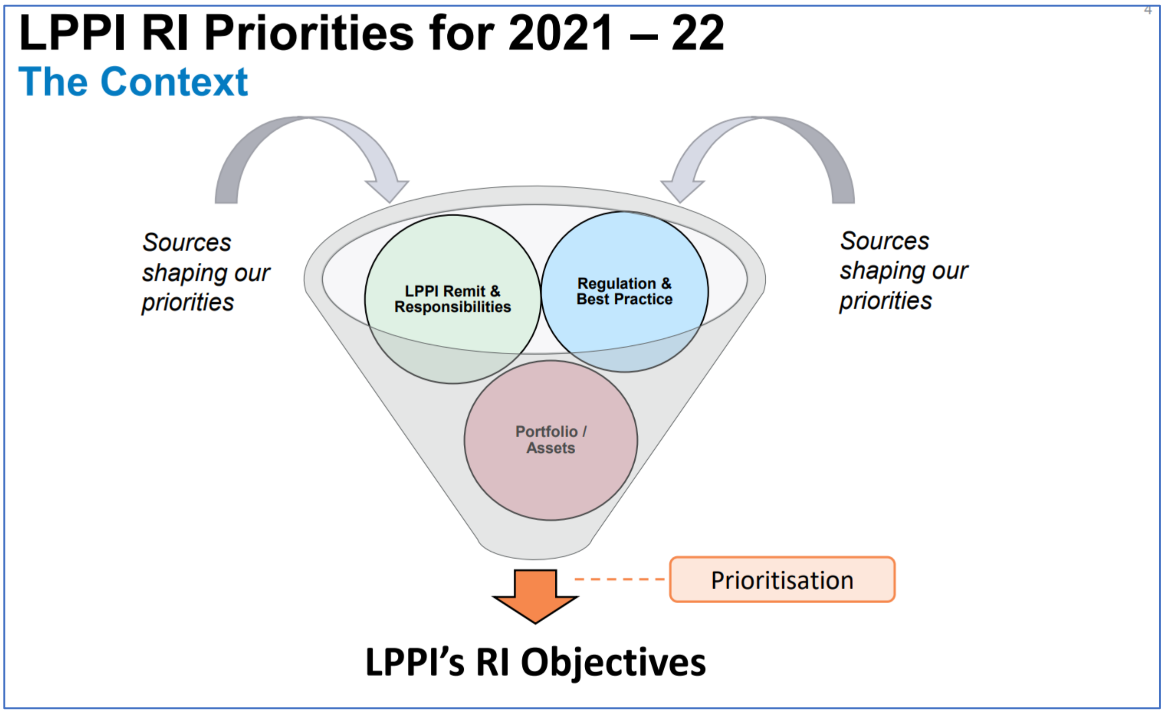
Signatories to the Principles for Responsible Investment are required to report annually under a lengthy and time-consuming disclosure process. In 2021 reporting has been made harder by an updated online reporting platform supporting a revised and extended PRI questionnaire. Implementation encountered a number of issues and delays which required the online platform to remain open until mid-May.

No firm date has been given for the release of 2021 scoring which has also been revised this year and will mean prior year ratings are not directly comparable with results of the new assessment approach introduced for 2021.

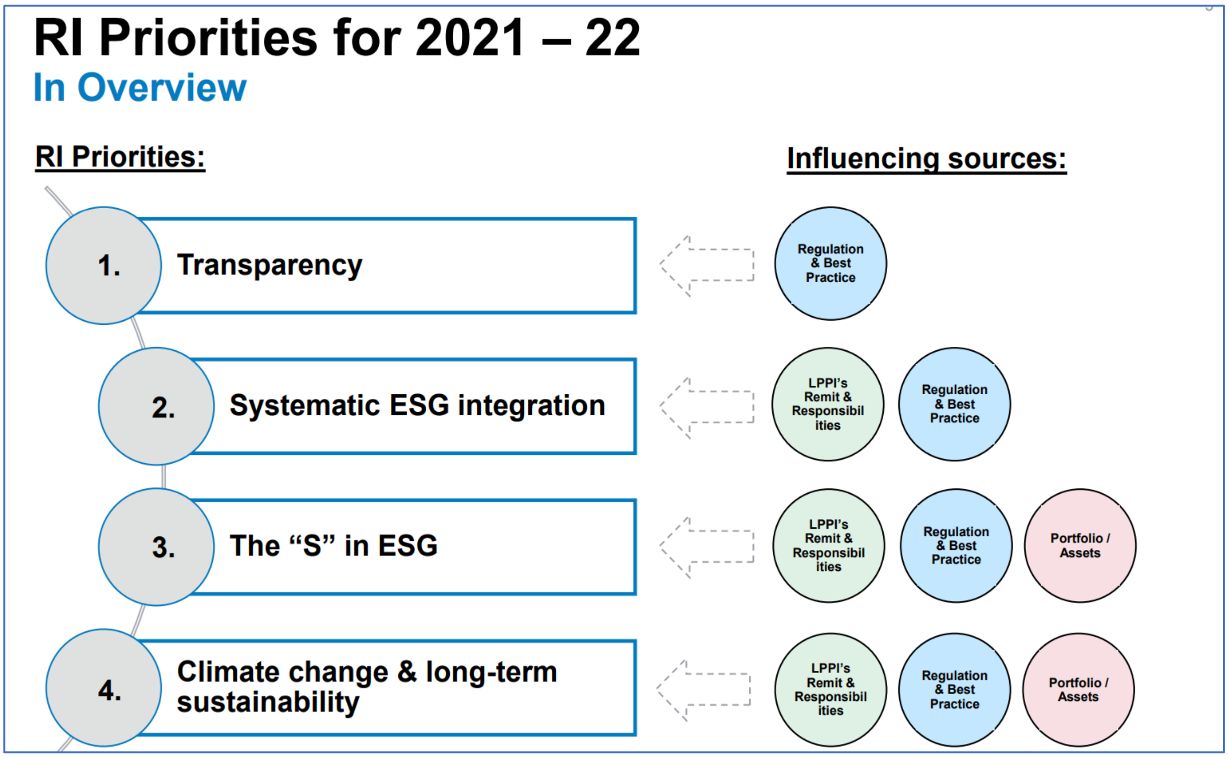
**LPPI RI Priorities for the year ahead**

LPPI introduced the RI issues identified as priorities for the year ahead to representatives from client pension funds who attended the Client Forum held on 21 April 2021.

Prioritisation has encompassed a range of influences which shape what is required of LPPI as an asset manager. These include what evolving standards and regulations set as best practice, the themes and issues arising from the assets we are managing, and the responsibilities and interests of our clients as Administering Authorities.




The priorities we have identified span our stewardship activities and our reporting on them, our investment practices, our RI Policy, and portfolio sustainability.




The emphasis on transparency reflects that we aim to continue current efforts to improve reporting to clients on our stewardship of their assets and to expand our disclosure to wider stakeholders through the information we share within public reporting.

**Challenges**

- Rapid **evolution in industry best practice** includes **growing mandation**
- Expanding requirements for asset managers regarding:
  - the **actions** managers need to take.
  - the **disclosures** managers need to make.

The replacement of "comply <u>or</u> explain" with "comply <u>and</u> explain" (and evidence)

**LPPI's response**

- Focus on **further increasing transparency** through our **reporting & disclosure** on RI & Stewardship:
  - *I.* *UK Stewardship Code 2020*: LPPI will report in line with the new code for the first time in 2021
  - *II.* *Shareholder Rights Directive II:* First reporting is for financial year 2020/21
  - *III.* *Task Force on Climate-related Financial Disclosure ("TCFD")*: 2021/22 will be LPPI's 3rd report
  - *IV.* *RI policy review / expansion*: Shareholder Voting Guidelines, Human Rights Annex

The focus on systematic ESG integration reflects our continuing effort to ensure our core investment processes embed the evaluation and monitoring of Manager ESG competencies and understand the ESG risks and opportunities the portfolio encompasses.

A focus on the S in ESG recognises the dominance climate change has had an investor priority and the relative subordination of social issues by comparison. This is an imbalance COVID 19 has shown us requires redress. The pandemic has demonstrated connectivity between the global economy, the welfare of society and the natural environment's capacity to sustain both and has brought a stronger spotlight to a range of existing issues including diversity and inclusion, in work poverty, inequality of opportunity and pay, and respect for human rights. Our focus on S will include developing an annex to LPPI's RI Policy related to Human Rights responsibilities in an investment context.

Climate change and portfolio sustainability relate to deciding LPPI's stance (as an asset manager) on the Net Zero by 2050 agenda. Considerable work is envisaged as part of scoping and delivering an approach to sustainable investment which addresses the implications (for investors) of a growing momentum to achieve an environmentally sustainable global economic model through just and ordered transition away from fossil fuel dependency within a very constrained time period.

**Pension Fund Trustees and Consideration of Social Risks**

In March, the DWP [R] launched a 12-week Call for Evidence seeking views on how well pension scheme trustees understand social factors and how these considerations are reflected in Environmental, Social, and Governance (ESG) policies.

The call reflects that social factors can present a wide range of potential risks to pension scheme investments but can also produce investment opportunities. The DWP questions the effectiveness of occupational pension scheme trustees' current policies and practices in relation to social factors and asks for more information as part of deciding whether measures to improve standards are necessary.

Responses are being invited to "help inform Government on steps needed to ensure trustees are able to meet their legal ESG obligations".

Whilst the Call for Evidence relates specifically to trust-based pension schemes there is a strong likelihood any recommendations arising as a result of the review will be considered equally applicable to Administering Authorities for LGPS schemes.

The Call for Evidence period runs from 24 March 2021 and concludes 16 June 2021. LPPI will be making a response on behalf of the Partnership from an LGPS perspective.

**LGPS Divest**

An-internet based letter campaign specifically targeting the LGPS is underway by the Palestine Solidarity Campaign (PSC). The LGPS Divest campaign enables interested parties to input their postcode and customise a standard letter which is automatically emailed to their local councillor.

Letters call on local councillors to use their influence to divest LGPS pension funds of investments in companies which provide products, equipment, and services described as "essential to Israel maintaining its grave violations of Palestinian rights".

PSC are the campaign group which successfully challenged the Government's guidance to LGPS funds that they "Should not pursue [ESG] policies that are contrary to UK foreign policy or UK defence policy".

LPPI has produced a client briefing paper providing further information on the campaign and the issues it raises to support pension funds who are considering their position preparatory to making a response to any letters they have received.

## For Reference

**GICS - Global Industry Classification System**
The most widely used approach to categorising activities into industry sectors. The main standard in use for public markets with growing use for other asset classes.
For more information on GICS and the activities that fall into each sector see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

**IIGCC –** Institutional Investor Group on Climate Change. LPPI is a member.

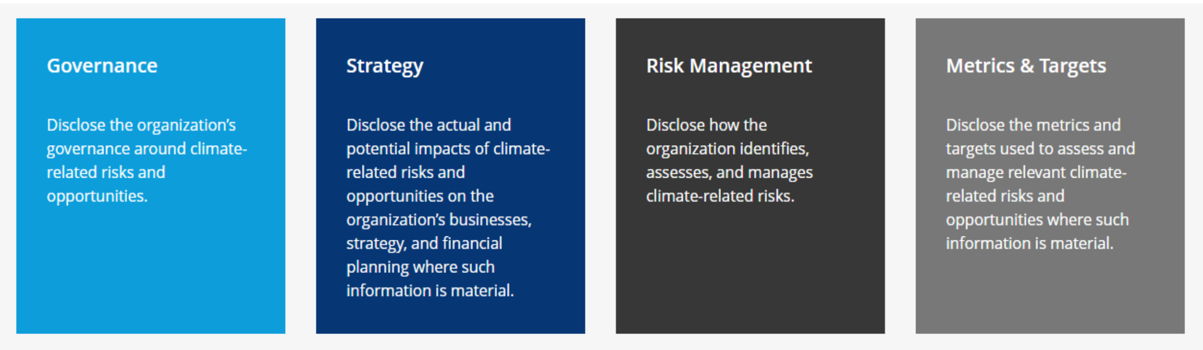
**MSCI ACWI - MSCI All Country World Index**
A stock index designed to track broad global equity-market performance.
The LPPI Global Equity Fund's benchmark.

**MSCI** - **Morgan Stanley Capital International** A global index provider.

**MHCLG -** Ministry of Housing, Communities and Local Government

**PRI –** Principles for Responsible Investment

**TCFD -** Taskforce on Climate Related Financial Disclosure
The Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.
Recommendations include annual disclosure under 4 pillars:




**TPI** - **Transition Pathway Initiative** https://www.transitionpathwayinitiative.org/

The TPI assesses highest emitting companies globally on their preparedness for transition to a low carbon economy.
368 companies are rated TPI 0-4* for Management Quality based on 19 separate datapoints. TPI Management Quality scores provide an objective external measure of corporate transition readiness.

# Responsible Investment Dashboard Q1 2021

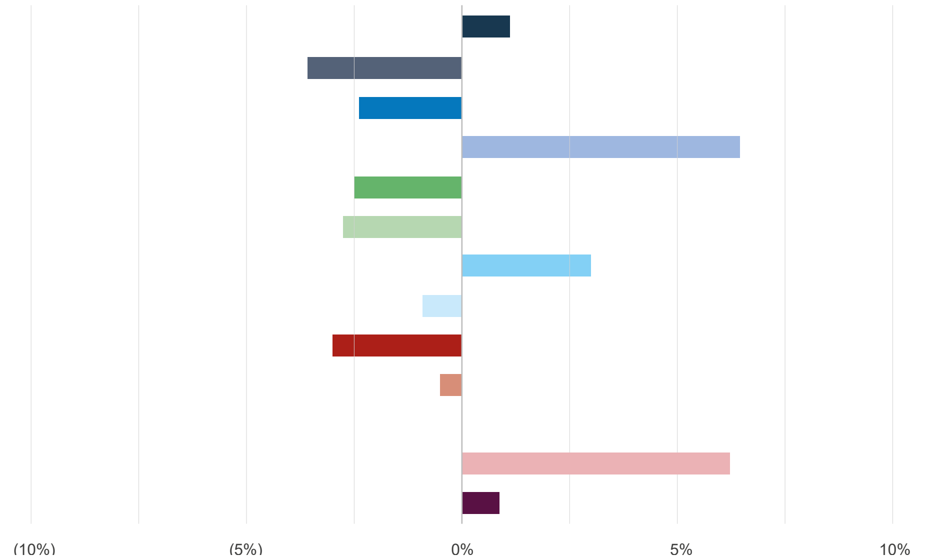
## 1. Portfolio Insights

Listed Equities (LPPI Global Equity Fund)

### Sector breakdown (%)

| | |
|---|---|
| Information Technology | 22.6 |
| Health Care | 7.3 |
| Consumer Discretionary | 10.6 |
| Consumer Staples | 13.2 |
| Energy | 0.6 |
| Materials | 1.7 |
| Industrials | 13.0 |
| Financials | 12.3 |
| Communication Services | 6.8 |
| Utilities | 2.4 |
| Real Estate | 2.2 |
| Cash | 6.2 |
| Others | 0.7 |

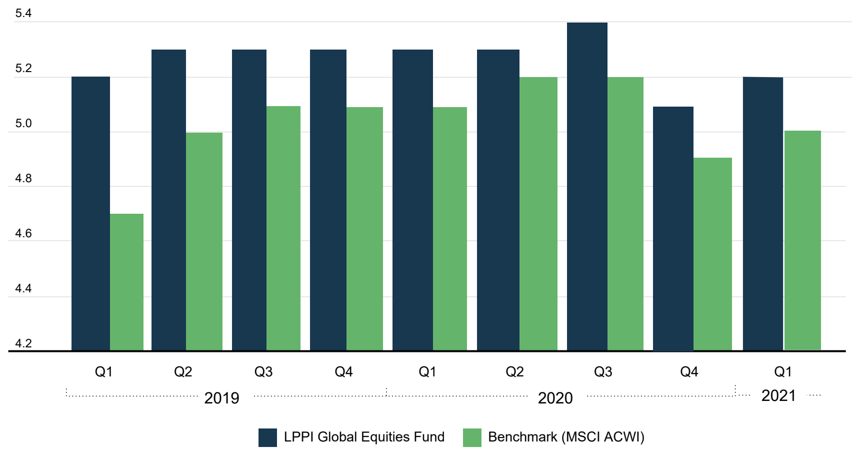
### LPPI Global Equities Fund sector weights VS MSCI ACWI ND



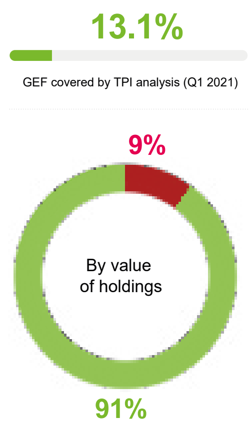

### Top 10 positions

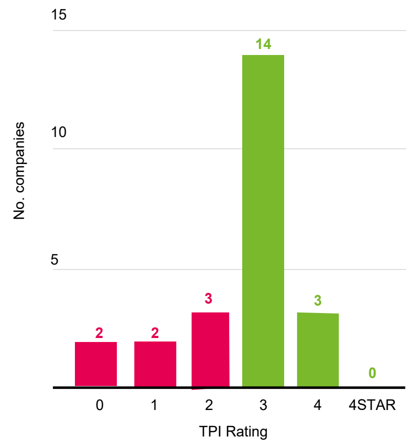
| | Portfolio (%) |
|---|---|
| 1. Microsoft | 3.7 |
| 2. Nestle | 3.2 |
| 3. Visa | 3.0 |
| 4. Colgate-Palmolive | 2.5 |
| 5. Accenture | 2.5 |
| 6. Starbucks | 2.1 |
| 7. Pepsico | 1.9 |
| 8. Estee Lauder | 1.6 |
| 9. Autozone | 1.5 |
| 10. SPDR Gold Shares | 1.5 |

### Portfolio ESG Score (MSCI ESG Metrics)




### Transition Pathway Initiative – Management Quality Headlines




**TPI Management Quality Rankings**

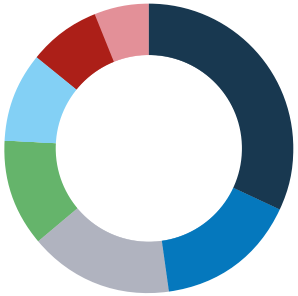
0 - Unaware
1 - Aware
2 - Building capacity
3 - Integrated into operational decisions
4 - Strategic assessment

# Responsible Investment Dashboard Q1 2021

1. Portfolio Insights

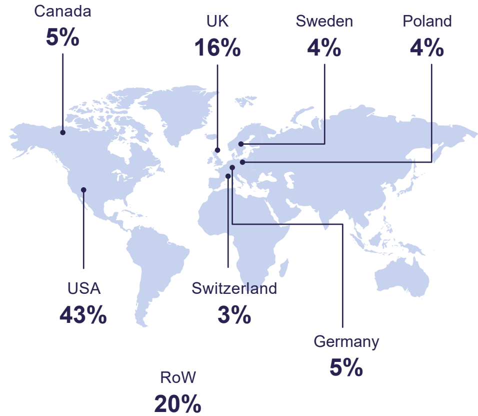
## Private Equity

**Industry Breakdown (%)**



- I.T. 34
- Industrials 14
- Other 16
- Healthcare 12
- Consumer Discretionary 12
- Financials 7
- Consumer Staples 5

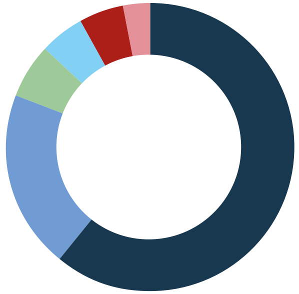
**Region Breakdown (%)**




Page 146

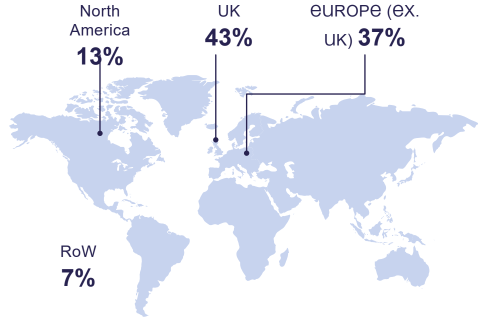
## Infrastructure (LPPI Global Infrastructure Fund)

**Industry Breakdown (%)**



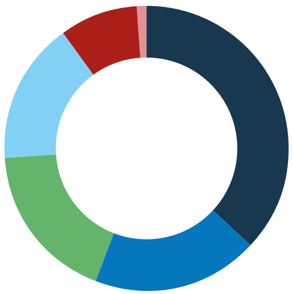
- Utilities 61
- Industrials 20
- Energy 6
- Healthcare 5
- Other 5
- PPP 3

**Region Breakdown (%)**



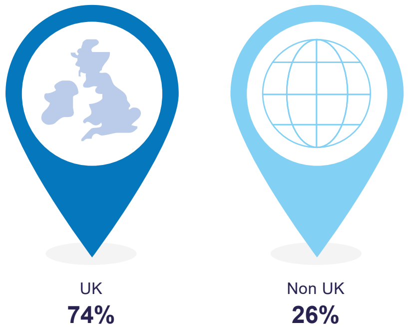

## Real Estate (LPPI Real Estate Fund)

**Sector Breakdown (NAV %)**



- Industrial 37
- Office 20
- Other 17
- Retail 16
- Residential 9
- Agriculture 1

**Geographical Exposure (NAV %)**




## Green & Brown Exposure

**Green**

Investments in businesses directly contributing to the global transition to a lower carbon economy, ex-

**3.40%** of portfolio
Public Markets 0.05% | Private Markets 3.36%

**2.76%** Renewable Energy Generation
Solar 0.09% | Wind 1.95% | Hydro 0.08% | Other 0.63%

**0.64%** Other "Green"
Activities Reducing Carbon 0.64%

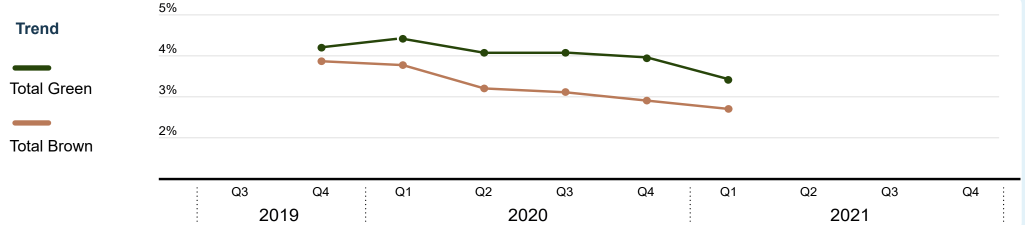
**Brown**

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.

**2.85%** of portfolio
Public Markets 0.32% | Private Markets 2.54%

**2.38%** Energy
Upstream 0.18% | Midstream 1.05% | Downstream 0.88% | Integrated 0.27%

**0.47%** Generation
Power from fossil fuels 0.47%



# Responsible Investment Dashboard Q1 2021

2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

**Headlines**

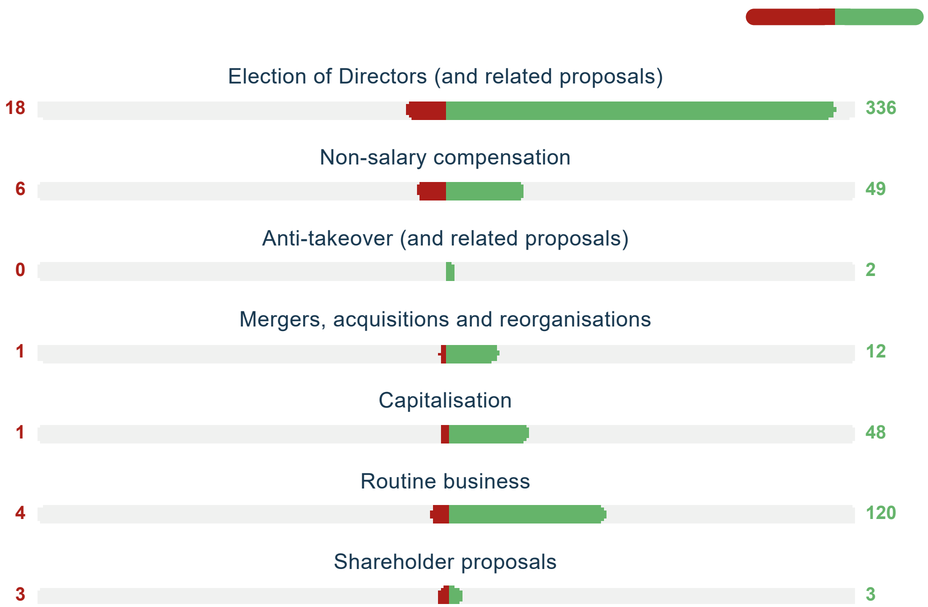
| 62 | 603 | 597 | 6 | 27% |
|---|---|---|---|---|
| Meetings Voted | Proposals Voted | Company Proposals (Supported 95%) | Shareholders Proposals (Supported 50%) | Meetings with a vote against Management |

Votes Against Management (By Theme)

- Non-salary compensation 6
- Election of Directors (and related proposals) 18
- Routine business 4
- Capitalisation 4
- Mergers, acquisitions and reorganisations 1
- Anti-takeover (and related proposals) 0

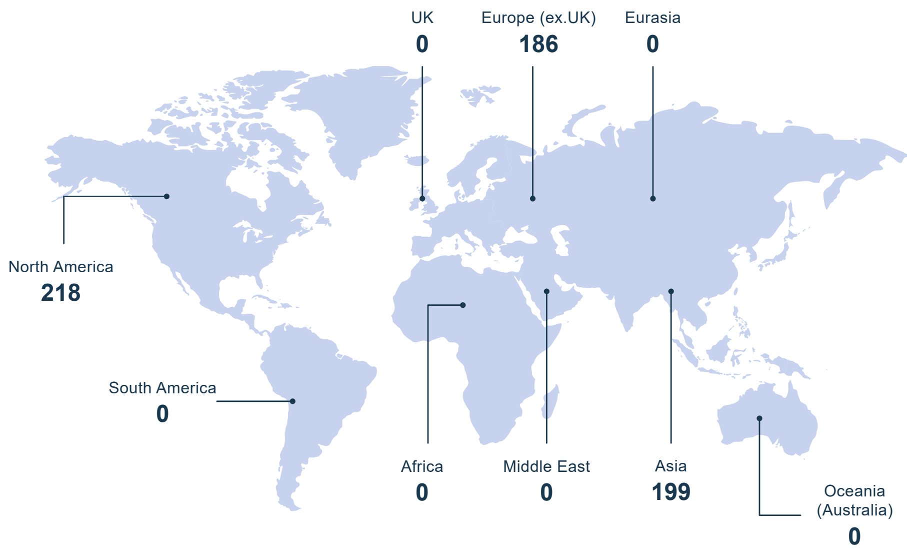
Page 147

**Voting (By Theme)**




| | Against | For |
|---|---|---|
| Election of Directors (and related proposals) | 18 | 336 |
| Non-salary compensation | 6 | 49 |
| Anti-takeover (and related proposals) | 0 | 2 |
| Mergers, acquisitions and reorganisations | 1 | 12 |
| Capitalisation | 1 | 48 |
| Routine business | 4 | 120 |
| Shareholder proposals | 3 | 3 |

**Voting (By Region)**



# Responsible Investment Dashboard Q1 2021

## 2. Stewardship Headlines

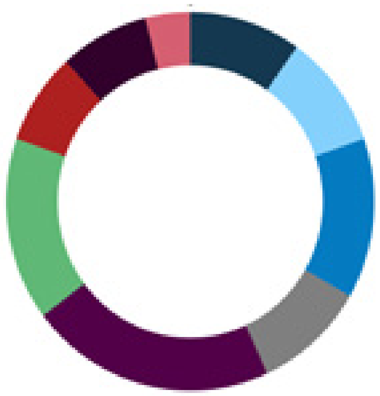
Engagement (Public Markets)

### Activity (by Topic)

| | |
|---|---|
| Corporate Governance | 9 |
| Environmental Management | 20 |
| Human Rights | 8 |
| Environmental Impact | 5 |
| Healthy Living | 6 |
| Social Management | 4 |
| Global Controversy Engagement | 1 |



### Activity (by Sector)

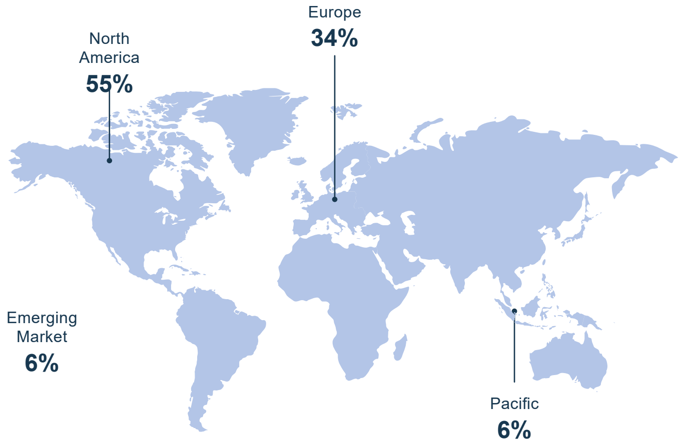


- Consumer Staples 5
- I.T. 5
- Consumer Discretionary 7
- Materials 5
- Financials 11
- Health Care 8
- Industrials 4
- Utilities 4
- Energy 2
- Telecommunications 0

### Activity (by Method)

| | |
|---|---|
| Conference Call | 34 |
| Email | 29 |
| Analysis (no actual contact with company) | 19 |
| (Open) Letter | 8 |
| Speaking at conferences | 0 |
| Meeting at company offices | 0 |
| Active voting | 2 |
| Shareholder resolution | 1 |
| Speaking at a shareholder meeting | 0 |
| Meeting at Robeco offices | 0 |
| Issue press release | 0 |

### Activity (by Region) (%)

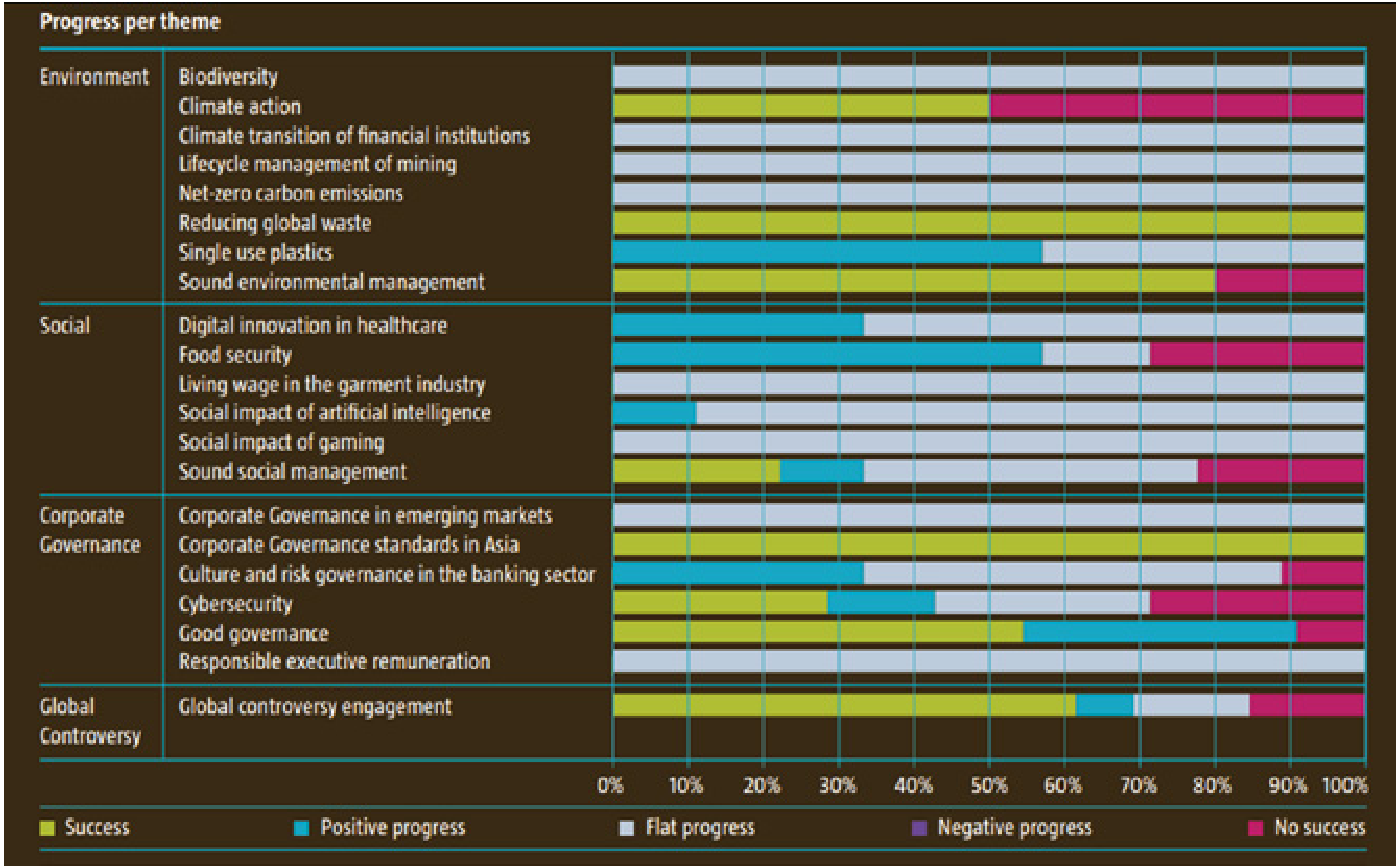



Source: Robeco Active Ownership Report Q4 2020

2. Stewardship Headlines

Engagement (Public Markets)

**Engagement Results (by Theme)**




Source: Robeco Active Ownership Report Q1 2021

3. Real World Outcomes - Infrastructure

## Renewable Energy

**Wind and Solar Energy Generation (UK)**
Jan to Dec 2020

**3,224,769**

MWH Energy Generated

Sufficient to power

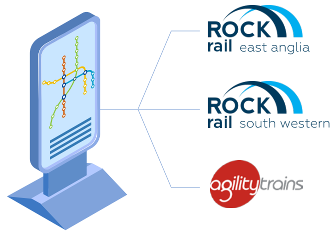
**1,047,237**

UK households for a year.

## Critical Infrastructure (Railway Transport)

### Direct support

Directly supporting the railway transport industry in the UK. Being pivotal in helping to create highly skilled jobs, ease congestion, and reduce emissions




### Key investments

Investments in Rock Rail East Anglia, Rock Rail South Western and Agility Trains East through GLIL Infrastructure are financing the introduction of new rolling stock to selected rail routes in the UK, supporting the future of green infrastructure.

### New construction

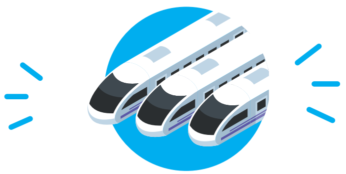
200+ new trains delivered/ under construction, incorporating modern design, safety and accessibility, passenger comfort, and energy efficiency.

All figures reflect total outputs for investee companies (not an attributed share based on % ownership).

Page 151

**Critical Infrastructure** (Railway Transport)

## ROCK rail east anglia



# 58 new trains

(20 electric units, 38 bi-mode units which can operate using overhead lines or efficient diesel generators).

**Fleet delivered in May 2020 - most now in service.**

## 79% increase

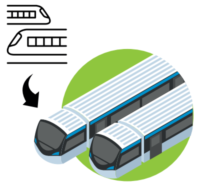
in passenger capacity and significant enhancement to passenger experience.

rockrail.com/about-rock/

## ROCK rail south western

## 90

electric trains manufactured in the UK by Bombardier Transportation.

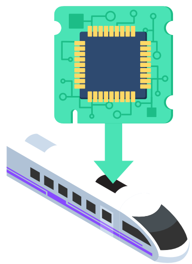


## 75%

of the trains the Arterio fleet will replace are over 30 years old. New units will begin to enter service in 2021.

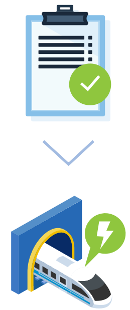
## Class leading

Energy consumption levels expected to be class leading; developed to incorporate significant weight reduction and energy saving features including regenerative breaking which returns energy to overhead wires reducing overall power usage.

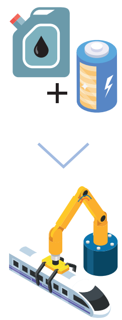


rockrail.com/rock-rail/south-western/

## agilitytrains



- Department for Transport contract for the second phase of the Intercity Express Programme.
- Providing **permanent skilled jobs** in manufacturing and supporting a strong British supplier base.
- Train operation with both **electric and efficient diesel** propulsion accommodates parts of the East Coast network which are not electrified.



- **65 new** diesel-electric hybrid Azuma trains plus associated depot facilities for the East Coast Main Line.
- **Hi-tech, lightweight materials** result in less wear and tear on rails.
- A combination of fully electric and bi-mode trains built in the UK by Hitachi (County Durham).
- New fleet is fully operational and emits **35% less** carbon than the trains it replaced.

agilitytrains.com/ecml

(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)

Document is Restricted

# Appendix A

(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)

Document is Restricted

# Agenda Item 18

(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)

Document is Restricted

# Appendix A

(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)

Document is Restricted

(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)

Document is Restricted

Document is Restricted

(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)

Document is Restricted

# Appendix A

(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)

Document is Restricted

# Appendix B

(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)

Document is Restricted

# Appendix C

(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)

Document is Restricted

(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)

Document is Restricted

# Appendix A

(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)

Document is Restricted

(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)

Document is Restricted

# Appendix A

(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)

Document is Restricted

(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)

Document is Restricted

# Appendix C

(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)

Document is Restricted

(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)

Document is Restricted