Lancashire County Council

**Lancashire County Council**

**Pension Fund Committee**

**Friday, 8th March, 2024 at 10.30 am in Committee Room 'A' - The Tudor Room, County Hall, Preston.**

**Agenda**

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

9. **Training Plan 2024/25** (Pages 75 - 84)

10. **Lancashire Local Pension Board Workplan 2024/25** (Pages 85 - 88)

11. **Responsible Investments Report** (Pages 89 - 120)

12. **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.

13. **Date of Next Meeting**
The next scheduled meeting will be held on 14th June 2024 in Committee Room 'A' – The Tudor Room at County Hall, Preston, starting at 10.30am.

14. **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)**

15. **Local Pensions Partnership Administration Update** (Pages 121 - 162)

16. **LCPF Strategic Plan 2024/25** (Pages 163 - 196)

17. **Local Pensions Partnership - Shareholder Update** (Pages 197 - 212)

18. **Local Pensions Partnership Limited - Budget 2024/25** (Pages 213 - 276)

19. **Investment Context Report** (Pages 277 - 288)

20. **Investment Performance Report** (Pages 289 - 318)

Representatives from the Local Pension Partnership Ltd are asked to leave the meeting at this point.

H MacAndrew
Director of Law and Governance

County Hall
Preston

Lancashire County Council

**Lancashire County Council**

**Pension Fund Committee**

**Minutes of the Meeting held on Friday, 9th February, 2024 at 10.30 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston**

**Present:**

County Councillor E Pope (Chair)

**County Councillors**

M Brown
J Burrows
M Clifford
J Couperthwaite
F De Molfetta
C Edwards
A Gardiner
J Mein
A Schofield
R Woollam

**Co-opted members**

Councillor M Smith, Blackpool Council
Councillor D Borrow, City and Borough Councils
Ms J Eastham, Further Education/Higher Education Institutions
Mr P Crewe, Trade Unions
Ms S Roylance, Trade Unions

**In attendance:**

Mr M Wynn, Director of Resources, Lancashire County Council (remotely)
Mr S Greene, Head of Pension Fund, Lancashire County Council.
Mr R Cathey, Principal Lawyer, Lancashire County Council.
Mr M Neville, Senior Democratic Services Officer, Lancashire County Council.
Mr S Dove, Partner - Corporate & Commercial Division, Capsticks Solicitors (remotely).

## 1. Welcome and Apologies

The Chair welcomed everyone to the meeting and reported that apologies had been received from County Councillor J Fillis.

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

No declarations of interest were made at this point in the meeting.

## 3. Minutes of the last meeting.

**Resolved:** That the Minutes of the meeting held on 1st December 2023 are confirmed as an accurate record and signed by the Chair.

## 4. Urgent Business

No items of urgent business were raised at the meeting under this heading.

## 5. Date of Next Meeting

It was noted that the next scheduled meeting of the Committee would be held at 10.30am on 8th March 2024 in Committee Room 'A' - The Tudor Room at County Hall, Preston.

## 6. 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.

## 7. Local Pensions Partnership Governance Review

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.

The Committee considered a detailed report on the proposed updated Shareholder Agreement between Lancashire County Council and the London Pension Fund Authority regarding the Local Pensions Partnership (LPP), which had been developed in consultation with Shareholder representatives as part of the Governance review of LPP.

In presenting the report the Head of Fund and M S Dove, Partner - Corporate & Commercial Division, at Capsticks Solicitors, highlighted particular sections of the Agreement and answered questions from Committee members.

**Resolved:**

1. That, subject to any minor amendments to be agreed with the Director of Law and Governance, the updated Shareholder Agreement in relation to the Local Pensions Partnership (as set out at Appendix 'C' to the report presented) is approved and recommended to Full Council for approval.

2. That the Director of Law and Governance be given delegated powers to consider any amendments requested by the Pension Fund Committee, Full Council on 14th March 2024 or the LPFA Board on 19th March 2024 and amend the Shareholder Agreement as appropriate.

3. That a report on the sections of the Articles of Association for the Local Pensions Partnership Ltd which require updating be presented to the Committee on 14th June 2024 for consideration.

H MacAndrew
Director of Law and Governance

County Hall
Preston

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
N/A;

**Lancashire County Pension Fund - External Audit Findings Report 2022-23**
Appendix 'A' refers.

Contact for further information:
Reece Pearce, Accountant (Pension Fund), reece.pearce@lancashire.gov.uk

**Brief Summary**

The external auditor is required to report, to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work and they attended the meeting in January 2024 to present a report on work to date. The auditor also presents their findings to the Pension Fund Committee and the report at Appendix A covers the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Pension Fund for the year ended 31 March 2023.

The audit of the Fund cannot be completed until the audit of the Council is ready to be signed off.

**Recommendation**

The Pension Fund Committee is asked to note the findings in the report, and the other issues raised by the auditor, which are set out in Appendix 'A' and that an updated report is expected to be presented to the Audit, Risk and Governance Committee in April 2024.

**Detail**

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Pension Fund for the 2022/23 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Stuart Basnett, Engagement Manager, will attend the meeting to present the report and answer any questions.

It is expected that the auditors' final opinion (covering Lancashire County Council and Lancashire County Pension Fund) will be provided at the Audit, Risk and Governance Committee meeting on 22 April 2024. Usually, this opinion would be provided earlier in the year. It should be noted that this delay is not related to the Pension Fund or its investments. Further headline information on this is provided on page 45 of Appendix A and the external auditor has stated that all upper tier authorities in England were likely to be facing the same issues. However, Lancashire County Council's situation has been exacerbated by the implementation of the new finance system, Oracle Fusion and the timing of the audit work being undertaken. Key highlights from Appendix A are as follows:

- The external auditor anticipates issuing an unqualified audit opinion subject to competition of some outstanding tasks.

- IT related controls in respect of the move from the old to the new pension administration system (Altair to UPM respectively) were judged to be effective; and

- Most significant transactions for the Pension Fund come from, and can be reconciled to, external sources. For example, asset values/transactions against the investment manager statements/custodian records. External Audit were able to get assurance over the financial statements from these sources.

The Annual Report for the Lancashire County Pension Fund was produced ahead of the statutory deadline of 1st December 2023, and it will be updated in the new financial year to reflect the auditors' final opinion.

**Appendices**

Appendix 'A' is attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix | Title |
|---|---|
| Appendix 'A' | Lancashire County Pension Fund - External Audit Findings Report 2022-23 |

**Consultations**

Lancashire County Council Finance Team
Pension Fund Team
Grant Thornton

**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 |
|---|---|---|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

# The Audit Findings Report for Lancashire County Pension Fund

**Year ended 31 March 2023**

January 2024

Appendix A

# Contents

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

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Page 10



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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name: Sarah Ironmonger
For Grant Thornton UK LLP
Date: January 2024

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.



**Financial Statements**

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-November. Our findings are summarised on pages 5 to 23.

We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed to finalise the audit. Subject to the satisfactory completion of the outstanding items below, there are currently no matters of which we are aware that would require modification of our audit opinion [Appendix H] or material changes to the financial statements. However, this position is subject to the satisfactory completion of the following outstanding matters;

- Final quality reviews of the audit work by the Engagement Leader
- Management responses to deficiencies raised by our IT audit team on Oracle Fusion
- Hot review sign off
- Receipt of signed management representation letter
- Review of the final set of financial statements

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified.

# 1. Headlines

## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to complete the audit of the Pension Fund.

## Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer, and showed that the overall funding level for the Fund had increased to 115% (2019 funding level: 100%). The results of the latest triennial valuation are reflected in Note 24 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 members and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Lancashire County Pension Fund, the Audit, Risk and Governance Committee fulfil the role of those charged with governance.



## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, which was communicated to you at the Audit, Risk & Governance Committee meeting on 24 July 2023.

## Conclusion

We have completed a substantial amount of our audit.

Subject to outstanding audit work and queries being resolved appropriately, we anticipate issuing an unqualified audit opinion however, the timing of when we are able to issue the opinion is dependent on when the Administering Authority audit opinion is also ready to be issued.

# 2. Financial Statements



### Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan, which was presented to the Audit, Risk and Governance Committee on 24 July 2023.

We detail in the table below our determination of materiality for Lancashire County Pension Fund.

| | Pension Fund Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | £106.520m | We have determined materiality for the audit to be £105.317m (equivalent to 1% of net assets as at 31/12/2022). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance. |
| Performance materiality | £79.890m | Performance materiality drives the extent of our testing, and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:<br>• We are not aware of a history of deficiencies in the control environment<br>• There has not historically been a large number or significant misstatements arising; and<br>• Senior management and key reporting personnel has remained stable from the prior year audit |
| Trivial matters | £5.326m | This equates to 5% of materiality. This is our reporting threshold to the Audit, Risk & Governance Committee for any errors identified. |
| Materiality for fund account | £48.910m | This equates to 10% of prior year gross operating costs. |

# 2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Page 15

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Management override of controls<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.<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 have:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>Our substantive testing of the journals posted by management, based upon a risk-scoring method as well as an overarching review of all manual journals posted (due to the small number of postings in the year) has not identified any evidence of inappropriate management override of controls.<br>As with previous years, the Fund does not have authorisation controls in place over journals – refer to page 29 for further details. |
| ISA 240 Fraud in Revenue and Expenditure Recognition<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>We have also rebutted the presumption of fraud in expenditure recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<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 this to be a significant risk for Lancashire County Pension Fund. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Valuation of Level 3 investments<br>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.<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 (£5,244m) and the sensitivity of this estimate to changes in key assumptions.<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>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.<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 | We have:<br>• evaluated management's processes for valuing Level 3 investments<br>• reviewed the nature and basis of estimated values and considered 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>• independently requested year-end confirmations from investment managers<br>• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period and<br>• in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert<br>• tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records<br>• where available reviewed investment manager service auditor report on design effectiveness of internal controls.<br>Per the Fund's accounting policies, year-end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk, the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2023, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years, as a result of Brexit and Covid, these movements have been more volatile.<br>From the work which we have performed the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m. |

Page 16

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Valuation of Direct Property<br>The Fund revalues its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£152 million) and the sensitivity of this estimate to changes in key assumptions.<br>Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.<br>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated the processes and controls in place which relate to the valuation of directly held investment property and updated our audit approach scoping for the assessed risk.<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• written out to them and discussed with the valuer the basis on which the valuation was carried out<br>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>• tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records<br>• where available reviewed investment manager service auditor report on design effectiveness of internal controls.<br>**Our audit work on the valuation of directly held property did not identify any significant issues or misstatements. Sufficient, appropriate assurance was gained over this balance.** |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Incomplete or inaccurate financial information transferred to the new general ledger<br><br>In January 2023, the Fund implemented a new general ledger system for the 2022/23 financial year-end. The Fund has moved from Oracle R12 to Oracle Fusion, a cloud-based system.<br><br>When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.<br><br>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. | We have:<br>• completed an information technology (IT) environment review by our IT audit specialists which included documenting and evaluating the design and implementation of controls within the new general ledger system; and<br>• mapped the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information.<br><br>Detailed findings from our work on the control environment of the new system can be found on pages 14-15. Our work identified some significant deficiencies in the IT General Controls. Recommendations for management are included at Appendix B. Our work on the migration of balances from the old system to the new system did not identify any issues. |
| Incomplete or inaccurate information transferred to the new pension administration system<br><br>Local Pensions Partnership Administration (LPPA) provide the benefits administration services for the Fund. In December 2022, LPPA migrated the LCPF membership data from the previously used Altair system to a new Civica UPM system.<br><br>It is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous administration system.<br><br>We therefore identified the completeness and accuracy of the transfer of member data information to the new administration system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. | We will:<br>• completed an information technology (IT) environment review which included documenting and evaluating the design and implementation of controls within the new pension administration system; and<br>• Performed substantive procedures to test the completeness and accuracy of the member data transferred to the new system.<br><br>Our work has not identified any issues with regards to the migration of data to the new pension administration system. |

Page 18

# 2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Level 3 Investments – £5,244m | The Pension Fund has investments in unquoted equity, pooled property investments and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2023 at £5,244m (per draft accounts).<br>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in.<br>The value of the investments has decreased by £115m in 2022-23, largely due to significant market volatility resulting from the Russian invasion of Ukraine, the September 2022 "mini-budget" and the cost-of-living crisis. | Management determine the values of level 3 investments through placing reliance on the expertise of investment managers.<br>We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts.<br>Management has disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 17 to allow the reader to understand the potential impact on the accounts should the value of those estimates change.<br>Per the Fund's accounting policies, year-end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2023, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile.<br>From the work which we have performed the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m. | Light Purple |

Page 19

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Level 2 Investments – £156.3m | The Pension Fund's level 2 investments consist of the LPPI Fixed Income Fund which is a pooled fund investing in "high credit quality, highly liquid fixed income instruments across geographies, instrument types and maturities". The value of the Fund per the draft financial statements as at 31 March 2023 was £156.3m.<br><br>The value of the investments has decreased by £242m in 2022-23, largely due to significant reduction in the number of units held by the Fund at year end.<br><br>These investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. | Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers.<br><br>As such we have sought confirmations of year end valuations from LPPI and also obtained the audited accounts prepared for the LPPI fixed income fund to use as a basis to compare the valuation in the pension funds accounts to the valuation per the audited accounts of LPPI.<br><br>We also obtained direct confirmations of balances outstanding from each of the local authority short term loans.<br><br>No issues were identified from the work which we performed. | Light Purple |

Page 20

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Directly held investment Property – Level 3 - £152.8m | The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2023 at £152.8m.<br>In order to determine the value, management engage independent RICs qualified valuers, Avison Young, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/2023.<br>The value of the investments have decreased by £10m in 2022/23. Although there were net purchases of £11m during there year, the fall in the overall valuation of directly held property was largely as a result of significant decreases in the fair value of the properties on revaluation as at 31/3/2023. | Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer.<br>As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the investment properties. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon.<br>We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range.<br>We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer. | Light Purple |

Page 21

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

| | | | ITGC control area rating | | | | |
|---|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
| Oracle Fusion | ITGC assessment (design and implementation effectiveness only) | ● (red) | ● (red) | ● (red) | ● (red) | All significant risks | We have reviewed the findings of the IT audit and confirmed that none of the identified users with admin access/self-assigned access rights had posted any journals during the year. We performed a review of all manual posted journals as part of our journal selection. Also, since the majority of the pension fund posting are agreeable to custodian reports or 3rd party confirmations, we have assurance over information produced by the entity (IPE). |
| Oracle EBS | ITGC assessment (design and implementation effectiveness only) | ● (red) | ● (red) | ● (grey) | ● (grey) | All significant risks | None – the PF moved to Oracle Fusion during the year. |



We have raised further queries with management as a result of the findings from our ITGC work and the recommendations in Appendix B. Management are still considering these further queries.

**Assessment**

- ● (red) Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● (amber) Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● (green) IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● (grey) Not in scope for testing

# 2. Financial Statements: Information Technology

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| | | | ITGC control area rating | | | | |
|---|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
| Pension Administration System (Civica UPM) | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures | None required |
| Pension Administration System (Altair) | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | As above | None – the PF moved to Civica UPM during the year. |

Page 23

**Assessment**

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

# 2. Financial Statements: Information Technology

We also performed specific procedures in relation to the changes to key systems during the audit period, specifically the implementation of the new general ledger system and the new pension administration system. We observed the following results:

| IT system | Event | Result | Related significant risks/ risk/observations |
|---|---|---|---|
| Oracle Fusion | New system implementation | Significant deficiencies identified in IT controls relevant to the audit of financial statements. Lack of proper documentation and retention of the IT project related activities.<br><br>See recommendations at Appendix B. | - All significant risks |
| Civica UPM | New system implementation | No significant deficiencies have been identified | - Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures |



**Assessment**

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

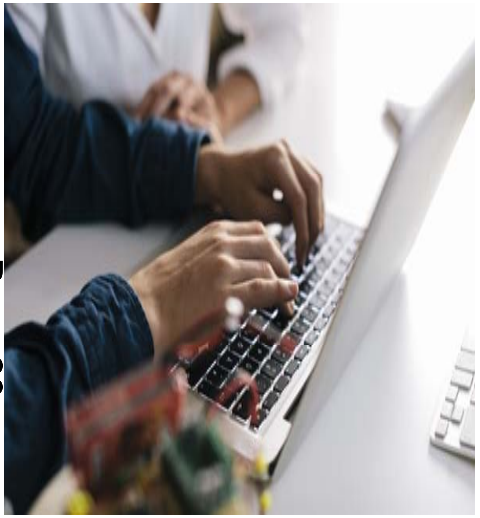
# 2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee and Pension Fund Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. We note that no declaration of interest was received for 3 members. We are however satisfied that the fund has appropriate procedures in place to obtain and monitor declarations. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Pension Fund. We have not requested any additional specific representations from management. See draft representation letter at Appendix G. |
| Audit evidence and explanations | We note that there were significant delays in the provision of some working papers and responding to requests to provide evidence for audit samples by LPPA. Whilst we had weekly calls with staff at LPPA to discuss progress, the timeframes for the provision of information was far longer than we would expect and resulted in significant delays to the completion of the audit. We do understand that there are currently staffing/capacity issues at LPPA and that LPPA provides administration services to 18 clients. If we are to get back to a position where we aim to sign off the audit by 30 September in future years, then it will be necessary to ensure that all key working papers are provided at the start of the audit and that sample evidence is returned promptly. We will discuss this with management as part of our review of this years' audit. As a result of the delays additional resources were required to complete the audit, incurring additional audit fee costs. See Appendix E. |

# 2. Financial Statements: other communication requirements



Page 26

| Issue | Commentary |
| --- | --- |
| Confirmation requests from third parties | We requested direct confirmations from the Fund's bankers and custodian and plus a sample of managers of level 3 investments. All confirmations were received. |
| Accounting practices | We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.<br>For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review. |

# 2. Financial Statements: other communication requirements

Page 27

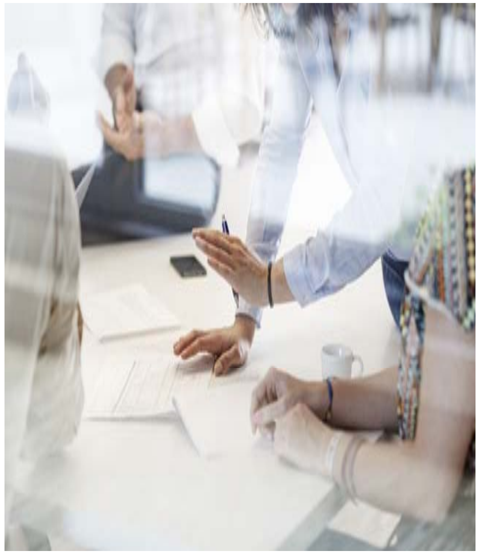
### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
| --- | --- |
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Pension Fund and the environment in which it operates<br>• the Pension Fund's financial reporting framework<br>• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | 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. We are required to 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. No inconsistencies have been identified.<br>We plan to issue an unmodified opinion in this respect – refer to Appendix H. |
| Matters on which we report by exception | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report with the opinion on the accounts.<br>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters. |



# 3. Independence and ethics

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements



We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix E.

### Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

# 3. Independence and ethics

### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| IAS19 procedures for other bodies admitted to the pension fund | £39,000<br>(£6,000 base Fee, £5,000 Triennial Valuation plus £1,100 for each set of audit procedures - 20 Expected)<br>We also issued 6 additional 21-22 letters due to the triennial valuation (£1,000 each) | Self-Interest (because this is a recurring fee)<br>Self-review<br>Management | The fee for this work is recurring but not significant compared to the audit of the financial statements of £51,036 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit.<br>These factors all mitigate the perceived self-interest threat to an acceptable level. The amount to be recharged is to be confirmed – see appendix E for a reconciliation to the financial statements. We have not prepared the financial information on which our assurances will be used by the requesting auditor. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management<br>We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate. |
| Non-audit Related | | | |
| None | | | |



These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

# 3. Independence and ethics

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Pension Fund |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff |
| For transparency, we are disclosing 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% share of the equity. | The audit fees are paid directly by LPP with no financial impact for Lancashire County Pension Fund or the Council. This disclosure is purely to make members aware of our relationship with bodies related to Pension Fund.<br><br>The Council and Pension Fund Audits are undertaken by a separate audit team from the Public Sector arm of the firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leaders in place for the audits, and where we seek to place reliance 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 with relevant auditing standards.<br><br>We are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund. |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

# A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |



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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

### Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund (and Council) as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| | Lack of proper documentation and retention of the IT project related activities<br><br>During our audit, we noted that there was no proper documentation for the entire Oracle Cloud system implementation project. Evidence was not available for audit inspection.<br><br>We were informed that the implementation process was led by SOCITM, an outsourced service providers, with further support from Mastek and Egress. Although a group of representatives from Lancashire County Council were involved in the project, all of them had left the Council at the time of our audit. Lancashire County Council teams were unable to retrieve the project related documentation<br><br>Risk<br><br>Without proper retention of project documentation increases the risk of not being able to confirm if objectives have been met, whether adequate governance was in place throughout the life of the project, what challenges were faced, what lessons were learned and whether risks were addressed adequately.<br><br>In the absence of documented evidence for what checks were performed during the migration process there is an increased risk that data migrated between the legacy and new applications, may not be complete and accurate.<br><br>Furthermore, the application may not consistently operate if known bugs and issues identified during data migration and system testing have not been resolved or appropriately mitigated prior to go live.<br><br>Not documenting the go-live decision makes it difficult to verify how much due diligence was performed increasing the risk that key aspects of the project may have been overlooked which could result in a potential failure of the new system. | It is recommended that management ensure policies and procedures are developed and implemented that provide guidance on how IT systems should be acquired or developed. These documents should be formally approved by an appropriate level of Management and communicated to staff who will be responsible managing and implementing projects. Consideration should be given to developing and implementing all or some of the following suggested policies, procedures and documents, which will be dependent on the risk appetite of the Council and the size and risk of the project in question:<br><br>Project Initiation document (PID)<br><br>Gap analysis and considerations during software selection and design specifications<br><br>Project plan<br><br>Project Charter<br><br>Work Breakdown Structure (WBS)<br><br>Testing strategy incorporating the use of test plans<br><br>Data migration strategy incorporating data cleansing, cutover and reconciliations<br><br>Risks and Issues Log<br><br>Project Communications Plan incorporating the capture of documented approvals for key stages of the project especially any go-live decisions<br><br>Change Request Management.<br><br>Failover/roll back plans<br><br>As part of developing the above-mentioned policies, procedures and documents, guidance should be provided for how long they should be retained for each project, where they should be retained and who should be able to access them once the project has concluded. Most organisations retain documentation for a minimum period of twelve months after the project has completed.<br><br>Management response<br><br>Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee. |

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| | **Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion**<br>During our audit, we noted that system administrative access to Oracle EBS and Oracle Fusion had been granted to 36 and 17 business users, respectively. These users had financial or operational responsibilities.<br>Furthermore, management was unable to provide justification for two privileged generic accounts identified in Oracle Fusion.<br><br>**Risk**<br>A combination of administration and financial/ operational responsibilities creates a risk that system-enforced internal controls can be bypassed. This could lead to<br>• unauthorised changes being made to system parameters<br>• creation of unauthorised accounts,<br>• unauthorised updates to their own account privileges<br>• deletion of audit logs or disabling logging mechanisms. | Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles.<br>Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business.<br>If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities, e.g. reviewing system reports of detailed transactions; audit trails for activities performed by the privileged accounts, etc.<br><br>**Management response**<br>Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee. |
| | **Lack of formal process in managing Oracle Fusion self-assigned roles**<br>We identified 38 instances in Oracle Fusion applications where accesses were self-assigned. This comprises eight unique users who assigned the accesses to their accounts. No approval documentation was provided for audit inspection.<br>**Risk**<br>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data. | Management should ensure that all access requests are formally documented and approved.<br>Additionally, it is advisable to regularly monitor system audit trails, preferably by IT security personnel or a team independent of those administering Oracle Fusion and its underlying database. Any identified issues within these trails should be thoroughly investigated, and mitigating controls should be implemented to minimize the risk of recurrence.<br><br>**Management response**<br>Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee. |

Page 35

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● | Insufficient retention of documents related to Oracle Fusion system changes and access provisioning<br><br>During our audit, we noted that relevant documentation of Oracle Fusion system changes and access provisioning was not available for audit inspection.<br>We were informed that the Service Now application was used for the management of IT services, encompassing system changes and access provisioning throughout the audit period. However, this application was no longer accessible at the time of our audit as it was decommissioned.<br><br>Risk<br>Without proper retention of documentation:<br>• It becomes challenging to attribute changes to specific individuals or teams, leading to a lack of accountability for system modification and access-related actions<br>• In scenarios involving staff turnover or changes in roles, it poses difficulties in transferring knowledge related to system changes and access provisioning processes, leading to potential disruptions<br>• It becomes harder to monitor and detect insider threats, as unauthorised activities may go unnoticed in the absence of clear record<br>• It can impede troubleshooting and problem resolution processes, causing delays in addressing issues and impacting overall system performance | It is recommended that management should establishing and maintaining a robust system change and access provisioning documentation process for ensuring transparency, accountability, and security of the IT environment. The process should include clear guidelines, regularly updates records, and adherence to security best practices.<br>When changing the IT services solutions (such as Service Now application), it is recommended that management should follow the process of acquiring and developing new IT system, including:<br>• Implement a comprehensive data backup plan before migrating to a new IT services solution. The integrity of backups should be verified to ensure that critical records are securely stored and can be readily accessed if needed.<br>• Document all relevant information about the existing IT service solution, including access provisioning, system changes, and configurations.<br>• Perform thorough validation and integrity checks on data migrated to the new IT service solution to identify and address any discrepancies or missing records.<br><br>Management response<br><br>Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee. |

Page 36

**Controls**

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

# C. Follow up of prior year recommendations

We identified the following issue in the audit of the Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported. This issue continues to exist and so we continue to report it for the attention of Those Charged with Governance.

| 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 system are input by approved personnel, but they are not subject to separate authorisation controls by a second staff member at the time of input.<br>The risk is that the absence of authorisation controls at the time of input creates a higher risk of error or manipulation.<br>**Recommendation**<br>Review the authorisation procedures in place over journal input. | **Management Response**<br>The same personnel-based controls remain in place at the Council, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept that 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 the ability to post journals) is carried out at least annually.<br>**Audit Response**<br>As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency and we have assessed the journals control environment as “medium” risk. Whilst the deficiency exists with the Fund’s system, the low number of manual journals posted as well as the limited number of journal posters and that the majority of journals relate to investment postings which can be traced to custodian/fund manager records, the impact of the deficiency in the context of the risk of management override of controls, is reduced. |

Page 37

**Assessment**

✓ Action completed

X Not yet addressed

# D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements and their impact on the main statements are set out below:

| Detail | Pension Fund Account £m | Net Asset Statement £m | Impact on total net assets £m |
|---|---|---|---|
| **Ledger Reconciliation Differences**<br>On completion of our agreement of the trial balance to the accounts and through discussions with management, it was identified that there were some minor reconciling differences between the ledger codes for transfers in, accrued expenses and sundry debtors which net off against each other to a minor impact on the Fund Account. Management has however made these amendments to the final set of accounts. | £0.6m | £0.6m | £0.6m |
| **Level 3 Investments**<br>As detailed on page 8 of our report, management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which was a reduction in the asset value by £5.4m. | (£5.4m) | (£5.4m) | (£5.4m) |
| Overall impact | £4.8m | £4.8m | £4.8m |

# D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? |
|---|---|---|
| **Presentation/Disclosure Changes**<br>A number of minor amendments have been suggested to management from our financial statements presentation and internal consistency review. This includes Note 2, Note 5, Note 21 and other minor amendments to other notes in the accounts. | The final version of accounts is to be amended for these matters. | ✓ |
| **Note 4 Critical Judgements**<br>This note has been revised to remove disclosures made in the draft accounts which when challenged, management did not believe where the most critical judgements made in the application of their accounting policies. A new disclosure has been added for the judgement that, based on the key inputs into the valuation of the LPPI Global Equities Pooled Fund, it should be classified as a level 1 investment. | The final version of accounts is to be amended for these matters. | ✓ |
| **Notes 13, 16 and 17**<br>From our audit work performed there have been various amendments made to the investments and financial instrument notes to ensure that they are all consistent with each other, agree to supporting workings and are presented in line with the code. These notes are all disclosure notes so there is no impact on the main statements from these changes | The final version of accounts is to be amended for these matters. | ✓ |

# D. Audit Adjustments (continued)

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit, Risk & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 | Reason for not adjusting |
|---|---|---|---|---|
| Investment Manager Fees<br>Testing of investment manager fees identified that performance related fees can often be difficult to accrue for due to the cost being linked to performance benchmarked and difficult to quantify until the invoice is received. Our testing identified an understatement of 2022-23 investment manager fees of £1.4m. Our testing also identified an understatement of 2021-22 investment manager fees (not received until 22/23 or adjusted for in 22/23) of £6.7m. The total understatement of £8.1m is below PM and will be accounted for in the 2023/24 accounts. | (£8.1m) | (£8.1m) | (£8.1m) | Not material |
| Overall impact | (£8.1m) | (£8.1m) | (£8.1m) | |



## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

| Detail | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 | Reason for not adjusting |
|---|---|---|---|---|
| Per the Fund's accounting policies, year-end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile.<br>From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality. | £33.7m | £33.7m | £33.7m | Below Performance Materiality |
| Overall impact | £33.7m | £33.7m | £33.7m | |

# E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

| Audit fees | Proposed fee (£) | Final fee (£) |
|---|---|---|
| Scale Fee (set by PSAA) | £28,185 | £28,185 |
| Valuation of Level 3 Investments | £1,563 | £1,563 |
| Valuation of Directly held Property | £2,188 | £2,188 |
| Impact of ISA 540 | £3,600 | £3,600 |
| Impact of ISA 315 | £3,000 | £3,000 |
| Journals testing | £2,000 | £2,000 |
| Additional testing of member data analytical review – change in circumstances | £500 | £500 |
| Quality review – response to FRC (Hot Review – occurs bi-annually) | 0 | £2,500 |
| Review of the controls and implementation of the new ledger and pension administration systems | £10,000 | £10,000 |
| Additional resourcing costs incurred due to significant delays in receipt of evidence | 0 | £5,000 |
| **Pension Fund Audit** | **£51,036** | **£58,536** |
| IAS 19 letters for employer body auditors | £34,000 | TBC** |
| Work on triennial valuation member data * | £5,000 | £5,000 |
| Total audit fees (excluding VAT) | £90,036 | £97,536 |

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2023/24 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

** We are still awaiting request letters from a number of auditors of admitted bodies. The proposed national audit sign-off backstop date in 2024 (still TBC) may mean that some auditors do not complete 2022-23 audits and so do not request an IAS 19 assurance letter from us. As such the final fee for IAS 19 letters remains subject to change.

Variations to the scale fee are subject to PSAA approval which often takes place after we have signed the audit opinion. We do not believe that this impacts upon our integrity, objectivity or independence.

# E. Fees and non-audit services

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services | | |
| IAS19 Assurance Letters (£6,000 base fee + £1,100 per letter – 20 expected though not all yet received)<br>Triennial Valuation Fee - £5,000<br>Additional 2021-22 Letters (£1,000 – per letter – 6 issued) | £39,000 | TBC |
| Total non-audit fees (excluding VAT) | £39,000 | TBC |

Page 42

The Audit fees for the opinion reconcile to the financial statements per our proposed figures. The additional fees charged per the final audit fees will be accounted for in 2023/24.

There are reconciling items with regards to the additional IAS 19 Fees, which will again be accounted for in 2023/24:

IAS 19 fees per Note 10 of the financial statements - £25,800

- Triennial Valuation Fee - £5,000
- Additional revised 21-22 IAS 19 Fees - £6,000 (These assurance letters were issued in June 2023 and November 2023 to account for results of 31/3/2022 Triennial Valuation)
- Two additional requests for 2022-23 (Only 18 letters in 2021/22) - £2,200 (£1,100 per letter)

Total fees per above - £39,000

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)).

# F. Auditing developments

### Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# G. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
11th Floor,
Landmark St Peter's Square,
1 Oxford St,
Manchester,
M1 4PB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs
Lancashire County Pension Fund Financial Statements for the year ended 31 March 2023
This representation letter is provided in connection with the audit of the financial statements of Lancashire County Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

Page 44

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:
Financial Statements
i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include level 2 investments, level 3 investments and directly-held investment property. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
vi. Except as disclosed in the financial statements:
a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the Fund has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end.
xi. The financial statements are free of material misstatements, including omissions.
xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
xiv. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :
a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

# G. Management Letter of Representation

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided
xv. We have provided you with:
a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.
xvi. We have communicated to you all deficiencies in internal control of which management is aware.
xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.



xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.
xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval
The approval of this letter of representation was minuted by the Audit, Risk & Governance Committee at its meeting on XX XX XXXX.

Yours faithfully

Name……………………………

Position…………………………..

Date……………………………..

Name……………………………

Position…………………………..

Date……………………………..

Signed on behalf of the Fund

# H. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

## Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

### Opinion on financial statements

We have audited the financial statements of Lancashire County Pension Fund (the ‘Pension Fund’) administered by Lancashire County Council (the ‘Authority’) for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement, and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.



In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund’s assets and liabilities
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund’s financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Section 151 Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Section 151 Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Section 151 Officer’s use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report.

### Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund’s financial statements and our auditor’s report thereon, and our

# H. Audit opinion

auditor's report on the Authority's and group's financial statements. The Section 151 Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**



In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and
- Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

**Responsibilities of the Authority and the Section 151 Officer**

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Section 151 Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

# H. Audit opinion

United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003), Public Service Pensions Act 2013, Local Government Pension Scheme Regulations 2013 and Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Audit, Risk and Governance Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit, Risk and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.



We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation manual journals, those journals over 5 times materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on manual journals, those journals over 5 times materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel.
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 investments, level 3 investments and directly held property, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

# H. Audit opinion

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Ironmonger, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

**Manchester**

**DATE**

grantthornton.co.uk

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
N/A;

**Budget Monitoring 2023/24 – Q3**
(Appendix 'A' refers)

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

**Brief Summary**

This report sets out the income and expenditure of the Fund for the 9-month period to 31 December 2023 and provides a forecast for the year ending 31 March 2024.

**Recommendation**

The Committee is asked to review the financial results for the 9 months to 31 December 2023 and note the budget and forecast variances, as set out in the report.

**Background and Advice**

The Lancashire County Pension Fund budget for the financial year ending 31 March 2024 was approved by the Pension Fund Committee on 10th March 2023. The budget was based on the information available at that time and the forecast provided in Appendix 'A' gives the latest estimate of expenditure and income for the financial year considering updated information to date.

The forecast for the year ending 31 March 2024 indicates that money available for investment will be slightly less than that set out in the budget for the same period. Details are shown in Appendix 'A' with significant variances by budget line set out below.

**Contribution's income**

**Actual £351.3m (Budget £404.1m, revised forecast at Q3 £411.1m)**

The employer and employee contributions have remained largely in line with the budget. Some of the variance between budget and actuals for employer contributions is due to differences in employer opting to make the prepayments in 2023/24 compared to that anticipated in setting the budget. A review of the prepayments identified a need for a top up payment up due to higher than anticipated payroll levels which could not have been anticipated when setting the budget.

In addition, there has now been an agreement on the local government pay settlement for 2023/24 with the impact seen in Q3.

The actuals include prepaid contributions of £183.5m for the 3-year period (from 2023/24 to 2025/26) which were actually received from 1st April 2023.

**Transfers In**

**Actual £14.8m (Budget £15.4m, forecast at Q3 £18.7m)**

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 £148.0m (Budget £220.0m, forecast at Q3 £205.0m)**

Investment income consists mainly of income from the pooled investment funds (95% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds.

During the third quarter, investment income has been £3m above recent expectations. However, over the 9 months to 31 December 2023 investment income received has been below budget by £17.0m. This variance is largely due to the Infrastructure pool which is under budget by £19.9m, Private Equity and Credit are both also below budget whilst Global Equity is above budget. It is not anticipated that investment income will make up the shortfall against budget seen in Q1 and so the forecast has been reduced accordingly.

**Total benefits payable**

**Actual £267.0m (Budget £345.8m, forecast at Q3 £355.9m)**

The forecast for the year is broadly in line with budget, with an overall adverse variance due to both monthly and lump sum pensions being more than budget. The variance is largely due to increased pensioner numbers.

**Transfers out**

**Actual £16.3m (Budget £16.1m, forecast at Q3 £20.3m)**

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 £78.9m (Budget £130.5m, forecast at Q3 £117.5m)**

Investment management expenses encompass fees related to the ongoing management, custody, and performance of investments.

### Management fees

Management fees (related to ongoing management) are expected to directly relate to the value of the assets. At the point that the budget is set, management fees are estimated based on asset values at that point projected forwards. Actual experience during the year to date has shown that asset values have increased which is in line with the projection. During the 9 months to 31 December 2023, the value of the Fund's assets has increased from £10.8 billion to £11.4 billion, and this asset performance has resulted in a slight increase in management fees, however, due to the delays to closing the 2022/23 general ledger (which remained open for longer than usual due to the implementation of Oracle Fusion), it has allowed the Fund to post further prior year fees into the prior financial year (2022/23), resulting in lower costs being seen in 2023/24.

### Performance fees

Performance related fees are highly difficult to estimate as they are dependent on returns generated over a particular period, there are specific thresholds to be met before being payable and provisions whereby prior performance fees can be returned to investors. The budget/estimate for the current year is based on the previous year's actual performance fees subject to some relevant adjustments. Differences between budgeted/estimated fees and actual fees are likely to be exacerbated by periods of market volatility under this approach.

### Overall position

The 9-month actual to 31st December 2023 is below the annual budget. This is not totally unexpected as most of the performance fees are incurred in relation to the private equity assets which have seen a return of 0.6% to 31st December 2023, the low level of fees has also been exacerbated by the posting of fees to the previous year when they would usually go against the current year (see above). The forecast investment management fees have been adjusted accordingly.

## Fund administration and oversight and governance fees

**Actual £4.8m (Budget £7.1m, forecast at Q3 £6.5m)**

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

The fees are forecasted to be below budget as a smoothing arrangement has been agreed with LPPA for the provision of the administration services.

## Appendices

Appendix 'A' is attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix | Title |
|---|---|
| Appendix 'A' | 2023/24 Budget Monitoring Report – quarter ended 31st December 2023 |

## 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 will be included in the Fund's annual report and statement of accounts for the year ended 31 March 2024. 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 2024**

| | PRIOR YEAR ACTUAL Year ended 31 March 2023 £'000 | BUDGET Year ending 31 March 2024 £'000 | BUDGET 9 months ended 31 December 2023 £'000 | ACTUAL 9 months ended 31 December 2023 £'000 | FORECAST Year ending 31 March 2024 £'000 | FORECAST VARIANCE Year ending 31 March 2024 £'000 | FORECAST VARIANCE Year ending 31 March 2024 % of budget | FAVOURABLE / ADVERSE |
|---|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | | |
| **Contributions Receivable** | | | | | | | | |
| From Employers | | | | | | | | |
| Future service rate contributions | 91,195 | 319,400 | 284,650 | 290,160 | 328,713 | 9,313 | (2.9%) | FAV |
| Deficit recovery contributions | 6,237 | 2,400 | 1,800 | 933 | 1,529 | (871) | 36.3% | ADV |
| Pension strain / augmented pensions | 1,623 | 4,059 | 3,044 | 1,319 | 2,334 | (1,725) | 42.5% | ADV |
| From Employees | 73,413 | 78,230 | 58,672 | 58,918 | 78,558 | 328 | (0.4%) | FAV |
| **Total contributions receivable** | **172,468** | **404,088** | **348,166** | **351,331** | **411,134** | **7,046** | **(1.7%)** | FAV |
| **Transfers in** | 17,744 | 15,436 | 11,577 | 14,841 | 18,700 | 3,264 | (21.1%) | FAV |
| **Total Investment Income** | 198,954 | 220,043 | 165,032 | 148,012 | 205,000 | (15,043) | 6.8% | ADV |
| **TOTAL INCOME** | **389,166** | **639,567** | **524,775** | **514,184** | **634,833** | **(4,734)** | **0.7%** | ADV |
| **EXPENDITURE** | | | | | | | | |
| **Benefits Payable** | | | | | | | | |
| Pensions | (266,123) | (291,981) | (218,986) | (221,638) | (295,517) | (3,536) | 1.2% | ADV |
| Lump Sum Benefits | (47,956) | (53,781) | (40,335) | (45,316) | (60,421) | (6,640) | 12.3% | ADV |
| **Total benefits payable** | **(314,079)** | **(345,762)** | **(259,321)** | **(266,953)** | **(355,938)** | **(10,176)** | **2.9%** | ADV |
| **Transfers out** | (18,165) | (16,104) | (12,078) | (16,306) | (20,332) | (4,228) | 26.3% | ADV |
| **Refund of Contributions** | (749) | (892) | (669) | (558) | (781) | 111 | (12.4%) | FAV |
| **Fund administrative expenses** | | | | | | | | |
| Administrative and processing expenses: | | | | | | | | |
| Total administrative expenses (includes LPP expenses) | (4,190) | (5,300) | (3,975) | (3,620) | (4,827) | 473 | (8.9%) | FAV |
| **Total administrative expenses** | **(4,190)** | **(5,300)** | **(3,975)** | **(3,620)** | **(4,827)** | **473** | **(8.9%)** | FAV |
| **Investment management expenses** | | | | | | | | |
| Investment management fees: | | | | | | | | |
| Investment management fees on non pooled investments managed by LPPI | (560) | (500) | (375) | (324) | (432) | 68 | (13.6%) | FAV |
| Investment management fees on non pooled investments managed by 3rd parties | (172) | (190) | (143) | (115) | (165) | 25 | (13.0%) | FAV |
| Investment management fees on pooled investments | (110,048) | (125,000) | (93,750) | (72,773) | (110,000) | 15,000 | (12.0%) | FAV |
| Custody fees | (64) | (60) | (45) | (38) | (60) | 0 | 0.0% | FAV |
| Commission, agents charges and withholding tax | (11,056) | (1,749) | (1,312) | (3,418) | (3,856) | (2,106) | 120.4% | ADV |
| Property expenses | (3,610) | (3,000) | (2,250) | (2,269) | (3,019) | (19) | 0.6% | ADV |
| **Total investment management expenses** | **(125,510)** | **(130,499)** | **(97,875)** | **(78,938)** | **(117,532)** | **12,967** | **(9.9%)** | FAV |
| **Oversight and Governance expenses** | | | | | | | | |
| Performance measurement fees (including Panel) | (113) | (84) | (63) | (66) | (89) | (5) | 5.9% | ADV |
| Lancashire Local Pensions Board | (9) | (15) | (11) | (11) | (15) | 0 | 0.0% | FAV |
| Other advisory fees (including abortive fees) | (113) | (100) | (75) | (45) | (100) | 0 | 0.0% | FAV |
| Actuarial fees | (368) | (220) | (185) | (152) | (220) | 0 | 0.0% | FAV |
| Audit fees | (40) | (40) | (30) | (35) | (51) | (11) | 27.5% | ADV |
| Legal & professional fees | (148) | (130) | (98) | (98) | (130) | 0 | 0.0% | FAV |
| LCC staff recharges | (962) | (1,121) | (840) | (721) | (1,000) | 121 | (10.8%) | FAV |
| Write offs | (53) | (100) | (75) | (7) | (40) | 60 | (60.0%) | FAV |
| Bank charges | (7) | (6) | (4) | (5) | (6) | 0 | 0.0% | ADV |
| **Total oversight and governance expenses** | **(1,813)** | **(1,816)** | **(1,382)** | **(1,141)** | **(1,651)** | **165** | **(9.1%)** | FAV |
| **TOTAL EXPENDITURE** | **(464,505)** | **(500,373)** | **(375,300)** | **(367,516)** | **(501,062)** | **(689)** | **0.1%** | FAV |
| **SURPLUS/DEFICIT** | **(75,339)** | **139,194** | **149,475** | **146,668** | **133,772** | **(5,422)** | **(3,9%)** | ADV |

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

| Electoral Division affected: N/A; |
|---|

**Lancashire County Pension Fund Budget 2024/25**
(Appendix 'A' refers)

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

**Brief Summary**

A one-year budget has been set for the Lancashire County Pension Fund (LCPF) for the year ending 31st March 2025.

**Recommendation**

The Committee is asked to approve the budget for the year ending 31st March 2025, as set out in Appendix 'A' to this report.

**Detail**

It is not a constitutional requirement for a pension fund to set an annual financial budget, but it is considered a useful monitoring tool for assessment of the overall financial position and performance.

This budget sets out a surplus of £9.3m once the impact of prepayments has been smoothed. Without smoothing there is a deficit of £52.0m. Further information on prepayments is below.

It is important to consider the budget in the context of wider investment returns. The budget is set before taking into consideration the changes in the market value of investments during the year. For context in the 9 months to 31st December 2023 the Fund is showing a Surplus of £147m, however, the value of the Fund has increased from £10.8bn to £11.4bn. Therefore, the Fund has an additional c£420m available to cover liabilities due to an increase in investment values over and above the surplus shown in the budget monitoring report.

The rationale behind the budget and key budget assumptions are outlined in more detail below.

The proposed budget for Lancashire County Pension Fund for the year ending 31st March 2025, is set out in Appendix 'A' to this report.

The following have been taken into account in setting the one-year budget:

- The latest forecast for the year ending 31st March 2024 which is also included in the agenda for this meeting as well as actual experience for the financial years ending 31st March 2022 and 31st March 2023 for some items.

- Information received from the Local Pensions Partnership and Knight Frank Investment Management in terms of investment income, administration expenses, and investment management expenditure.

- The 2022 actuarial valuation in respect of contribution income receivable.

- The current investment strategy.

- Contractual agreements in respect of oversight, governance, and investment management fees.

Previous budget assumptions have also been reviewed and adjusted where appropriate.

Key assumptions supporting the budget are set out below.

## INCOME

### Income from members and employers

Contribution income for the year ending 31st March 2025 within the budget is based on actual contributions submitted to the Fund by the employers to 31st January 2024, this has been adjusted for an estimated pay award.

There is an option for employers to 'prepay' contributions and this impacts on the level of future service rate contributions over time. Certain large employers within the Fund opted to prepay contributions in 2023/24 for the 3-year period ending 31st March 2026. The income to the Fund was reported in the year of receipt. This accounting treatment was agreed with the Fund's external auditor, the rationale being that the Fund has the beneficial 'ownership' of the cash on receipt, with no contractual obligation to return it. This accounting treatment will result in decreased contribution income being reported for 2024/25 compared to 2023/24.

The element of the prepayment which is attributable to the year ending 31st March 2025 is approximately £61.3m. The budgeted Fund Account attached as Appendix 'A' has been extended to reflect the net position had the contributions been recognised in 2024/25 and not been recorded on receipt. This is provided for information only at the end of the appendix. The result reports a net surplus of cash available for investment of £9.3m rather than the budget deficit of £52.0m and illustrates the impact that this accounting treatment has on the reported results of the Fund.

The estimated 2024/25 pay award has been applied to employer and employee contributions at 3% which is in line with the figure used in LCC's Medium Term Financial Strategy, these figures have also been assumed for other, non-public sector employers that participate in the Pension Fund. As a result, employee contributions are budgeted to be higher than the forecast full year for 2023/24.

Deficit recovery contributions are in line with 2023/24, however, terminating employers can cause large fluctuations to this figure due to a surplus/deficit payment by or to the Pension Fund on termination.

The income in respect of pension strain and transfers in have been based on the average cost from April 2021 to December 2023.

**Investment income**

The budget for 2024/25 is based on actual experience for 2022/23 and period ended 31st December 2023 with an assumed adjusted in line with LPPI's long term growth assumption of 5%

**EXPENDITURE**

**Benefits payable.**

Benefits payable have been budgeted to increase by September CPI of 6.7%.

Pensions paid has also been increased due to a 3.4% increase in pensioner numbers between 31st March 2023 – 31st December 2023.

Lump sum payments in 2023/24 are forecasted higher than anticipated, we believe some of the variance is due to the disruption to member service after the implementation of the new pensions administration system. As the service levels return to normal, we expect to see the lump sum payments return to expected levels.

**Transfers out and payments to leavers.**

Transfers out have been estimated using the same methodology as transfers in and pension strain using an average from April 2021 to December 2023.

**Pensions administration expenses**

The budget for administration fees payable to Local Pensions Partnership Administration Limited (LPPA) reflects the agreed increased cost per member for core administration services and incorporates the following:

1. Increase in demand due to regulatory changes, employer engagement and increased membership size.

2. McCloud and Pensions Dashboard implementation projects alongside their subsequent increased data requirements.
3. Additional resilience and client management capacity.

Further information on this is available in another agenda item.

**Investment management expenses**

The budget for investment management expenses includes both invoiced fees and fees which are embedded in the net asset value of investments.

The most significant investment fee cost is 'Investment management fees on pooled investments' in appendix A. This comprises of management fees and performance fees.

**Management fees:** Local Pensions Partnership Investments Limited do does not invoice the Fund directly for the management of pooled investments but instead these fees are recovered through a deduction from the distributions paid to the Fund.

An assumption has been made of 5% asset growth which results in an increase in the fee payable on pooled assets under management.

Also included within this is the budget for fees embedded in the value of underlying investments within the pools. This has been calculated at the average of the 2021/2022 & 2022/23 fees for the management and transaction elements increased by 5% for assumed growth in 2023/24 and for another 5% in 2024/25.

**Performance fees:** The budget also makes a provision for embedded performance fees based on recent experience. As has been reported to Committee through quarterly budget monitoring reports, these fees are inherently difficult to forecast and many pension funds do not include this cost within their budgets. Therefore, there is likely to be significant variation from this budget during the year.

Although Investment performance for 2023/24 has not been relatively strong, most of this can be attributed to the Global Equity portfolio which does not incur performance fees.

Performance fees are reported by managers in arrears and some fees related to performance in 2023/24 will crystalise in the 2024/25 budget. Bearing in mind, the long-term growth expectation from LPPI of 5% we anticipate the performance fees to be somewhere between 2021/22 and 2022/23. Actual experience in these years has been considered in setting the budget to ensure that the budget is prudent.

The property expenses have been set using a forecast from the Fund's property managers Knight Frank.

The majority of invoiced fees are payable to Local Pensions Partnership Investments Limited for the management of non-pooled investments. These invoices are calculated based on the market value of those non-pooled investments and the budget of £0.4m reflects that the majority of the Fund's investments are now held pooled arrangements. The budget is consistent with the level of invoicing through the third quarter of 2023/24 with an asset growth assumption of 5% applied.

Other directly invoiced fees are payable to the Fund's property managers and other directly held investment managers (see item Investment management fees on non-pooled investments managed by 3rd parties in appendix A).

**Oversight and governance expenses**

The Performance management budget has been based on the 2023/24 forecast, adjusted to reflect the annual inflationary increase in allowances paid to the Fund's independent investment advisors.

The Local Pensions Board budget has been assumed to be in line with 2023/24.

The actuarial fees budget has been decreased to reflect decreased actuarial work after the completion of the 2022 Actuarial Valuation.

The fee for external audit is yet to be confirmed but given the increased scrutiny on public sector accounts, we have added a modest increase on the 2023/24 budget.

The increase in the budgeted staff recharge from Lancashire County Council reflects assumed salary increase of 3% and required resourcing within the Pensions Team structure.

**NET POSITION**

This budget sets out a decrease in money available for investment (before accounting for changes in the market value of investments during the year) of £52.0m. However, once prepayments have been smoothed, there is a surplus available for investment.

**Appendix**

Appendix 'A' is attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix | Title |
|---|---|
| Appendix 'A' | LCPF Budget 2024-25 |

**Consultations**

Local Pensions Partnership Administration Limited
Local Pensions Partnership Investment Limited
Knight Frank Investment Management for investment management and property management expenses.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

Regular monitoring against the budget will provide a useful tool for reviewing the financial position and performance of the Lancashire County Pension Fund, providing an analysis of significant variances from expectations.

**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 2025

| | ACTUAL<br>9 months ended 31 December 2023<br>£'000 | BUDGET<br>Year ending 31 March 2024<br>£'000 | FORECAST<br>Year ending 31 March 2024<br>£'000 | BUDGET<br>Year ending 31 March 2025<br>£'000 |
|---|---|---|---|---|
| **INCOME** | | | | |
| **Contributions Receivable** | | | | |
| From Employers | | | | |
| Future service rate contributions | 290,160 | 319,400 | 328,713 | 148,442 |
| Deficit recovery contributions | 933 | 2,400 | 1,529 | 2,488 |
| Pension strain / augmented pensions | 1,319 | 4,059 | 2,334 | 1,750 |
| From Employees | 58,918 | 78,230 | 78,558 | 80,914 |
| **Total contributions receivable** | **351,331** | **404,088** | **411,134** | **233,595** |
| **Transfers in** | 14,841 | 15,436 | 18,700 | 17,800 |
| **Total Investment Income** | 148,012 | 220,043 | 205,000 | 214,198 |
| **TOTAL INCOME** | **514,184** | **639,567** | **634,833** | **465,592** |
| **EXPENDITURE** | | | | |
| **Benefits Payable** | | | | |
| Pensions | (221,638) | (291,981) | (295,517) | (320,000) |
| Lump Sum Benefits | (45,316) | (53,781) | (60,421) | (61,000) |
| **Total benefits payable** | **(266,953)** | **(345,762)** | **(355,938)** | **(381,000)** |
| **Transfers out** | (16,306) | (16,104) | (20,332) | (17,880) |
| **Refund of Contributions** | (558) | (892) | (781) | (792) |
| **Fund administrative expenses** | | | | |
| Administrative and processing expenses: | | | | |
| Total administrative expenses (includes LPP expenses) | (3,620) | (5,300) | (4,827) | (5,971) |
| **Total administrative expenses** | **(3,620)** | **(5,300)** | **(4,827)** | **(5,971)** |
| **Investment management expenses** | | | | |
| Investment management fees: | | | | |
| Investment management fees on non pooled investments managed by LPPI | (324) | (500) | (432) | (404) |
| Investment management fees on non pooled investments managed by 3rd parties | (115) | (190) | (165) | (330) |
| Investment management fees on pooled investments | (72,773) | (125,000) | (110,000) | (121,000) |
| Custody fees | (38) | (60) | (60) | (80) |
| Commission, agents charges and withholding tax | (3,418) | (1,749) | (3,856) | (3,800) |
| Property expenses | (2,269) | (3,000) | (3,019) | (3,000) |
| **Total investment management expenses** | **(78,938)** | **(130,499)** | **(117,532)** | **(128,614)** |



Appendix A

| | | | | |
|---|---|---|---|---|
| **Oversight and Governance expenses** | | | | |
| Performance measurement fees (including Panel) | (66) | (84) | (89) | (110) |
| Lancashire Local Pensions Board | (11) | (15) | (15) | (15) |
| Other advisory fees (including abortive fees) | (45) | (100) | (100) | (150) |
| Actuarial fees | (152) | (220) | (220) | (200) |
| Audit fees | (35) | (40) | (51) | (55) |
| Legal & professional fees | (98) | (130) | (130) | (130) |
| LCC staff recharges | (721) | (1,121) | (1,000) | (1,276) |
| Write offs | (7) | (100) | (40) | (40) |
| Bank charges | (5) | (6) | (6) | (6) |
| **Total oversight and governance expenses** | **(1,141)** | **(1,816)** | **(1,651)** | **(1,982)** |
| **TOTAL EXPENDITURE** | **(367,516)** | **(500,373)** | **(501,061)** | **(517,568)** |
| **SURPLUS/DEFICIT** | **146,668** | **139,194** | **133,772** | **(51,976)** |

| | | | | |
|---|---|---|---|---|
| **Memo: Impact of prepaid contributions** | | | | |
| 2024/25 & 2025/26 Future service rate contributions received in 2023/24 | | (119,429) | | |
| 2024/25 Future service rate contributions received in 2023/24 | | | | 61,274 |
| **SURPLUS/DEFICIT** | | **19,765** | | **9,298** |

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
(All Divisions);

**Overpayments**
(Appendix 'A' refers)

Contact for further information:
Julie Price,(01772) 530848 , Funding and Employer Risk Lead,
Julie.Price5@lancashire.gov.uk

**Brief Summary**

Following the internal audit of overpayments in 2021/22, an initial report was presented to the Committee in September 2022 on the handling of overpayments relating to pensions administration. Update reports will now be presented to the Committee each financial year and this report covers the period 1 April 2022 to 31 March 2023.

**Recommendation**

The Committee is asked to consider and note the report.

**Detail**

It was reported to the Pension Fund Committee in September 2022 that following the internal audit on overpayments, a Debt Management Policy was introduced detailing appropriate controls and processes to allow for the prompt and effective recovery of Pension Fund debts, and the write off of irrecoverable amounts as appropriate.

Since then, there have been two major system implementations which have affected debt recovery. The implementation of the UPM pension administration system at the Local Pensions Partnership Administration Ltd (LPPA) in October 2022 has changed LPPA processes and accessibility to data. In addition, the implementation of Oracle Fusion finance system at Lancashire County Council in November 2022 changed processes and reporting.

Although the changes have not resulted in a need to change the Fund's Debt Management Policy, there has been some disruption in reporting and access to information which impacted on the timeframe for write off of historic debts.

At the time of writing this report, debt recovery and write off processes are now embedded which is reflected in the analysis at Appendix 'A' which shows that of the

£1.5m invoices manually raised, only £10.7k are still unresolved. This can often be because of time taken to wind up an estate on death of a scheme member, or if the Fund has to agree and implement a debt being paid in instalments.

**Historic Write Offs**

In addition to the above, significant progress has been made in writing off historic debt.

At the time of the September 2022 report to Committee, it was noted that there was some remedial work required for write offs relating to historic invoices raised prior to January 2022 – estimated at £80k. These cases have been considered on an individual basis and £39.6k of invoices raised prior to January 2022 have been written off to date (these are included within the table in Appendix 'A' above the red line). The remaining historic invoices total £38.5k. One of the remaining invoices has been paid and five are being considered for legal action. The Pension Fund Team will continue to work on these cases and write off will be considered if appropriate.

**Amounts too small to recover**

In addition to the overpayments for which invoices are raised (which are covered in the analysis at Appendix 'A') there are some overpayments which are deemed uneconomical to recover. The Fund's Debt Management Policy – which is in line with best practice amongst other pension funds - allows for overpayments less than £250 which cannot be recovered from a spouse's pension to not be pursued. This is in line with HMRC's position that genuine errors resulting in overpayments of less than this amount do not need to be reported to them.

In 2022-23 there were 432 overpayments totalling £33,180.08 where the value of the individual overpayments was less than £250 and no recovery was attempted.

**Appendices**

Appendix 'A' is attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix | Title |
|---|---|
| Appendix 'A' | Analysis of invoices raised |

**Consultations**
Local Pensions Partnership Administration Limited

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The Debt Management Policy gives a framework for efficient and effective recovery of debt and income to the Lancashire County Pension Fund, and for writing off bad debts appropriately.

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

| Paper | Date | Contact/Tel |
| --- | --- | --- |
| Lancashire County Pension Fund - Debt Management Policy | September 2021 | Catherine Hunt/01772 533757 |

Reason for inclusion in Part II, if appropriate

N/A

**Analysis of invoices raised during the period 1st April 2022 to 31st March 2023**

| | | |
|---|---|---|
| **Manual invoices raised** | | **£1,553,647.71** |
| Of which: | | |
| **Paid** | | **£1,536,270.39** |
| **Written Off** | | **£6,606.63** |
| **Unpaid (As per 19th January 2024)** | | **£10,770.69** |

| | | |
|---|---|---|
| **Write offs during the period** | | **£48,672.27** |
| Of which, relate to invoices raised in (financial year): | | |
| *16/17* | | *£0.00* |
| *17/18* | | *£2,758.13* |
| *18/19* | | *£1,976.94* |
| *19/20* | | *£10,059.75* |
| *20/21* | | *£14,991.21* |
| *21/22 to Dec 21 (Historic write offs)* | *£9,850.70* | |
| *21/22 from Jan 22* | *£2,428.91* | |
| *21/22* | | *£12,279.61* |
| *22/23* | | *£6,606.63* |
| *23/24* | | *£0.00* |

| | |
|---|---|
| **Write offs - Analysis** | |
| For Invoices raised after 1st April 2022 (£) as a % of Total Manual invoices raised for the period (£) | **0. 425%** |

Note Total invoices raised from 1 April 2022 to 31 March 2023 was £179,807,182.07 (which is income predominantly relates to employer and employee contributions and payment of these contributions has been received by the Pension Fund and is monitored by Local Pension Board). Included within this amount is £1,553,647.71 referenced above.

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
None;

**Pension related training for members of the Committee.**

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

**Brief Summary**

An update on pension related training involving members of the Committee which has taken place since the last meeting.

**Recommendation**

The Committee is asked to review the report and any feedback from individual members in relation to training they have received.

**Detail**

The Training Plan 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.

Since the last meeting members of the Committee have participated in the following internal/external pension related training.

**12th December 2023 Internal Workshop on the General Code of Practice and Good Governance.**
Participants - County Councillors M Clifford, J Couperthwaite, F De Molfetta, J Mein, E Pope, and Co-opted members Councillor D Borrow and Mr P Crewe.

**16th January 2024 Internal Workshop - Update on Local Pensions Partnership Administration Communications.**
Participants - County Councillors M Clifford, F De Molfetta, J Fillis, A Gardiner E Pope and R Woollam and Co-opted members Councillor D Borrow, Ms J Eastham, Mr P Crewe, and Ms S Roylance.

**26th February 2024 Internal Workshop - Local Pensions Partnership Budget.**
Participants - County Councillors J Burrows, M Clifford, J Couperthwaite, C Edwards J Fillis, E Pope, A Schofield, and R Woollam and Co-opted members Councillor D Borrow, Councillor M Smith, Ms J Eastham, Mr P Crewe, and Ms S Roylance.

**27th/29th February 2024 - PLSA Investment Conference.**
Attended by County Councillors E Pope and M Clifford.

**2023/24 Training Record.**

The Training Record for the Committee will be updated to reflect the attendance of Committee members referred to above (and any reported at the meeting) which will also be reflected in information included in the Lancashire County Pension Fund Annual Report to be published in December 2024.

**Next scheduled workshop.**

A workshop on Legal matters will be held at 1.00pm on 27th March 2024 in Exchange Room 7, The Exchange, County Hall, Preston and via MS Teams.

**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 Plan seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Plan 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 Plan forms part of the governance and risk management arrangements which seek to ensure that the members of the Committee and the Pension Board are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

The cost of attendance at training events, together with associated travel and subsistence costs, are met by the Lancashire County Pension Fund.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| Approval by the Head of Fund under the Scheme of Delegation to Heads of Service for attendance at external Conferences/Events | 22nd January 2024<br>23rd January 2024 | Mike Neville<br>(01772) 533431 |
| Attendance sheet for internal pension related workshop. | 12th December 2023<br>16th January 2024<br>26th February 2024 | Mike Neville<br>(01772) 533431 |

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

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
N/A;

**Training Plan 2024/25**
(Appendix 'A' refers)

Contact for further information:
James Almond, Tel: 01772 539699, Senior Governance Officer,
james.almond2@lancashire.gov.uk

**Brief Summary**

The Pension Regulator stipulates in regulations that members of the Pension Fund Committee and the Local Pension Board must have the required knowledge and skills to govern the Fund.

Various training options (as set out in the Training Plan) are made available during the year to meet the required training needs of both Committee and Board Members.

**Recommendation**

The Committee is asked to approve the Training Plan for the first six months of 2024/25 as set out at Appendix 'A'.

**Detail**

A training plan has been developed for the first six months of 2024/25 based on regulatory requirements and best practice as well as analysis of the annual training questionnaires issued to all members of the Pension Fund Committee and Local Pension Board. However, regulatory requirements in this area are evolving and a strategic project will be undertaken to consider the current training approach and forthcoming expectations to develop a new training policy for the Fund. Accordingly, the Training Plan set out at Appendix 'A' covers the first six months of 2024 and an updated Plan will be brought to the committee at a later meeting which will cover the remainder of 2024/25.

**Regulations and best practice**

Pension Fund Committee and Local Pension Board members face different requirements for gaining and maintaining knowledge and understanding. This reflects that their remit and responsibilities originate from different legislation.

Knowledge requirements falling on Board members are defined statutorily under section 248a of the Pensions Act 2004 and are personal to individuals. Learning requirements for Committees are less stringently defined in legislation and fall collegiately on Committees as collective bodies rather than on individual members.

Though their learning obligations under legislation are different, both Committee and Board members share significant common ground in terms of the sphere of knowledge and understanding they need to be conversant with.

The Chartered Institute of Public Finance and Accountancy (CIPFA) supplements this with best practice requirements. It has identified a syllabus of 8 core areas of knowledge under the CIPFA Knowledge and Skills Framework (2021) for LGPS Committee Members and LGPS Officers and there is a separate technical knowledge and skills framework for Local Pension Board members which is CIPFA Local Pension Boards (2015) which has 8 core areas. Both frameworks cover the following areas:

1. Pensions Legislation.
2. Pensions Governance.
3. Fund Strategy and Actuarial Methods.
4. Pensions Administration and Communications.
5. Pensions Financial Strategy, Management Accounting, Report and Audit Standards.
6. Investment Strategy, Asset Allocation, Pooling, Performance and Risk Management.
7. Financial markets and product.
8. Pension Services Procurement, Contract Management and Relationship Management.

There is significant crossover in the knowledge requirements from each of the frameworks and an amalgamated 'Training needs' questionnaire is issued by the Pensions Team to Committee and Board members on an annual basis.

**Developing requirements**

The above legislative requirements form the basis of Knowledge and Understanding requirements outlined in Code of Practice No 14. This is soon to be replaced by the General Code of Practice which will stipulate requirements in several specific areas like (1) to (8) above. The pensions team is continuing to analyse the requirements which are applicable to Local Pension Boards and recommended as good practice for Pension Committees.

Further Knowledge and Understanding requirements are expected following the investment pooling consultation that took place in 2023. Proposals to increase the training requirements for Pension Committees are due to be implemented with the aims of:

- ensuring that Pension Committee members have appropriate knowledge and skills to make decisions and to make good use of professional advisors.

- recognising increasing training amongst Pension Committee members will benefit committees, enhance scrutiny, better inform decision making, and build confidence with scheme members; and
- aligning expectations for Pension Committee members with those for Local Pension Board members.

Regulations are expected later in 2024.

**Training Questionnaire Analysis**

The training questionnaire was issued to all Committee and Board members at the end of December 2023. All 9 members of the Board completed and returned the training questionnaire however 10 of the total 19 members of the Committee completed the questionnaire this year.

This year's training questionnaire was reviewed and streamlined (following feedback from Committee and Board members) with a view to simplifying the questionnaire.

In general, scores across different areas did not diverge greatly with scores generally fluctuating within a corridor of between 3 and 4 out of a maximum score of 5. The Committee and Board have scored high and low in the same areas except for 'Funding, Strategy & Valuation' and 'Investment Strategy, Pooling & Risk Management' where the scoring is high for Committee but low for Board. However, as a collective the Committee and Board scored highest in 'Finance, Auditing & Business Planning', and 'Pensions Governance' and lowest in 'Procurement/Contract & Relationship management', and 'Pensions Legislation & Guidance'.

The highest scoring areas for the Pension Fund Committee were –

- Finance, Auditing & Business Planning
- Pensions Governance

The lowest scoring areas for the Pension Fund Committee were –

- Pensions Legislation and Guidance
- Procurement/Contract and relationship management

The highest scoring areas for the Local Pension Board were –

- Pensions Governance
- Finance, Auditing & Business Planning

The lowest scoring areas for the Local Pensions Board were –

- Procurement/Contract and relationship management
- Investment Strategy, Pooling & Risk management

The training questionnaire also provided opportunities for members to submit additional comments regarding the delivery of training and any areas members would want a particular focus. The Fund has taken on board each comment and suggestion and will incorporate into the development of the training plan and policy. High level results indicated the following and actions that have or will be taken as a result are noted below:

| Feedback | Action |
|---|---|
| Frequency and duration of internal workshops | In general respondents indicated this was pitched right. However, the pensions team will explore whether some workshops could accommodate more than one topic over the 1.5-hour duration. |
| Suitability of different external events training | In appendix A, further information has been provided on external events to support members in deciding on which event to attend. |
| Are presenters aware of what delegates need to know? | This was reference by a couple of respondents. To ensure more focused content, a standard slide pack proforma is being developed including learning objectives at the start and a recap of learning at the end of the workshop. |
| Technical/sector/topical updates seem important | The pensions team is exploring whether a brief newsletter for Board and Committee members would assist in keeping abreast of developments. |
| Support for new members | Some respondent noted that training needs may differ for new members. The pensions team is considering how best to target this. An introductory training session is provided to all new members together with Q&As sessions for new Board members. |

**LCPF Training Plan 2024/25**

The pensions team are in the process of developing a training policy which will work towards better structuring training requirements and delivery during the year. To be able to implement the training policy as soon as possible the training plan has been considered up to September 2024 with a view of presenting the final half of the years training plan alongside the training policy.

The part year training plan can be seen at Appendix 'A' and sets out training opportunities for the year up to September 2024 as mentioned above. The workshops allocated for these sessions have been selected based on the training questionnaire analysis and key requirements.

In addition to the structured workshops instigated by the Fund, there are a wide range of external training opportunities including conferences, training courses and key topic webinars supplied by various pensions consultancy firms. The pensions team have developed a table to show the various events we feel would be a support to members in their roles and have indicated which events are suitable to the newer and more experienced members. The Fund will also periodically review the scheduled external webinars available and inform members of any which may be useful to also attend.

**Consultations**

Local Pension Board members
Pension Fund Committee members

**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.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| CIPFA – Code of Practice LGPS Knowledge and Skills 2021 edition | 2021 | James Almond 01772 539699 |
| CIPFA – Technical Knowledge & Skills Framework for Local Pension Boards | 2015 | |
| CIPFA – Knowledge and Skills Framework – LGPS Committee Members and LGPS Officers | 2021 | |
| The Pension Regulator – Code of Practice No 14 (Governance and Administration of Public Service Pension Schemes) | 2015 | |

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

# LCPF Training plan for PFC & LPB – 2024/25

## Internal training and workshops for PFC and LPB:

| Date | Time | Subject | Provider | Venue (Rooms Size) |
|---|---|---|---|---|
| 21/05/2024 | 13:00 – 17:00 | Investments (Specific to LPPI's relationship to the Fund and services provided, and more information re pooling) | LPPI | Meeting Room 8 The Exchange (16) |
| 03/06/2024 | 10:00 – 11:30 | Technical update (Additional Voluntary Contributions/Lifetime Allowance/Annual Allowance, McCloud, Dashboard, and other tech updates) | LCPF/LPPA | Committee Room B, The Diamond Jubilee Room, County Hall (20) |
| 03/07/2024 | 10:00 – 11:30 | Cyber Security Project update (Overview of Cyber Security policy, Incident Response Plan, and hygiene documents) | LCPF | Meeting Room 8 The Exchange (16) |
| 03/09/2024 | 10:00 – 11:30 | Training Policy (Update on creation of training policy) | LCPF | Meeting Room 8 The Exchange (16) |



## Pre-Committee Briefings

*Pension Committee only*

| Date | Time | Subject |
|---|---|---|
| June 2024 | 10:00 – 10:30 | **TBC** |
| September 2024 | 10:00 – 10:30 | LCPF Accounts and Annual report |
| December 2024 | 10:00 – 10:30 | **TBC** |
| March 2025 | 10:00 – 10:30 | RI |

Appendix A

## External Training Opportunities

The following external events are recommended by the pensions team. Further information on dates of the events below will be provided as they become available, as well as any other suitable events.

| External event | New Board Member | Experienced Board Member | New Committee Member | Experienced Committee Member | Other | Duration | Dates / Locations |
|---|---|---|---|---|---|---|---|
| **PLSA Annual Conference**<br><br>The UKs biggest pensions conference providing insights to pensions industry, policy and regulatory updates, innovative solutions and trends as well as an opportunity to network with the industries diverse group.<br><br>Annual Conference \| PLSA | ✗ | ✓ | ✗ | ✓ | Focused on local government and private pensions | 3 days | 15 – 17 October 2024 / ACC Liverpool |
| **PLSA Local Authority Conference**<br><br>A conference exclusive to LGPS delivering pension solutions and policy insights. Creating a platform to be involved in the conversations, expand your network and stay up to date with today's LGPS challenges and solutions.<br><br>Local Authority Conference \| PLSA | ✓ | ✓ | ✓ | ✓ | Exclusively local government pensions and covers all specialisms | 3 days | 11 – 13 June 2024 / De Vere Cotswold Waterpark, Gloucestershire |
| **LAPF Strategic Investment Forum**<br><br>The LAPF Strategic Investment Forum is the leading investment conference for senior LGPS fund investment officers and their advisers. It is organised by DG Publishing and attracts high quality officers in strong numbers. | ✗ | ✗ | ✗ | ✓ | Specialised investment content | 1 day | February / London |

| External event | New Board Member | Experienced Board Member | New Committee Member | Experienced Committee Member | Other | Duration | Dates / Locations |
|---|---|---|---|---|---|---|---|
| **LGA Annual Conference & Exhibition**<br><br>The LGA Annual Conference and Exhibition is a must-attend event for senior representatives working in local and central government as well as senior colleagues from other public sector bodies, charities, and businesses.<br><br>[Events date and venue (local.gov.uk)](local.gov.uk) | ✓ | ✓ | ✓ | ✓ | | 3 days | 2 – 4 July 2024 / Harrogate |
| **LGC Investment Summit**<br><br>Focus on your investment strategy and benefit from high-level investment debate from prominent experts across the LGPS. | ✗ | ✗ | ✗ | ✓ | Specialised investment content | 2 days | September / **TBC** |
| **LAPFF Annual Conference**<br><br>Annual conference event with a focus on responsible investments within the LGPS. | ✗ | ✗ | ✗ | ✓ | Specialised responsible investment content | 3 days | December / **TBC** |
| **LGA LGPS Fundamentals Training**<br><br>For newly Elected Members. Provides members of pension committees and local pension boards with the knowledge and skills to enable them to carry out their duties effectively. | ✓ | ✗ | ✓ | ✗ | Exclusively local government pensions and governance content | 3 days | Usually between October – December at various locations. TBC once available. |

**Other external training opportunities**

Various pension consultancy firms such at Hymans, PSLA, Aon etc offer webinar learning sessions focused on key topics throughout the year. The events scheduled for the year can be viewed on their respective websites however the Fund team will inform Committee and Board members of any webinars they feel are relevant to the Committee and Board members.

## On-line Training Tools:

**The Pensions Regulator's Public Service Toolkit:**

The Pensions Regulator offers online training consisting of seven separate modules which support the Code of Practice No 14 guidance. The modules do have a focus on occupational pension scheme and only partly relate to the LGPS however each module provides training on good practice as deemed by the regulator. The toolkit can be accessed using the following link: https://education.thepensionsregulator.gov.uk/login/

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

Electoral Division affected:
N/A;

**Lancashire Local Pension Board Workplan 2024/25**
(Appendix 'A' refers)

Contact for further information:
James Almond, 01772 539699, Senior Governance Officer,
james.almond2@lancashire.gov.uk

**Brief Summary**

The 2024/25 work plan for the Lancashire Local Pension Board. is attached to this report at Appendix 'A' for the information of the Committee.

**Recommendation**

That Committee is asked to consider and approve the proposed 2024/25 work plan for the Lancashire Local Pension Board, as set out at Appendix 'A' to this report.

**Detail**

The role of the Local Pension Board is to assist Lancashire County Council as the Administering Authority in its role as Scheme Manager for the Lancashire County Pension Fund (as delegated to the Pension Fund Committee):

i. to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS.
ii. to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
iii. in such other matters as the LGPS regulations may specify.

Under its Terms of Reference, the Local Pension Board is required to produce a proposed work plan each year and submit it to the Pension Fund Committee for approval.

The work plan for 2024/25 has been produced through considering regular activity that falls under the remit of the Local Pension Board along with consideration of activity proposed in the 2024/25 Pension Fund Strategic Plan.

The work plan is a tool which allows the Fund officers to prioritise reporting activity to the Local Pension Board and is used to ensure that that the Board delivers its purpose as set out in the terms of reference.

The work plan has been developed by the Fund officers in consultation with the Chair of the Local Pension Board.

**Appendices**

Appendix 'A' is the draft work plan for Lancashire Local Pension Board 2024/25 created by the Fund officers and is attached to this report for reference.

**Consultations**

Head of the Fund
Chair of the Lancashire Local Pensions Board

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The Pension Board is required under legislation to secure compliance and ensure the effective, efficient governance and administration of the Fund.

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

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

Reason for inclusion in Part II, if appropriate

N/A

# Appendix A

**Lancashire Local Pensions Board - Work programme 2024/25**

| Standing Items | 23-Jan-24 | 02-Apr-24 | 09-Jul-24 | 15-Oct-24 | 28-Jan-25 |
|---|---|---|---|---|---|
| Welcome and Apologies, Declaration of Interests, Urgent business, Exclusion of press/public, Date of the next meeting of the LLPB. | Y | Y | Y | Y | Y |
| Minutes of the previous meeting of the LLPB | Y | Y | Y | Y | Y |
| Feedback from Board members on conferences/events and other training received | Y | Y | Y | Y | Y |
| Part I/II Reports considered by the recent Pension Fund Committee | Y | Y | Y | Y | Y |
| Regulatory changes update report | Y | Y | Y | Y | Y |

| Governance | 23-Jan-24 | 02-Apr-24 | 09-Jul-24 | 15-Oct-24 | 28-Jan-25 |
|---|---|---|---|---|---|
| Quarterly risk register report | Y | Y | Y | Y | Y |
| Report update on progress of the current LLPB work plan | | | | Y | |
| LLPB Members Training Record | | Y | | | |
| Annual compliance report with the Pension Regulator's General Code of Practice | | | | | Y |
| Update of Constitution, Membership and Terms of Reference of the LLPB | | | | | Y |
| Annual Review of the effectiveness of the LLPB | | Y | | | |
| Conclusions of the Chair and draft LLPB Annual Report for the previous year | | | Y | | |
| Note Approval of the annual LLPB work plan for the following year by PFC | | Y | | | |
| Communications update report | Y | Y | Y | Y | Y |
| Annual report on the results of the pension regulator's survey | | | | Y | |
| Cyber Security Update | | | Y | | |
| SAB Good Governance Project | | | | | Y |

| Administration Performance | 23-Jan-24 | 02-Apr-24 | 09-Jul-24 | 15-Oct-24 | 28-Jan-25 |
|---|---|---|---|---|---|
| Summary report of appeals under the internal dispute resolution procedures | Y | | | | Y |
| Report on LPPA administration performance, data quality and data scores | Y | Y | Y | Y | Y |

| Pensions Administration | 23-Jan-24 | 02-Apr-24 | 09-Jul-24 | 15-Oct-24 | 28-Jan-25 |
|---|---|---|---|---|---|
| Contributions monitoring, complaints and breaches | Y | Y | Y | Y | Y |

| Lancashire Pension Fund Policies | 23-Jan-24 | 02-Apr-24 | 09-Jul-24 | 15-Oct-24 | 28-Jan-25 |
|---|---|---|---|---|---|
| Actuarial Valuation | | | | | |
| Policy - Funding Strategy Statement | | | | | |
| Policy - Pension Administration Strategy Statement | | | | | |
| Policy - Admissions & Termination Statement | | | | | |
| Policy - Communications Strategy | | | | | Y |
| Policy - Employer Discretions | | | | | |
| Policy - Governance Compliance Statement | | | | Y | |
| Policy - LCPF Cyber Strategy | | | Y | | |
| Policy - LCPF Discretions | | Y | | | |
| Policy - Risk Management Framework | | | | | |
| Policy - Responsible Investments | | | | | Y |
| Policy - Training Strategy | | | Y | | |
| Policy - Breaches | | | | | |

**Almond, James:** the LLPB will be kept informed of developments on the Funds Comm Strategy project at appropriate points trhoughout the year.

**Lancashire Local Pension Board – Annual Work Plan**

The pension work plan sets out the order of matters the Pension Board will review in the financial year. The work plan has been arranged into two sections an annual work plan reflecting reports presented on a quarterly basis as well as a three year work plan to reflect the frequency of policies which are refreshed every three years. The order of presentation of the agenda is as reflected below.

| Lancashire Pension Fund Policies | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|
| Actuarial Valuation | | Y | | |
| Policy - Funding Strategy Statement | | Y | | |
| Policy - Pension Administration Strategy (PASS) | Y | | | Y |
| Policy - Admissions & Termination Policy | | Y | | |
| Policy - Communications Strategy | Y | | | Y |
| Policy - Employer Discretions | | Y | | |
| Policy - Governance Compliance Statement | Y | Y | Y | Y |
| Policy - LCPF Cyber Security Strategy | Y | | | Y |
| Policy - LCPF Discretions | Y | | | Y |
| Policy - Risk Management Framework | | Y | | |
| Policy - Responsible Investment | Y | | | Y |
| Policy - Training Strategy | Y | | | Y |
| Policy - Breaches Policy | | Y | | |

**Almond, James:** as per strategic plan review of PASS is marked as a 'should' project and if progression made the board will be kept informed.

Lancashire County Council

**Pension Fund Committee**
Meeting to be held on Friday, 8 March 2024

| |
|---|
| Electoral Division affected:<br>N/A; |

**Responsible Investments Report**
Appendices 'A' and 'B' refer.

Contact for further information:
James Almond, Tel: 01772 539699, Senior Governance Officer,
james.almond2@lancashire.gov.uk

**Brief 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 Investments Limited which provides the Committee with an update on responsible investment matters during the fourth quarter of 2023 (1st October to 31st December).

**Recommendation**

The Committee is asked to comment on this report.

**Detail**

The report at Appendix 'A' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Limited (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.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the fourth quarter.

Other matters of note for the Committee:

**Climate Change Metrics**

Compared with Q3 2023, the following climate change metrics are:

- Brown exposure has decreased from 2.47% to 2.28%. This is driven by the Infrastructure asset class as one company, identified as a Brown exposure, has left the portfolio. This provides an opportunity to re-deploy capital in other attractive opportunities.

- Green activities have slightly decreased from 5.18% to 4.99% of the portfolio. The figures reflect a mark-to-market decrease in the value of Green positions held in portfolio, predominantly within the Infrastructure asset class.

**GLIL**
GLIL Infrastructure is a collaboration od investors seeking investment into core infrastructure opportunities predominantly in the UK. The Fund invests via LPPI along with other local government pension funds and NEST. GLIL has entered a new strategic partnership with the Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024. This commits GLIL to investing - together with Bluefield - into UK focused solar assets, from development through to operational plants.

**Principles for Responsible Investment (PRI)**
LPPI has been a signatory to the PRI since 2018 and produces and submits detailed reports on their annual activity for assessment and scoring. The results of this activity for 2022/23 have been released and LPPI's scoring has been summarised on page 12 within appendix 'A'. The results indicate LPPI scored significantly higher than the PRI median and either equally or significantly above their peer group median. This is a great outcome and shows a continued strong performance.

**Transition Pathway Initiative (TPI)**
TPI tracks the quality of companies' governance/management of their greenhouse gas emissions and opportunities related to the low-carbon transition. It scores the companies according to action/preparedness for climate.

Updated Management Quality ratings methodology have been introduced, the number of companies in the TPI assessment universe has increased and a new Level 5 to the assessment staircase has been introduced. This has impacted report in Appendix B as coverage of companies within the Global Equity Fund is up significantly to 41.6% and the proportion of investee companies within the green rating has increased.

**Stewardship headlines**
Additional themes have been added into stewardship engagement reporting within appendix B. these include Nature Action 100 (covering biodiversity and referenced in the paper presented to the meeting of the Pension Fund Committee on 1st December 2023), modern slavery in supply chains and tax transparency which all align with priorities with the Fund's Responsible Investment policy. This additional insight will allow the Fund to monitor progress against the policy.

**Net zero**

A client note (uploaded to the pensions library) has been provided to the Pension Fund updating on LPPI's progress in relation to net zero and TCFD. The note includes an update on progress on Phase One net zero targets, details of Phase Two targets and progress on TCFD reporting.

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

The LAPFF business meeting took place online on 31st January 2024 and was attended by a representative of the Lancashire County Pension Fund. The following are some of the items that were covered:

- **Carbon Capture and Storage (CSC) update –** The paper presented in this business meeting showed that the lack of progress has continued into 2024. concerns were raised that (i) CSC's contribution to emissions reduction is being overplayed to keep fossil fuels in the energy system (ii) little progress in rolling out CCS at scale. (iii) CSC and Carbon Dioxide Removal (CDR) have been cited by fossil fuel producing companies as a means to avoid reducing extraction activities.
- **Human Rights Engagements –** LAPFF have engaged with a number of companies regarding the use of forced labour within their supply chain and what reassurances they have in obtaining supplies/materials from reputable sources. While some of the companies have shown notable progress, LAPFF will continue to engage with companies.

LAPFF papers and dates of future meetings and be made available on request.

**Appendices**
Appendices 'A' and 'B' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix | Title |
|---|---|
| Appendix 'A' | LPPI Responsible Investment Report Q4 2023 |
| Appendix 'B' | LPPI Dashboard Q4 2023 |

**Consultations**

Local Pensions Partnership Investments Limited

**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 resulting from 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 Limited.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments Limited 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 Q4-2023 | 01/10/2023 – 31/12/2023 | James Almond 01772 539699 |

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

# Lancashire County Pension Fund (LCPF) Responsible Investment Report – Q4 2023

**This report has been prepared by LPPI for Lancashire County Pension Fund (LCPF) as a professional client.**

## 1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix B) and the Quarterly Active Ownership Report (available from the online Pensions Library).

It covers stewardship in the period 1st October – 31st December 2023 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:

- The PRI[R] recently released the results for the 2022/23 reporting cycle, with LPPI achieving 4 and 5 stars and scoring over 70% in each module.
- GLIL[R] Infrastructure has entered a new strategic partnership with the London-listed Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024.
- LPPI reviewed and updated two current RI policies during Q4 2023, our Shareholder Voting Guidelines and Annex on ESG Integration.
- In Q4 2023 LPPI voted on 98% company proposals, supporting 85% of these as part of shareholder voting on the LPPI Global Equities Fund (GEF).
- Investments in Brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.28% of the portfolio.
- Investments in Green sectors (renewable energy generation, clean technology, and decarbonising activities) are 4.99% of the portfolio.

## 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. See the summary for Q4 2023 outlined below.

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Listed Equities. Pages 6-7 share information on a selection of investments within the LCPF portfolio which are developing solutions in large, small and mid-cap companies.

Listed equities (Dashboard p1)

### *Sector Breakdown*

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Tech. (24%), Financials (18%), and Industrials (15%).

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.

### *Top 10 Positions*

The top 10 companies (10 largest positions) make up 25% of the total LPPI GEF.

In Q4 2023 Microsoft remains the largest holding in the GEF, with Alphabet, Visa, Accenture and Nestle also all remaining in the top five, although Alphabet moved up 1 position above Visa. Adobe, Intuit, London Stock Exchange and Moody's Corp also all remained in the same positions. Booking Holdings was replaced with Autodesk, which makes up the last position in the top 10.

### *Portfolio ESG Score*

The GEF's Portfolio ESG score has not changed, remaining at 5.6 between Q3 and Q4. In the same period the equivalent score for the benchmark was also unchanged at 5.5.

### *Transition Pathway Initiative (TPI)*

TPI[R] has recently released v.5.0 of its Management Quality ratings methodology. As outlined further in section 6 of this report, the update has doubled the number of companies in the TPI assessment universe and introduced a new Level 5 to the assessment staircase which provides greater differentiation and insight into company transition plans.

The increased TPI universe brings a larger number of GEF owned companies into scope compared with the position in Q3 2023. By value, the % of the GEF covered by TPI ratings has increased from 11% to 42%, and the number of GEF companies in scope of TPI scoring has grown by 49, increasing from 31 to 80 companies between Q3 and Q4 2023.

Of the 80 companies in TPI scope:

- 93% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI 3), their strategic planning (TPI 4) and into their transition planning and implementation (TPI 5). This is up from 90% in Q3 2023, which confirms most of the 49 additional companies have been rated TPI 3 and above.
- 9 companies are scored below TPI 3 currently and are under monitoring.

### *Governance Insights*

These metrics provide insights on governance matters for the GEF using data from ISS DataDesk (Institutional Shareholder Services) our provider of shareholder voting services.

The timeseries graph on the RI Dashboard (Page 1), shows the past performance of the governance insights. This allows tracking of changes both quarterly and annually between Q1 2022 and Q4 2023, which provides a more informative perspective for comparison.

**Women on the board:** A measure of gender diversity confirming the average proportion of female board members for companies in the GEF (where data is available).

In Q4 2023, an average of 32% of board members were female in the GEF, which is up from 29% in Q4 2022. There was a coverage of 85% data availability (up from 84% in Q4 2022), which was a result of several companies not being in scope of the ISS database.

**Board independence:** The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence as a route to an appropriate breadth of ideas, skills and experiences being drawn upon.

In Q4 2023, on average 69% of board members were independent in the GEF, which is up from 68% in Q4 2022. There was a coverage of 85% data availability (up from 84% in Q4 2022), which was a result of several companies not being in scope of the ISS database.

**Say-on-pay:** The average level of investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

In Q4 2023, an average of 89% were in support for say on pay (up from 88% in Q4 2022), which indicates a high proportion of investors were supportive of the pay policies of investee companies. There was a coverage of 78% data availability (up from 69% in Q4 2022), which was a result of several companies not being in scope of the ISS database.

Other asset classes (Dashboard p2)

### *Private Equity*

The geographical exposure continued to have a strong United States presence, remaining at 53% in Q4 2023. The largest sectoral exposure continued to be Information Technology, remaining at 30% in Q4 2023.

### *Infrastructure*

The geographical exposures to UK based infrastructure slightly decreased, moving from 49% exposure in Q3 to 48% in Q4 2023. The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 40% of the portfolio.

*Real Estate*

Sector and geographical exposures remained similar to those reported in Q3 2023. The portfolio continued to be largely deployed in the UK, making up 74% of the portfolio. The largest sectoral exposure continued to be Industrial assets, making up 41% of the portfolio.

*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 corporate bonds within Fixed Income. As a result, in Q4 2023, 73.7% of the total portfolio is in scope of Green and Brown. 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.

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 Lancashire County Pension Fund (LCPF) portfolio (as the denominator) also affects Brown and Green % shares quarterly.

Compared with Q3 2023, Brown exposure has decreased from 2.47% to 2.28%. The biggest contribution to the reduced exposure comes from the Infrastructure asset class. The figures reflect one company, identified as Brown, leaving the portfolio from an existing fund which reflects the opportunity to realise assets at an attractive valuation and re-deploy capital in other attractive opportunities. This has reduced infrastructure's Brown exposure from 1.89% in Q3 to 1.76% of the portfolio in Q4 2023. Other contributions were from the GEF asset class, where another company identified as Brown also left the portfolio.

Compared with Q3 2023, Green activities have slightly decreased from 5.18% to 4.99% of the portfolio. The biggest contributor to the decreased exposure is from the Infrastructure asset class. The figures reflect a mark-to-market decrease in the value of Green positions held in portfolio. This has decreased infrastructure's Green exposure from 4.92% in Q3 to 4.75% of the portfolio in Q4 2023.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 83% of total Green exposure, and 95% of Green exposure is via Infrastructure assets.

## 3. 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 Responsible Investment approach 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 Equities 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 are publicly available from the LPP website within quarterly shareholder voting reports.

The period 1st October – 31st December 2023 encompassed 40 meetings. LPPI voted at 39 (98%) meetings where GEF shares entitled participation, totalling 319 resolutions voted. LPPI did not vote in one meeting:

- LPPI applied "Do Not Vote" at one company due to it being a Russia-linked holding that could not be liquidated prior to the introduction of trading restrictions.

***Company Proposals***

LPPI supported 85% of company proposals in the period.

Voting against management captured:

- the election of directors: 37% of votes against (addressing issues including overall board independence, and company specific issues such as diversity).
- compensation: 37% of votes against (addressing issues including inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards).

***Case Study – Director Related***

LPPI voted against 16 director-related resolutions across 10 companies. This was 10% of all director-related votes.

LPPI voted against 1 resolution (which included a bundle of four directors) across one company due to concerns around board independence levels. At the company, XP Inc. (Cayman Islands: Investment Banking & Brokerage), LPPI voted against the group of directors for serving as non-independent members of the key board committee. Result: not disclosed.

LPPI voted against eight directors at two companies in relation to minority shareholder rights. Members of Governance Committees were targeted where problematic governance practices (including the presence of a classified board and multiple share classes with unequal voting rights) existed. For example, at Oracle Corporation (USA: Systems Software), LPPI withheld support for seven incumbent members of the Governance Committee. This was due to substantial pledging activity and significant concerns regarding risk oversight. Result: 24.1% against.

LPPI voted against four directors across four companies due to a lack of board gender diversity. This reflects LPPI's proxy voting guidelines which require companies in the FTSE350 and Russel 3000 to have at least 30% women on the Board.

### *Case Study – Compensation*

LPPI voted against 16 compensation resolutions at 8 companies. This was approximately 37% of management tabled compensation related votes.

At Oracle Corporation (USA: Systems Software), LPPI voted against the say on pay. This reflected an inadequate evaluation of amendments to the Omnibus Stock Plan, based on an assessment of the estimated cost, plan features, and grant practices using the Equity Plan Scorecard (EPSC). Result: 29.0% against.

At RPM International Inc. (USA: Speciality Chemicals), LPPI voted against the say on pay. This was warranted given that the compensation committee demonstrated only limited responsiveness to last year's low say-on-pay vote result. While the company engaged with investors following last year's annual meeting, the proxy does not detail the portion of investors the company met with, nor if directors participated. Although the company made certain improvements to the pay programs, it is unclear if such changes fully address investor feedback. Lastly, an unmitigated pay-for-performance misalignment was again identified at the company and raised concerns regarding the level of discretion in the annual incentive program and certain overlapping performance periods in the long-term program: 24.2% against.

At Copart, Inc. (USA: Diversified Support Services), LPPI voted against the say on pay. Following last year's relatively low say-on-pay vote result, the compensation committee demonstrated only limited responsiveness. The company, including independent directors, engaged with investors and disclosed certain feedback received. However, the disclosed shareholder feedback was relatively vague, and as the committee made only limited changes to address investor concerns, LPPI voted against. Result: 19.9% against.

### *Shareholder Proposals*

There were 6 shareholder proposals at 2 companies during Q4.

- At Microsoft Corporation (USA: Systems Software), one resolution requested a report on risks of operating in countries with significant human rights concerns, which LPPI supported. Result: 33.6% for.
- At Oracle Corporation (USA: Systems Software), one resolution sought the disclosure of median pay gaps across race and gender which LPPI supported. Result: 31.4% for.

### *Climate Voting*

In Q4, meetings of eight companies in LPPI's voting watchlist occurred, of which there were no climate-related votes against management.

One company in the CA100+[R] universe held a meeting during Q4, although none of the company proposals were climate related.

Companies typically avoided climate-related votes against management where disclosure has improved or there is evidence of adequate progress prior to reporting (e.g. as ascertained through engagement calls).

***LAPFF Voting Alerts***

There were no LAPFF Voting Alerts for GEF holdings in Q4 23.

## 4. Active Ownership

***Case Study – Manager Engagement***

As part of LPPI's second phase of Net Zero target setting, the Fixed Income team undertook an in-depth Net Zero engagement initiative with each external manager in their portfolio. Each manager was provided with a list of requirements, in-line with IIGCC Net Zero Framework, that outlined the specific methodologies and measurements that LPPI would need to set their Net Zero targets for corporate bond holdings. These requirements focused on providing information in the following areas: alignment with the IIGCC categorisation framework, emissions intensity baseline, coverage baseline, engagement baseline and engagement strategy. Focused meetings were also held with each manager on portfolio implications from the different potential net zero targets. In light of these discussions, we opted for a benchmark relative approach, and one based on weighted average carbon intensity.

Overall, we are pleased with the response that our managers have demonstrated. All managers have been able to meet the initial reporting requirements and have also now integrated these metrics into their quarterly reporting packs. This provides LPPI with a platform to monitor and track progress against its Net Zero targets.

## 5. Robeco Summary

Engagement (Public Markets): Robeco *(Dashboard page 4)*

This section of the dashboard outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution). Robeco currently engages with 43 companies in the LPPI Global Equities Fund (GEF) and 15 companies in the LPPI Fixed Income Fund (FIF), accounting for 25.4% and 3.1% of the total portfolios respectively.

Engagement (Public Markets): Robeco *(Dashboard page 5)*

Engagement progress by theme, also shown on page 2 in the Robeco Active Ownership report, summarises their engagement activity for our portfolio over the quarter broken down into sub-sectors, and rated on success/progress (shown as a %). For this quarter, four new themes have been added to the progress chart: Nature Action 100, Modern Slavery in Supply Chains, Tax Transparency and Fashion Transition.

The data reported in our dashboard is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.

**Modern Slavery in Supply Chains (NEW THEME)**

Through their complex supply chains, companies across the globe are exposed to modern slavery and forced labour risks. This is a new engagement theme for Robeco, with the theme focusing on enhancing companies' effectiveness in identifying and addressing modern slavery risks across their supply chains.

Robeco will aim to enhance companies' effectiveness in identifying and addressing the risks associated with modern slavery issues, going beyond formal human rights policies and processes. The engagement will also focus on how companies provide impacted stakeholders with effective remediation measures and prevent future recurrence by working closely with suppliers and establishing the right accountability structures within the organisation.

Modern slavery is present in almost every country in the globalised world economy. The Middle East shows the highest prevalence of it, while the Asia-Pacific region has the largest absolute number of forced labour cases, at over 15 million cases. Nevertheless, the main beneficiaries of modern slavery (through their consumption of products) are the major developed economies. With this in mind, Robeco selected a list of companies to engage with based on their multi-layered supply chains, the nature of operations for raw materials production, and the geographical areas in which they and their suppliers operate.

One of the most important actions is to conduct human rights due diligence. Robeco expect companies to identify risks according to aspects like sourcing from conflict regions, workplace characteristics and the types of raw materials sourced, and to take appropriate actions. One of the challenges they expect to face is lack of quality information regarding lower-tier suppliers which is needed to assess whether the companies under engagement are well positioned to identify and remediate modern slavery risks and impacts.

**Nature Action 100 (NEW THEME)**

Nature Action 100 was launched in September 2023 against the backdrop of aligning investor action to contribute to the Global Biodiversity Framework (GBF). It mobilises institutional investors to establish a common high-level agenda for engagements, and a clear set of expectations to drive greater corporate ambition and action to stem biodiversity loss.

The initiative targets 100 companies in eight key sectors that are deemed to be systemically important in reversing biodiversity loss by 2030, such as chemicals, food, and metals and mining. As a first step, the 100 companies targeted for engagement have received a letter from the group outlining six timely and necessary corporate actions needed to protect and restore nature. Dialogues will be held from 2024 onwards.

In terms of engagement expectations, companies are encouraged to set a public commitment to minimise biodiversity impacts and to conserve and restore ecosystems by 2030. They should set time-bound, science-based targets that are based on assessments of their nature-related dependencies, impacts, risks and opportunities.

Robeco are a participant in Nature Action 100 and reviewed their investment exposure to biodiversity risks across sectors and markets, as well as taking into account their clients investment exposure, before selecting sectors and companies that they wanted to engage with. They observed that biodiversity risks are concentrated in three sectors, and exacerbated where allocations are to emerging markets. As a result, they prioritised their engagement with eleven companies across these three sectors: Materials (chemicals), Consumer Staples (retail, food and beverage, household and personal products) and Consumer Discretionary (retail).

**Net-zero Carbon Emissions**

The Net-zero engagement theme encourages companies to embrace a decarbonisation strategy to ensure their long-term viability, competitiveness and license to operate. Robeco's engagement activities set the expectation for companies to set long-term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, implementing transition plans that ensure a reduction in real-world emissions over the next decade.

Since the start of this theme three years ago, and the expansion of the number of companies under engagement in March 2022, Robeco have registered positive progress for almost all the companies under engagement. The industries which have registered the highest level of progress are the steel and cement sectors. Considered to be the hard-to-abate industries, these companies showed meaningful improvements, especially in disclosing detailed capital alignment and decarbonisation strategies.

Although the oil and gas industry has been subject to several initiatives to address the net-zero transition, Robeco feel that there is still room for improvement, especially in outlining reduction targets for Scope 3 emissions, and reallocating capex away from potentially stranded fossil fuel assets. Indeed, as they witnessed in the last three years, setting targets for Scope 3 emissions has been one of the main challenges on the net zero pathway for oil and gas companies. Having originally witnessed early progress coming from this sector, some companies unfortunately have reached a standstill in their decarbonisation pathways after the global energy crisis. Therefore, Robeco plan to intensify and escalate their engagement efforts in the next year to seek further improvements.

**Responsible Executive Remuneration (CLOSED THEME)**

In 2020, Robeco launched its 'Responsible executive remuneration' engagement theme which is now coming to a close. Throughout the three years of engagement, Robeco reviewed the remuneration policies and disclosures, relevant key performance indicators (KPIs), and incentive structures at a set of European and American companies. Their project focused on four broad objectives: equity compensation; pay for performance; quantum (i.e., height of pay) and the link to equity; as well as structure and oversight.

Overall, Robeco found that executive pay levels have spiralled up, but this trend has been less apparent across the average workforce, hence not necessarily reflecting an increase in productivity.

Nike case study:

In response to the effects of the pandemic, US athletic footwear company Nike implemented a “more flexible” short-term incentive structure based on two equally weighted, six-month performance periods. Robeco flagged their concern regarding the lack of transparency on certain adjusted performance goals, and were satisfied that the company has since transitioned back to the historical design whereby short-term incentive payouts are earned based on year-long targets.

**Proxy voting – Market insight**

Corporate governance at State-Owned Enterprises (SOEs) continues to be a complex topic, yet it is gaining importance as SOEs’ role in global markets grows. SOEs are amongst the largest corporations in many countries and account for a growing share of the corporate landscape. Given their size and positioning in high-impact sectors, SOEs also play a significant role in achieving the Sustainable Development Goals (SDGs). The consequences of poor corporate governance in SOEs will therefore extend far beyond the boardroom.

Good governance in SOEs is, however, far from being a simple matter. If an SOE is run well and sufficient checks and balance are in place, state control can provide stability. If not, political involvement may also have downsides. The growing awareness of the importance of SOEs to our economies and the governance challenges that they face have prompted many countries around the world to roll out reforms. These initiatives point out the fact that there is no one-size-fits-all recipe for reform.

Robeco expect SOEs to have proper safeguards in place, such as the establishment of committees comprising independent members to oversee conflicts of interest, super-majorities or ‘majority of minority’ voting provisions, and a transparent process for board nominations. If they see that insufficient safeguards are in place, they will hold companies accountable. For example, they would oppose article amendments that would lead to a negative impact on minority shareholder rights or to a deterioration in the process for director nominations. Similarly, they would oppose related party transactions that are not subject to an adequate oversight process that ensures minority shareholder rights are protected. Where a company has not ensured adequate minority shareholder protections, Robeco would seek further engagement.

## 6. 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 Q4 2023.

### *Nature Action 100 Update*

As reported last quarter, LPPI is a founding participant of Nature Action 100, a new global investor engagement focused on driving greater corporate ambition and action to tackle nature and biodiversity loss. The initiative focuses on companies in key sectors deemed to be systemically important in reversing nature and biodiversity loss by 2030.

LPPI applied to be the lead engager on 3 of the initial 100 companies, those held by the internally managed section of LPPI's Global Equities Fund. We have received confirmation that LPPI will be part of the groups collaborating to engage with two of these companies: PepsiCo and Costco Wholesale Corp.

Nature Action 100 is currently seeking an expert consultant to provide research and analysis on corporate performance on nature related issues.

### *TPI Update*

In November 2023, the Transition Pathway Initiative (TPI[R]) provided an update to investors on the launch of v.5.0 of its Management Quality methodology, releasing data in 'Beta[1]' format. The new framework aims to set a higher standard for companies to meet, and to provide greater differentiation of high-performing companies. This reflects the reality that previously stretching indicators have become more standard practice, driven by, for example, greater investor interest in environmental, social and governance (ESG) investment strategies, and a proliferation of corporate net-zero target setting.

Key highlights of the TPI update include:

- The new framework raises the bar by adding a new level (Level 5), which aims to give greater insight into the rigour of companies' transition plans and whether they are being credibly implemented.
- TPI have increased the number of companies under assessment, adding 469 to the current TPI universe, which takes the total to 1,061 companies. This is the largest expansion to date of the company universe assessed through the TPI MQ framework and materially increases the % of the GEF within ratings coverage.

The updated ratings approach is strongly aligned to the IIGCC Net Zero framework LPPI is using. We are currently considering how best to utilise the new information and the impact that doing so will have on our approach to evaluating Net Zero alignment.

### *GLIL*

GLIL[R] Infrastructure has entered a new strategic partnership with the London-listed Bluefield Solar Income Fund, as part of a commitment to drive investments in UK-focussed solar energy assets in 2024.

As part of the agreement, GLIL is set to invest £200 million in a 247MW portfolio of operational solar energy assets. It will also acquire a 50% stake in a separate 100MW portfolio of solar assets and it will allocate fresh funds for Bluefield Solar's development pipeline. More information outlining the phased approach to the strategic partnership can be found here.

[1] Beta – This is an early version that contains most of the major features, but which is not yet finalised.

## 7. Other News and Insights

### *Principles for Responsible Investment (PRI)*

LPPI has been a signatory to the PRI[R] since 2018. We produce and submit detailed reporting on our activities annually, for assessment and scoring.

The PRI has recently released the results for the 2022/23 reporting cycle. LPPI's results are summarised below.

| Module | LPPI Scores | PRI Median | AO Peer Group Median | IM Peer Group Median |
|---|---|---|---|---|
| Policy Governance and Strategy | 4 stars (77%) | 3 stars (60%) | 4 stars (77%) | 4 stars (76%) |
| Indirect – Manager Selection, Appointment and Monitoring - Listed Equity – Active | 5 stars (94%) | 3 stars (57%) | 4 stars (70%) | 3 stars (57%) |
| Indirect – Manager Selection, Appointment and Monitoring - Fixed Income – Active | 5 stars (94%) | 3 stars (58%) | 4 stars (68%) | 3 stars (58%) |
| Confidence Building Measures | 4 stars (80%) | 4 stars (80%) | 4 stars (70%) | 4 stars (80%) |

*Peer group: Asset Owner/Investment Manager, Europe, £10-50bn AUM*

This is a very pleasing outcome which demonstrates the high standards LPPI works to. For each module LPPI achieved 4 or 5 stars (5 being the highest score available) and we reached a score of over 70% in each module. We also scored significantly higher than the PRI median and either equalled or were significantly above our peer group median. We cannot compare our scores in 2022/23 like for like with our 2020/21 results because assessment was on a different basis, however, comparison of our headline statistics confirms continued strong performance.

### *Net Zero Update*

In Q4 2023, LPPI formally submitted a second phase of net zero targets covering direct real estate and our corporate bond holdings to the IIGCC's Net Zero Asset Managers Initiative[R]. We are pleased to confirm that these targets were approved as compliant and have now been published on the official NZAM website here.

### *FCA Industry Code of Conduct for ESG Ratings*

The International Capital Market Association (ICMA) and the International Regulatory Strategy Group (IRSG) have launched a voluntary code of conduct for Environmental, Social and Governance (ESG) ratings and data products providers, found here. The FCA appointed the ICMA and IRSG to convene and develop a globally consistent voluntary code for those providing third-party data and ratings which is increasingly being relied upon by the market.

The code of conduct aims to foster a trusted, efficient and transparent market, by introducing clear standards for ESG ratings and data product providers, and clarifies how such providers can interact with wider market participants. Based on IOSCO's (International Organization of Securities Commissions) recommendations, the code sets out six principles with the aim of:

a. improving the availability and quality of information provided to investors at product and entity levels;
b. enhancing market integrity through increased transparency, good governance and sound systems and controls; and
c. improving competition through better comparability of products and providers

The codes six principles:

1. Good governance
2. Securing Quality (Systems and Controls)
3. Conflicts of Interest
4. Transparency
5. Confidentiality (Systems and Controls)
6. Engagement (Systems and Controls)

***Responsible Investment Policy Review***

Our Stewardship Committee's oversight of LPPI's RI Policy includes reviewing existing policies to an annual cycle to ensure they remain up to date.

Two current policies were reviewed and updated during Q4 2023:

**Shareholder Voting Guidelines (SVG)**
Our SVGs explain the priorities we have identified and the standards we follow in deciding how shares held by LPPI's Global Equities Fund will be voted at company meetings.

Amendments have been made to include the consideration of nature and biodiversity as part of the effective management of climate change, with direct reference made to LPPI's commitment as a signatory to Nature Action 100.

Reflecting new listing rules introduced by the Financial Conduct Authority, we have amended the diversity standards we will apply to nomination committees. LPPI will consider withholding support for the Chair of the Nomination Committee where a UK company Board does not have

- 40% female representation and at least one senior board position held by a woman, unless this has been adequately explained.
- at least one director from a minority ethnic background, unless this has been adequately explained.

**Annex on ESG Integration**
This Annex outlines LPPI's ESG beliefs and explains our approach to the integration of ESG considerations within investment management. Minor amendments have been made to;

- incorporate reference to the UK Sustainability Disclosure Requirements (SDR) published by the Financial Conduct Authority (FCA) in November 2023

- reflect the operation of decision-making arrangements as part of underwriting under delegation from our Investment Committee to the Chief Investment Officer.

LPPI's Stewardship Committee also considers areas for policy development or for the articulation of our approach to improve transparency. In Q4 2023 LPPI published a new Annex on Human Rights which briefly explains how we manage salient human rights risks in accordance with internationally applicable standards of practice.

All current LPPI RI policies are publicly available from LPPI's corporate website.

## 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, please see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

**Climate Action 100+**
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

**Paris Agreement**
The Agreement is a legally binding international treaty to tackle climate change and its negative impacts. The Agreement includes commitments from all countries to reduce their emissions and work together to adapt to the impacts of climate change. It entered into force on 4 November 2016.

The Agreement sets long-term goals to guide all nations to:

- substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees,
- review countries' commitments every five years,
- provide financing to developing countries to mitigate climate change, strengthen resilience and enhance abilities to adapt to climate impacts.

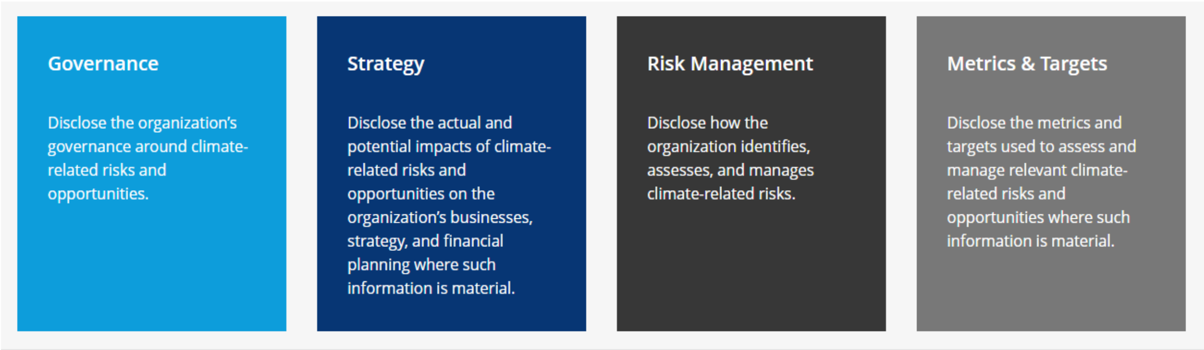
https://www.un.org/en/climatechange/paris-agreement

**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.

**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 the highest emitting companies globally on their preparedness for a transition to a low carbon economy. 1,061 companies are rated TPI 0-5* for Management Quality based on 23 separate datapoints. TPI Management Quality scores provide an objective external measure of corporate transition readiness.

**NZAMI – Net Zero Asset Managers Initiative** https://www.netzeroassetmanagers.org/
The Net Zero Asset Managers Initiative launched in December 2020 and aims to galvanise the asset management industry to commit to a goal of net zero emissions.

**IIGCC**
Institutional Investor Group on Climate Change. LPPI is a member.

**PRI** - **Principles for Responsible Investment** https://www.unpri.org/
A United Nations-supported international network of financial institutions committed to integrating Environmental Social and Corporate Governance considerations into their stewardship practices.

**GLIL** - https://www.glil.co.uk/
GLIL is an innovative collaboration between aligned and like-minded investors who are seeking investment into core infrastructure opportunities predominately in the United Kingdom. LPPI manages the portfolio of assets and is the Alternative Investment Fund Manager.

# Responsible Investment Dashboard Q4 2023

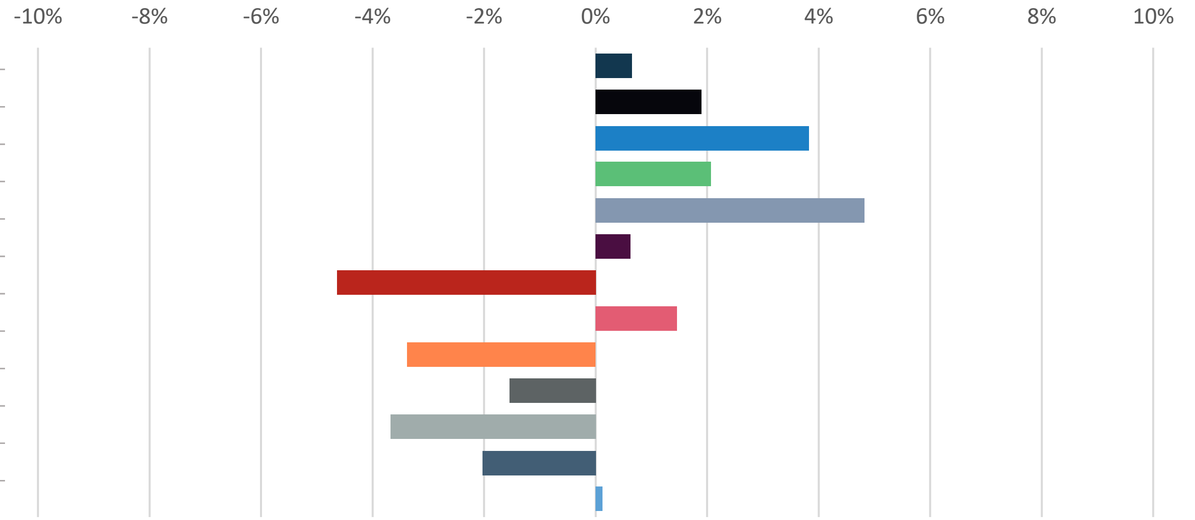
## 1. Portfolio Insights

Listed Equities (LPPI Global Equities Fund)

### Sector Breakdown (%)

| | |
|---|---|
| Information Tech. | 23.6 |
| Financials | 17.7 |
| Industrials | 14.5 |
| Consumer Discretionary | 13.2 |
| Consumer Staples | 11.6 |
| Communication Services | 7.9 |
| Health Care | 6.6 |
| Cash | 1.5 |
| Materials | 1.1 |
| Real Estate | 0.9 |
| Energy | 0.8 |
| Utilities | 0.6 |
| Others | 0.1 |

### LPPI Global Equities Fund Sector Weights vs MSCI ACWI ND




### Top 10 Positions

| | Portfolio (%) |
|---|---|
| 1. Microsoft Corp | 3.9 |
| 2. Alphabet Inc | 3.8 |
| 3. Visa Inc | 3.0 |
| 4. Accenture Plc | 2.7 |
| 5. Nestle Sa | 2.3 |
| 6. Adobe Inc | 2.0 |
| 7. Intuit Inc | 2.0 |
| 8. London Stock Exchange | 1.8 |
| 9. Moody's Corp | 1.7 |
| 10. Autodesk Inc | 1.6 |

### Governance Insights (ISS DataDesk)

**Women on the Board (Average)**

32%

Coverage of GEF 85%

**Board Independence (Average)**

69%

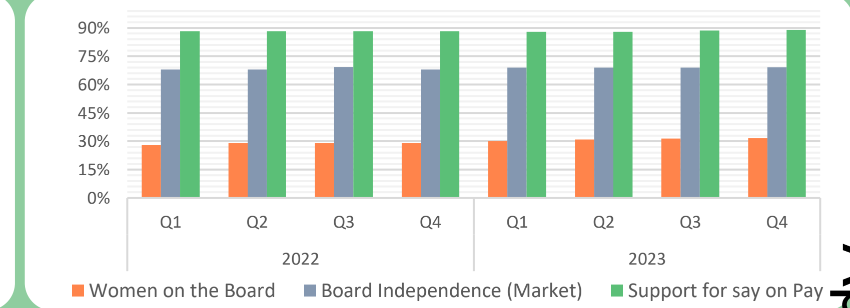
Coverage of GEF 85%

**Support for Say on Pay (Average)**

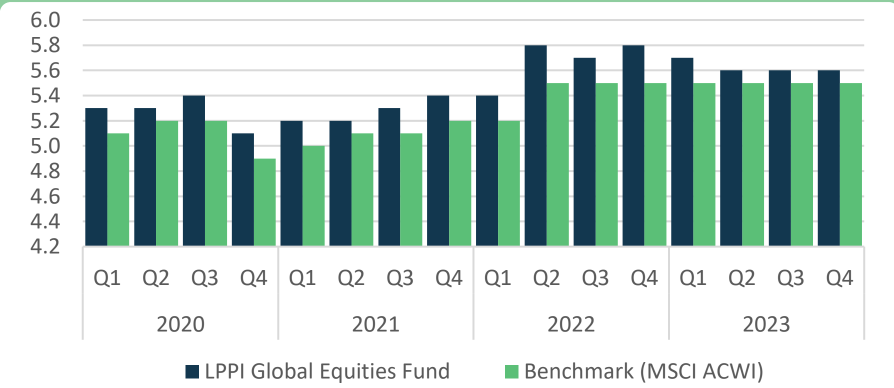
89%

Coverage of GEF 78%

### Governance Insights (Timeseries)



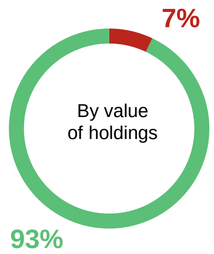

### Portfolio ESG Score (MSCI ESG Metrics)

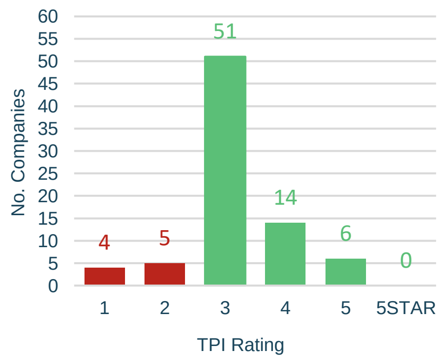



### Transition Pathway Initiative – Management Quality Headlines

41.6%

GEF covered by TPI analysis (Q4 2023)




TPI Management Quality Ranking

- 0 - Unaware
- 1 - Aware
- 2 - Building capacity
- 3 - Integrated into operational decisions
- 4 - Strategic assessment
- 5 - Transition planning and implementation

Page 109

Appendix B

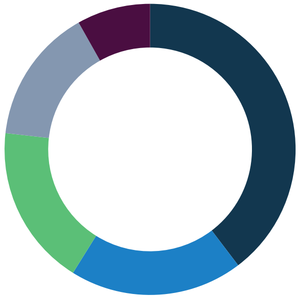
# Responsible Investment Dashboard Q4 2023

1. Portfolio Insights

Other asset classes

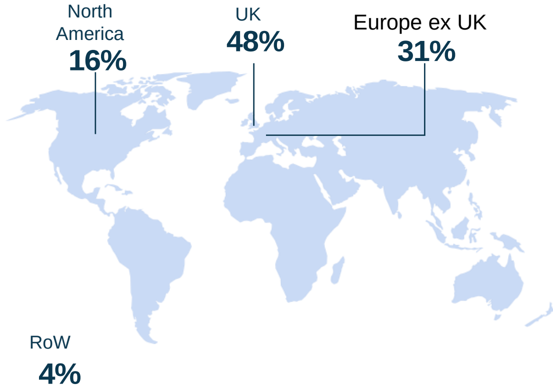
Infrastructure (LPPI Global Infrastructure Fund)

**Industry Breakdown (%)**



| | | | |
|---|---|---|---|
| Traditional Energy, Renewable Energy, Waste | 40 | Social (incl PFI) | 18 |
| Transport and Distribution | 19 | Other | 15 |
| | | Regulated Assets | 8 |

**Region Breakdown (%)**

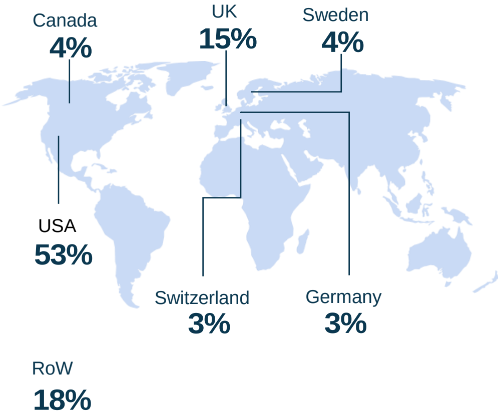



## Private Equity

**Industry Breakdown (%)**

| | | | |
|---|---|---|---|
| Information Technology | 30 | Financials | 7 |
| Health Care | 20 | Remaining Industries | 5 |
| Industrials | 16 | Consumer Staples | 4 |
| Other | 10 | | |
| Consumer Discretionary | 9 | | |

**Region Breakdown (%)**



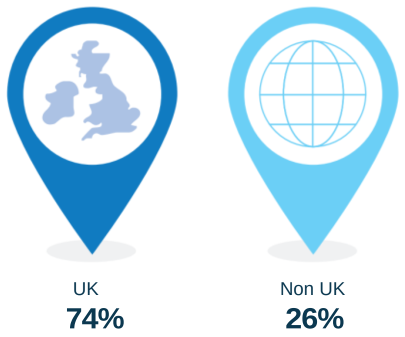

Page 110

## Real Estate (LPPI Real Estate Fund)

**Sector Breakdown (%)**

| | | | |
|---|---|---|---|
| Industrial | 41 | Office | 15 |
| Retail | 17 | Living | 12 |
| Alternative | 15 | | |

**Geographical Exposure (NAV %)**




## Green & Brown Exposure

**Total % of the portfolio that is in scope of Green and Brown**

73.7%

**Green**

Investments in businesses directly contributing to the global transition to a lower carbon economy, expressed as a % of the total value of the pension fund.

**4.99%** of portfolio

- 0.13% Green Bonds
- 0.11% Private Equity
- 4.75% Infrastructure

- 0.13% Public Markets
- 4.86% Private Markets

**4.15%** Renewable Energy Generation

- 0.39% Solar
- 2.79% Wind
- 0.98% Other Generation

**0.83%** Other "Green"

- 0.07% Clean Tech Funds
- 0.76% Decarbonisation

**Brown**

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the pension fund.

**2.28%** of portfolio

- 0.40% Listed Equity
- 0.04% Fixed Income
- 0.08% Private Equity
- 1.76% Infrastructure

- 0.44% Public Markets
- 1.84% Private Markets

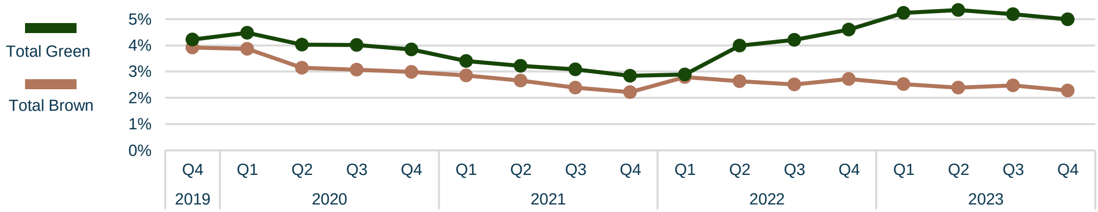
**2.02%** Energy

- 0.16% Upstream
- 0.79% Midstream
- 0.59% Downstream
- 0.48% Integrated

**0.26%** Generation

- 0.26% Energy Generation

**Trend**



# **Responsible Investment Dashboard** Q4 2023

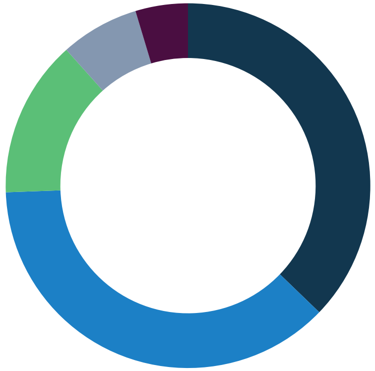
## 2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equities Fund)

**Headlines**

| Meetings Voted | Proposals Voted | Company Proposals | Shareholders Proposals | Meetings with a vote against Management |
|---|---|---|---|---|
| | | Supported 85% | Supported 55% | |
| **39** | **319** | **308** | **11** | **46%** |

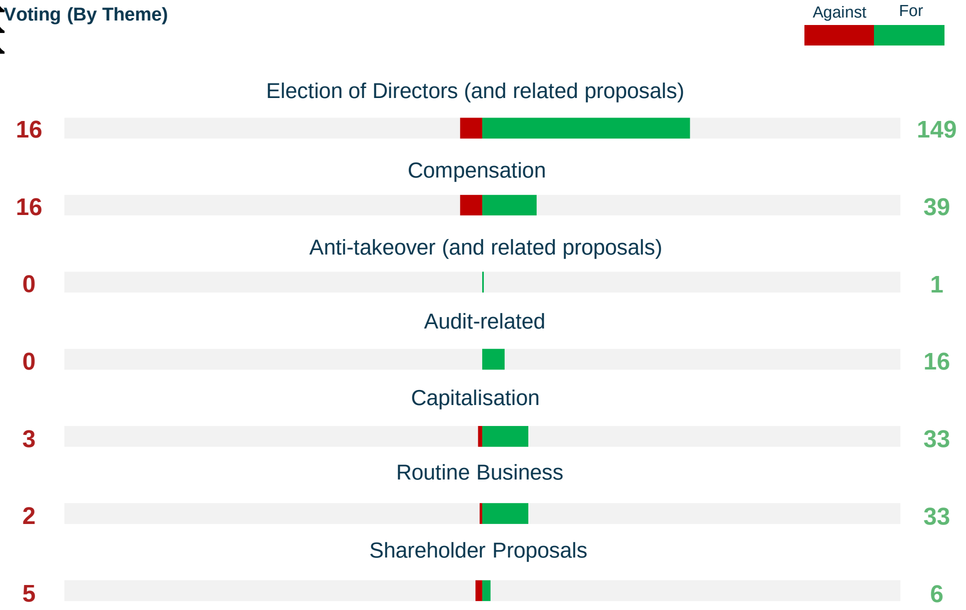


Votes Against Management (By theme)

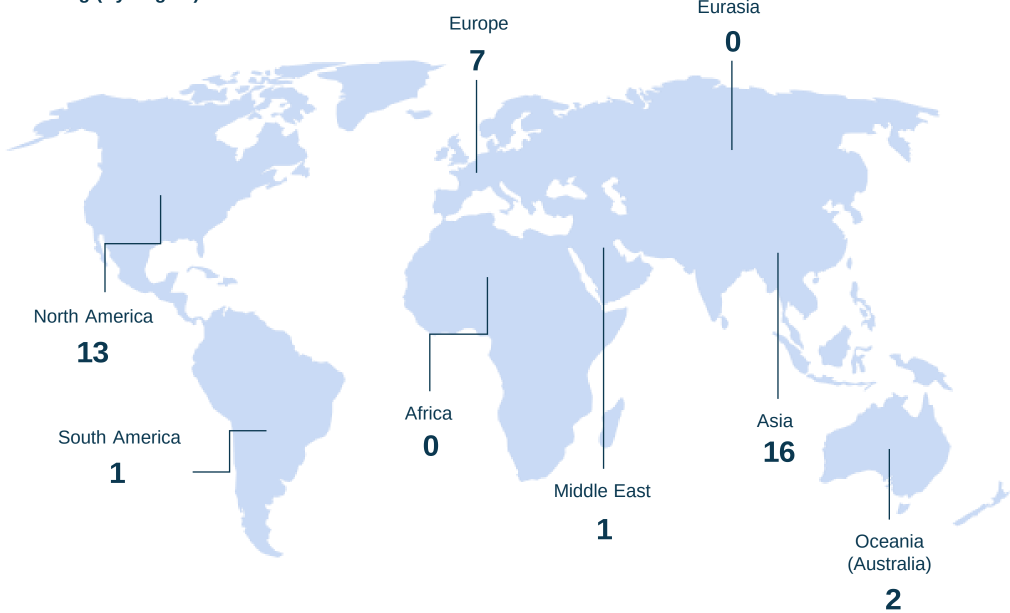
| | |
|---|---|
| Compensation | 16 |
| Election of Directors (and related) | 16 |
| Shareholder Resolutions | 6 |
| Capitalisation | 3 |
| Routine Business | 2 |
| Mergers, Acquisitions and Reorganisations | 0 |
| Anti-takeover (and related proposals) | 0 |

Page 111

**Voting (By Theme)**




**Voting (By Region)***




***Total votable meetings**

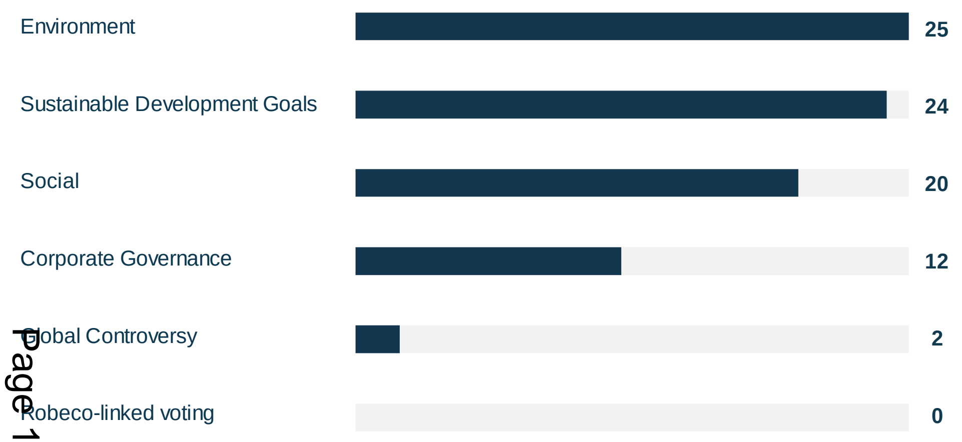
# **Responsible Investment Dashboard** Q4 2023

## 2. Stewardship Headlines

Engagement (Public Markets): Robeco

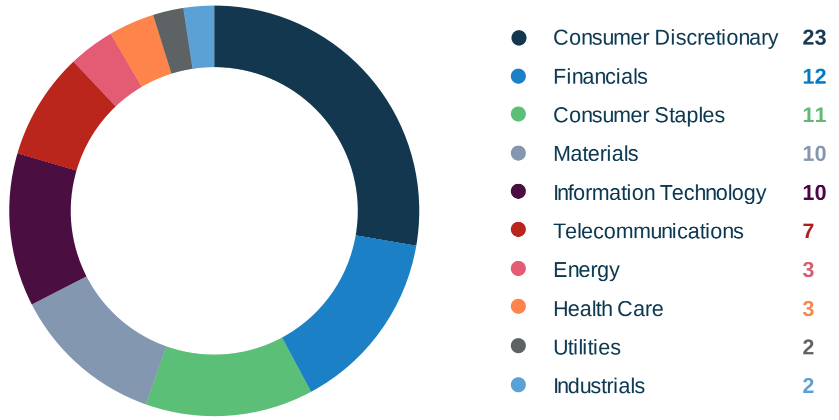
*The following data is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.*

**Activity (By Topic)**

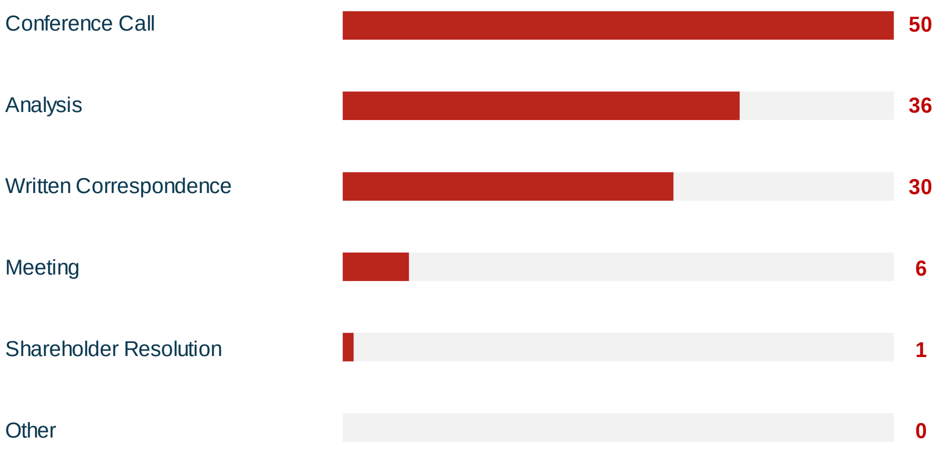



Page 112

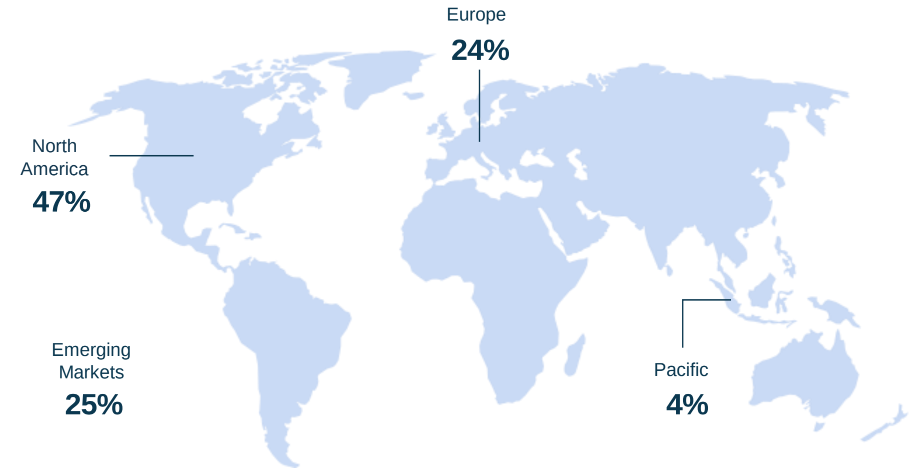
**Activity (By Sector)**




**Activity (By Method)**




**Activity (By Region) (%)**

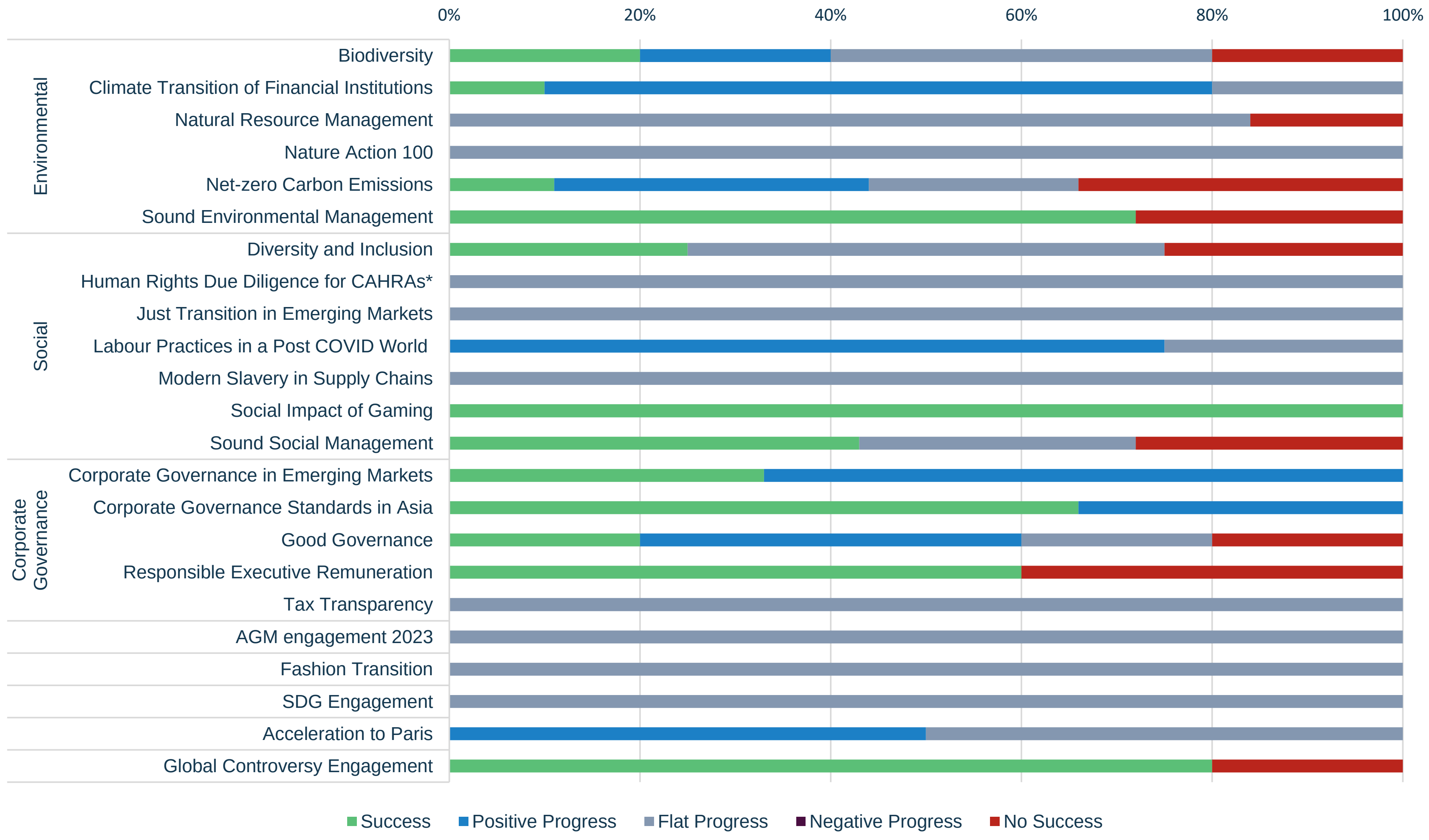



Source: Robeco Active Ownership Report Q4 2023

Engagement (Public Markets): Robeco

*The following data is specifically related to the companies in LPPI's portfolio and the engagements Robeco undertake on our behalf.*

**Engagement Results (by Theme)**




*CAHRAs - Conflict-Affected and High-Risk Areas

Source: Robeco Active Ownership Report Q4 2023

1.15% of LPPI Global Equities Fund IPV

**Thermo Fisher Scientific is a global leader in the life sciences market, providing products and services to pharmaceutical, biotech, and academic research customers.**

The company's mission is to enable its customers to make the world healthier, cleaner and safer, whether through accelerating life sciences research, improving patient health via diagnostics or the development of life changing therapies.

## Drug development

From **early-stage discovery through to development and manufacturing quality assurance**, the company's products are embedded within the core workflows of the **top 50 global pharmaceutical firms** (by revenues). This includes **advancing cancer research** through investing in precision medicine and genomic testing.

## Promoting access to affordable healthcare

The company **provides customers in over 100 low-and middle-income countries with affordable and accessible healthcare solutions**, including **HIV drug resistance genotyping kits** as part of a public-private partnership with the Kenyan Ministry of Health.

## Food and drink quality/ safety standards

This involves **analysing how food changes under different temperatures**, **evaluating labelling requirements and nutritional value to the safety standards**, as well as assessing quality/safety of the water supply. This includes use of specialist equipment to **detect pesticide content in foods**. Major customers include the US Food and Drug Administration (FDA) and the US Environmental Protection Agency (EPA).

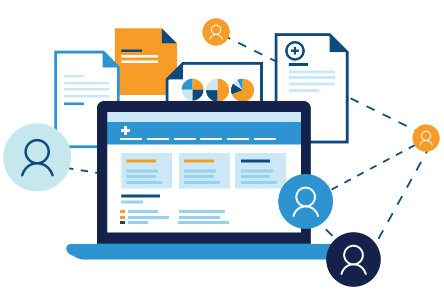
**Source: thermofisher.com**

0.14% of LPPI Global Equities Fund IPV

**Veeva Systems provides cloud-based customer relationship management software to the life sciences industry. The company partners with 19 of the top 20 global pharmaceutical companies and 45 of the largest 50 life sciences firms.**

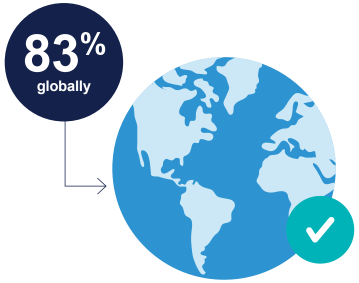
The company's software enables faster and cheaper clinical trials that are less burdensome and more accessible to patients, therefore helping accelerate life sciences research.

Page 115



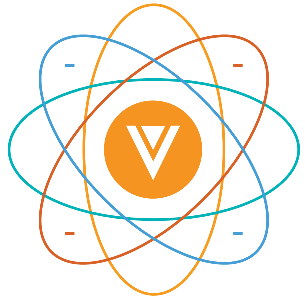
## Connected processes and automated data flow

By **connecting clinical trial stakeholders,** Veeva Systems improves trial efficiency through **connected processes and automated data flow.**




## New globally approved drugs

In 2022, **83% of new drugs approved globally were launched using the company's software.**



## Company flagship software - Veeva Vaults

The company's flagship software, Veeva Vault, has been used in over **500 clinical trials globally** – over the course of these trials, this has resulted in **a reduction in the time required to build clinical databases by 50% or more, a 40% cut in trial master file reconciliation and 90% faster data change request resolution.**

Source: veeva.com

## **Portfolio Insights** (Pages 1 - 2)

### Sector Breakdown (%)

- Identifies the Global Equities Fund's ("GEF") sector breakdown and their proportions.

### GEF Sector Weights

- Comparison of sector weights against their benchmark.
- The larger the bar the bigger the difference between GEF and benchmark weightings.
- Where a positive number is shown, this indicates the GEF is overweight to a sector.
- Where a negative number is shown, this indicates the GEF is underweight to a sector.

### Top 10 Positions

- The top 10 GEF companies as a % of the asset class portfolio.



### Governance Insights

- **Women on the board:** A measure of gender diversity based on the average proportion of female board members for companies in the GEF.
- **Board independence:** The average proportion of board members identified by ISS as independent. Please note independence expectations vary across markets with LPPI generally favouring greater independence.
- **Say-on-pay:** The average investor support for the most recent say-on-pay vote at a company meeting. Please note not all markets require say-on-pay votes. A vote of greater than 20% against (support < 80%) is generally considered significant.

### Portfolio ESG Score

- This is a relative indicator and not a measure of portfolio ESG risk exposure.
- Individual companies are assigned an ESG score (between 0-10). The final numbers shown in the bar chart are the weighted averages of these scores for the stocks held in the GEF vs its benchmark through time.
- This table is a comparison with the benchmark and reviews changes over time.
- LPPI utilise an established methodology (developed by MSCI) for determining the ESG score of stocks within the GEF. Further details can be found here: https://www.msci.com/documents/1296102/21901542/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+Nov+2020.pdf
- The higher the score shown, the better the ESG credentials of the GEF / benchmark.

## Portfolio Insights (Pages 1 - 2)

### Transition Pathway Initiative (TPI) Headlines

- TPI assess how well the largest global companies in high carbon emitting sectors are adapting their business models for a low carbon economy.
- The % of GEF covered by TPI shows the portfolio exposure to high emitting companies.
- The number/proportion of companies with top scores (TPI 3 to 5*) is a measure of the quality of transition management by the high emitting companies held within the GEF.
- Detailed TPI methodology can be found through the following link: https://www.transitionpathwayinitiative.org/publications/2023-methodology-report-management-quality-and-carbon-performance-version-5-0

### Private Market Asset Classes

Page 117

- These metrics indicate the industry sector and regional breakdown as a % of the asset class for Private Equity, Infrastructure and Real Estate investments.

### Green & Brown

- These metrics indicate the Pension Fund's total portfolio exposure (%) to green and brown assets. Current coverage extends to: Listed Equities, Fixed Income, Green Bonds, Private Equity, and Infrastructure.
- These are further broken down into their sectors/activities related to green and brown.
- Please be aware that due to rounding within the different breakdowns the totals may not sum correctly.

### Green

These are investments in renewable energy and sectors/activities assisting in renewable energy generation, low carbon tech and wider decarbonising activities.

### Brown

Investments in energy and power generation based on fossil fuel activities, including: extracting (upstream), transporting (midstream), refining (midstream), supplying (downstream), or some energy companies that legitimately span all aspects (integrated). Fossil fuels used to generate energy is part  of electricity generation.

## **Stewardship Headlines** (Pages 3 - 5)

### Shareholding Voting

- Key shareholder voting metrics for LPPI's GEF.
- The Headline section provides insight into the scope of voting activity, including how votes against management is concentrated.
- LPPI is responsible for voting on each decision taken, working in partnership with Institutional Shareholder Services to best inform views prior to taking action.
- The map of votes per region is included because different jurisdictions have different voting seasons. This provides context to the reporting of voting statistics quarter to quarter as votes take place in batches depending on the companies domicile at different points throughout the year.

### Engagement (Public Markets)

- Engagement is an active, long-term dialogue between investors and companies on environmental, social and governance factors, which can be executed through a variety of channels.
- LPPI has engaged an external provider (Robeco Active Ownership Team) to supplement dialogue underway by LPPI and external delegate managers.
- This section outlines the engagement activities undertaken by Robeco in the public markets by topic, sector, method, and region (indicating the number of companies engaged / geographical distribution).
- "Activity by method" summarises engagements by category / method and can include multiple inputs from the same company.
- The updated Robeco Active Ownership report summarises our engagement activities for the quarter and breaks them down into sub-sectors, where they are rated on success/progress (shown as a %).
- Page 9 of the Robeco stewardship policy outlines further details of their process: https://www.robeco.com/docm/docu-robeco-stewardship-policy.pdf

## **Real World Outcomes** (Pages 6 - 7)

- This section provides case studies which highlight positive outcomes arising from the Pension Fund's holdings.
- The focus of the real-world outcomes rotates between asset classes for each quarter in the following pattern:
  - Q1 – Infrastructure
  - Q4 – Real Estate
  - Q4 – Private Equity
  - Q4 – GEF
- The case studies offer bite sized insights on positive outcomes being achieved and contributed to by companies held by the portfolio.

(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)

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# Appendix B

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# Appendix C

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# Agenda Item 18

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# Agenda Item 20

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# Appendix A

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Appendix A

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