Lancashire County Council

Pension Fund Committee

Friday, 6th March, 2020 at 10.30 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	**Item**	
1.	**Welcome and Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the previous meeting.** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Lancashire County Pension Fund - External Audit Plan 2019/20**	(Pages 9 - 26)
5.	**Lancashire County Pension - Q3 budget monitoring**	(Pages 27 - 32)
6.	**Lancashire County Pension Fund - Budget for year ending 31 March 2021**	(Pages 33 - 40)
7.	**Funding Strategy Statement**	(Pages 41 - 82)
8.	**Feedback from members of the Committee on pension related training**	(Pages 83 - 84)
9.	**Responsible Investment Report**	(Pages 85 - 106)
10.	**Approval of 2020/21 Work Plan for the Lancashire Local Pension Board.**	(Pages 107 - 110)

Lancashire County Council

11. 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.

12. Date of Next Meeting

The next meeting of the Committee will be held on the 19th June 2020 at 10.30am (preceded by a 30 minute private briefing) in Committee Room 'C' – the Duke of Lancaster Room at County Hall, Preston.

13. 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)

14. Local Pensions Partnership Strategic Plan 2020-25 and Annual Budget (Pages 111 - 150)

15. Local Pensions Partnership update (Pages 151 - 174)

16. Investment Panel report (Pages 175 - 182)

17. Lancashire County Pension Fund Performance Overview (Pages 183 - 196)

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 7th February, 2020 at 10.30 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

Present:

County Councillor E Pope (Chair)

County Councillors

J Burrows	K Ellard
L Collinge	T Martin
B Dawson(1)	A Riggott
C Edwards	A Schofield

P Steen (2)

(1) Replaced County Councillor J Mein for this meeting only
(2) Replaced County Councillor A Snowden for this meeting only

Co-opted members

Mr P Crewe, (Trade Union representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council representative)
Councillor David Borrow, (Borough and City Councils representative)
Ms J Eastham, (Further Education/Higher Education Institutions representative)

Also in attendance

Mrs A Leech, Head of Pension Fund, Lancashire County Council
Ms A Devitt, Independent Adviser.
Mr E Lambert, Independent Adviser.
Mr J Livesey, Actuary, Mercers
Mr R Cathey, Senior Lawyer, Legal, Governance and Registrars, Lancashire County Council.
Mr C Rule, Interim Chief Executive, Chief Investment Officer and Managing Director (Investments) Local Pensions Partnership.
Mr G Smith, Director of Strategic Programmes and Group Company Secretary. Local Pensions Partnership.

1. Apologies

Apologies were received from County Councillor G Dowding and Councillor M Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

No declarations of interest in relation to matters on the agenda were declared at this point in the meeting.

3. Minutes of the Last Meeting.

Resolved: That the Minutes of the meeting held on the 20th September 2019 are confirmed as an accurate record and signed by the Chair.

The Chair informed the Committee that he would take item 12 as the next item of business as the update report was directly related to a decision referred to in the Minutes of the last meeting.

12. Update from the Local Pension Partnership on progress in implementing actions arising from internal audit work

An update report was presented on the implementation of Action Plans arising from an internal audit of the Local Pensions Partnership as discussed at the last meeting. The update was an item of urgent business as the report had not been finalised in time to be circulated with the main agenda and related to a decision taken at the last meeting which should not await the Committee on the 6th March 2020.

When considering the report the Committee noted the actions taken to address the issues highlighted by the audits and asked for further details regarding the findings of an external compliance consultancy which had reviewed the regulatory compliance of the Partnership.

Resolved:

1. That the update on action by the Local Pensions Partnership Senior Management Team in response to four audits where processes had been identified as ineffective, as reported to the Committee in September 2019, are noted.

2. That representatives from the Local Pensions Partnership be requested to provide further details on the findings of an external compliance consultancy review of regulatory compliance of the Partnership in response to one of the audits referred to at 1 above.

4. Lancashire County Pension Fund Q2 2019.20 Budget Monitoring

The Committee considered a report on the financial results of the Fund for the six months ending 30th September 2019 compared to the budget for the same period together with an updated forecast for the full year to 31st March 2020. It was reported that the current underspend on pension benefits was most likely a consequence of budget assumptions rather than payment delay and an update would be presented to the Committee in March 2020. The Head of Fund also reported that work had been done in relation to the accuracy and transparency of investment management fees and further details would be presented to the next meeting.

The Chair reminded members of the Committee that a presentation would be given at the workshop later in the day with regard to the Local Pensions Partnership 2020/21 budget.

Resolved: That the report is noted and updates regarding any underspend on pension benefits and the accuracy/transparency of investment management fees be presented to the next meeting.

5. Revised Lancashire County Pension Fund Communications Policy

A report was presented on the updated Communications Policy for the Lancashire County Pension Fund which had been reviewed by the Lancashire Local Pension Board on the 15th October 2019.

In considering the report the Committee noted the comments from the Board and recognised that whilst the preference was for information to be accessed online there may be some members of the scheme who may have difficulty in accessing such information. In response the Head of Fund reported that the policy did include provision for scheme members to receive hard copy information if requested and the Chair stated that he would also raise the matter with the Director of Administration at the Local Pensions Partnership.

Resolved: That the revised Lancashire County Pension Fund Communication Policy, as set out at Appendix 'A' to the report presented, is approved.

6. Draft Funding Strategy Statement

A report was presented on the draft Funding Strategy Statement for the Lancashire County Pension Fund which was being developed in consultation with the Actuary following discussions with employers within the Fund, employer groups and the Lancashire Local Pension Board. The Chair referred to the pre meeting briefing on the Actuarial Valuation and informed the meeting that after many years' service by Mr J Livesey from Mercers had announced his intention to retire.

Resolved:

1. That members of the Committee place on record their thanks to Mr Livesey for his valuable contribution to the work of the Committee over the years and wish him well for his retirement.

2. That the contents of the draft Funding Strategy Statement, as set out at Appendix ‘A’ to the report presented, are noted and that a final version of the Statement be presented to the Committee in March 2020 for approval.

7. Progress on delivering the Lancashire County Pension Fund Strategic Plan

The Head of Fund presented an update report on the progress of delivery of specific objectives set out in the Lancashire County Pension Fund 3 year Strategic Plan.

In considering the report the Committee noted that the dashboard style reporting on responsible investment issues had not yet been introduced in relation to all asset classes. In response the Head of Fund reported that the Responsible Investment Manager from the Local Pensions Partnership would be able to provide an update when she attended the next meeting. It was also noted that the dedicated website for the Fund would provide an opportunity for greater promotion of responsible investment activity by the Fund.

Resolved:

1. That the progress made to date on the delivery of the Lancashire County Pension Fund Strategic Plan, as set out in the report presented, is noted.

2. That future updates on delivery include an additional column so that the Committee can identify where specific items have been finalised.

8. Responsible Investment Report

The Committee was informed that the Managing Director of the London Pension Fund Authority was due to attend the meeting in March 2020 in response to the request from the previous meeting. The Responsible Investment Manager from the Local Pensions Partnership was also due to attend the next meeting and present a report on a review of the respective Responsible Investment policies of the Fund and Fund Authority.

With regard to the Minutes from the previous meeting it was noted that a representative from LAPFF had attended a training workshop for members of the Committee/Pension Board on the 5th November 2019 as referred to in the report at item 9 on the agenda.

Resolved: That the report is noted.

9. Feedback from members of the Committee on pension related training, conferences and events.

Individual members of the Committee gave feedback on their experience at various internal/external pension related training events which had taken place since the last meeting, the majority of which were considered worthwhile.

County Councillor Collinge reported that she had found the Introduction to the Local Government Pension Scheme event informative and recommended that any future appointees to the Committee attend such events. County Councillor Ellard reported that the event on ESG and Topical Investment Issues for Local Authority Pension Investors had been useful and suggested that one of the speakers be invited to address an event in Lancashire.

It was noted that copies of some documents from the events would be made available to members of the Committee for information via the secure online Library.

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

10. Transaction of Urgent Business - Setting Strategic Objectives for the Independent Advisers to the Lancashire County Pension Fund

A report was presented on a decision taken by the Monitoring Officer on the 6th December 2019, under the procedure for dealing with matters of urgent business with regard to the setting of Strategic Objectives for the Independent Advisers to the Fund.

Resolved: That the decision taken by the Monitoring Officer under the urgent business procedure to approve the following strategic objectives for the Independent Advisers to the Lancashire County Pension Fund, as required by The Investment Consultancy and Fiduciary Management Market Investigation Order, 2019, is noted.

1. In conjunction with input from Local Pensions Partnership Investments and any other relevant sources, recommend a Strategic Asset Allocation with tactical ranges to the Pension Fund Committee.

2. Monitor the construction and performance of the Fund, all its sub-funds and its Asset Manager (Local Pensions Partnership Investments) and recommend any consequent changes to the Pension Fund Committee.

3. Where relevant and appropriate recommend suitable strategies to mitigate Fund risks to the Pension Fund Committee. These could include currency and liability hedging.

11. Urgent Business

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

A report by the Head of Internal Audit in response to the resolution at the meeting on the 20th September 2019 for an update on progress by the Senior Management Team of the Local Pension Partnership on the implementation of Action Plans was presented as an item of urgent business and discussed earlier in the meeting after the Minutes (item 3).

13. Programme of meetings 2020/21

Resolved: That, in accordance with the decision of the full Council on the 17th October 2019, the 2020/21 programme of meetings for the Committee is as follows with all meetings to start at 10.30am (preceded by a 30 minute private briefing session for members) and be held in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

19th June 2020
18th September 2020
27th November 2020
12th March 2021

14. Date of Next Meeting

It was noted that the next scheduled meeting of the Committee would be held at 10.30am (preceded by a 30 minute briefing session) on the 6th March 2020 in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

15. 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 paragraph 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.

16. Local Pensions Partnership proposed capital restructuring

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 Head of Fund reported that the proposed capital restructure of the Local Pensions Partnership Group would put the organisation on a similar footing to other pools, increase the financial resilience of the Partnership and preserve the existing ownership arrangements. The Committee noted that the Investment Panel had been consulted and supported the proposed investment on the basis that it was both suitable and appropriate in the light of the Fund's investment strategy.

Resolved:

1. That the £12.5m investment from the Lancashire County Pension Fund into the Local Pension Partnership Group, as set out in the report presented, is approved.

2. That the Full Council is recommended to approve the proposed restructure of the Local Pensions Partnership as set out in the report presented.

17. Local Pensions Partnership update

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

The Committee considered a report on the activities of the Local Pensions Partnership which included strategic highlights and updates on the performance of the pension administration service and the financial position of the Partnership.

Mr Rule, Interim Chief Executive, Chief Investment Officer and Managing Director (Investments) reported that the recent internal audit report in relation to regulatory compliance with new Senior Management and Certification Regime requirements had been returned and found procedures at Local Pensions Partnership Investments to be effective with some areas for improvement, most of which had already been closed.

With regard to the earlier discussion about potential difficulties for some members of the Fund to access information which was predominantly available online the Committee noted that pensioners were the most significant group within the membership who had registered to use My Pensions Online. In response to a query the Head of Fund confirmed that existing performance targets for the administration service would be reviewed over the next 12 months to ensure that they remained appropriate/relevant.

Resolved: That the updates on activity by the Local Pensions Partnership, as set out in the report presented, are noted.

18. Investment Panel Report

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

Ms Devitt, Independent Adviser to the Committee, presented a detailed report which reviewed the performance of the investment market over the last decade and highlighted various factors which influenced the investment market in which the Fund operated. The Committee also received the Minutes from the Investment Panel meetings in September and November 2019.

Resolved: That the report of the Investment Panel is noted.

19. Lancashire County Pension Fund Performance Overview September 2019

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

Mr Lambert, Independent Adviser to the Committee, updated the Committee on the overall performance of the Fund up to the 30th September 2019 and reported that updated figures would be presented to the next meeting. He also confirmed that the Fund continued to perform well and outperform both internal and external benchmarks and the Investment Panel would review the current investment strategy and report its findings to the Committee in due course.

Mr Lambert also reported that Mr Noel Mills, who had been an Independent Adviser to the Committee up to 2015, had recently retired.

Resolved:

1. That the Committee place on record its appreciation to Mr N Mills for his valuable contribution as an Independent Adviser to the Committee between 2009 and 2015 and wish him well for his retirement.

2. That the performance of the Fund up to the 30^{th} September 2019, as set out in the report presented, is noted.

20. Lancashire County Pension Fund Risk Register

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 Head of Fund presented a report on the latest version of the Risk Register which had been updated following a review by County Council officers in consultation with the Local Pensions Partnership and the Lancashire Local Pension Board.

Resolved: That the Lancashire County Pension Fund Risk Summary and updated Risk Register, as set out in the Appendices to the report presented, are noted

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected: None;

Lancashire County Pension Fund - External Audit Plan 2019/20
(Appendix 'A' refers).

Contact for further information:
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Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2019/20 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements;
- give a true and fair view of the financial position of the Pension Fund as at 31 March 2020 and of its expenditure and income for the year then ended, and have been prepared in accordance with proper accounting practice.

The Audit Plan, setting out the process that underpin the audit is attached at Appendix 'A'.

Recommendation

The Committee is asked to note and comment on the draft External Audit Plan for the audit of the Lancashire County Pension Fund for 2019/20, and the fees therein.

Background and Advice

Attached at Appendix ‘A’ is the external auditor's draft External Audit Plan for the audit of the Lancashire County Pension Fund (the Fund) for 2019/20 which sets out the main risk areas which the audit will focus on, including:

- the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle including fraudulent transactions and management override of controls; and

- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end.

The scale fee for the audit of the Fund set by Public Sector Audit Appointments Limited has been set at £26,310. The draft Audit Plan sets out an increase to this fee of £5,000 which is subject to approval by management and Public Sector Audit Appointments Limited.

In addition, £9,000 is set to cover the IAS19 assurance work and that is not subject to separate approval from Public Sector Audit Appointments Limited as the work is outside of the Code of Audit Practice.

Members of the Grant Thornton audit team will attend the meeting to present the report and answer any questions.

Consultations

The draft External Audit Plan has been issued to the Head of Fund and the Chief Executive and Director of Resources and will be finalised in due course.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

DRAFT

External Audit Plan

Year ending 31 March 2020

Lancashire County Pension Fund

10 February 2020

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Appendix A

Contents

Your key Grant Thornton team members are:

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1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Revenue recognition – the risk of revenue including fraudulent transactions is rebutted for Lancashire County Pension Fund • Management override of controls • Valuation of level 3 investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £87 million (PY £84.101 million) for the Pension Fund, which equates to 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £4.35 million (PY £4.205 million).
Audit logistics	Our interim visit will take place in March and our final visit is planned to take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £31,310 (PY: £27,810) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.
Independence	We have complied with 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.

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Pension Fund until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists.

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Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator continues to apply pressure on pension schemes to improve the quality of scheme member data.

Financial reporting and audit- raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Pooling

For Lancashire County Pension Fund this process began in 2016/17 with the Local Pensions Partnership (LPP) becoming fully operational in April 2017. Lancashire County Council and London Pensions Fund Authority are joint partners in LPP.

During 2019/20 more investments have been pooled with Local Pensions Partnership Investments Ltd (LPPI). The majority of the direct property portfolio transitioned to the LPPI Real Estate fund on 1 October 2019.

Our response

- We will review management's post balance sheet assessment updated to the date of the audit opinion.

- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, and is in the process of being agreed with management and is subject to PSAA agreement.

- Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.
- We will review the governance processes in place at Lancashire County Pension Fund and Lancashire County Council that gives assurance over the activities of LPP and LPPI.

3. Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue recognition – the risk of revenue including fraudulent transactions	Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue 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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.	The risk of revenue including fraudulent transactions is rebutted for Lancashire County Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence, and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. 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. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test 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. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period • where available review investment manager service auditor report on design effectiveness of internal controls, and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence 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 Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

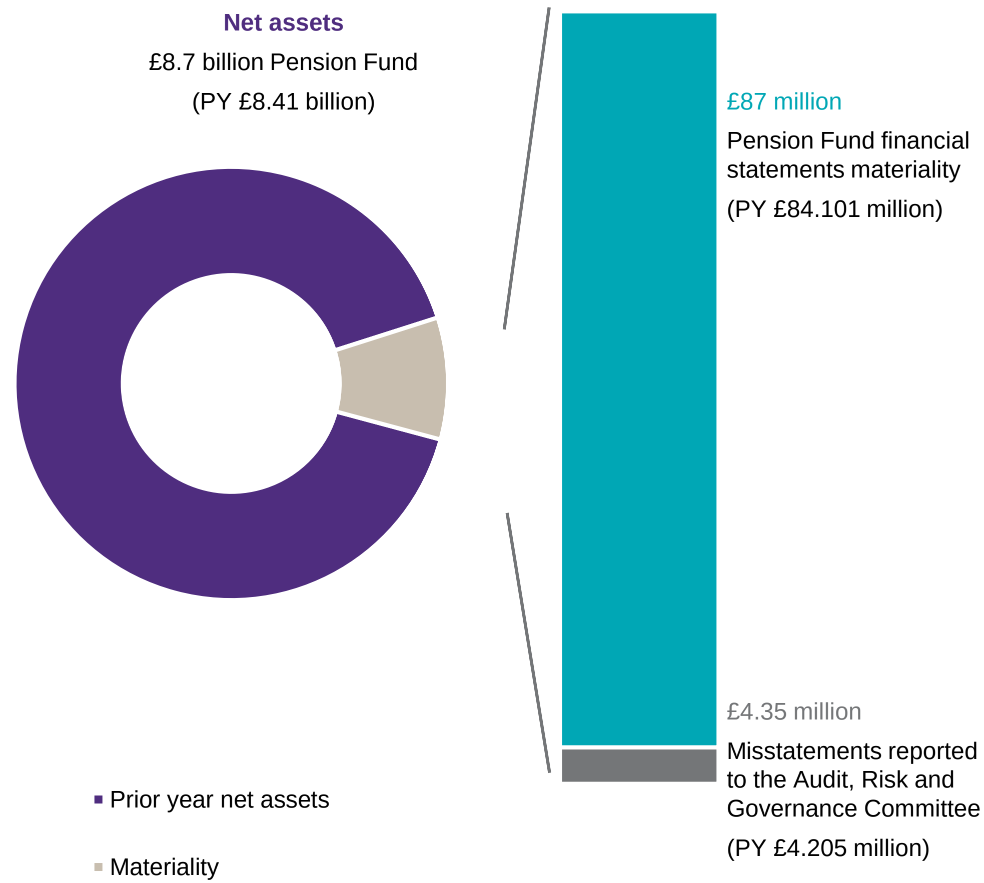
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £87 million (PY £84.101 million) for the Pension Fund, which equates to 1% of your net assets for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.35 million (PY £4.205 million).

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



7. Audit logistics & team

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Robin Baker, Director

Engagement Lead

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

Angela Pieri, Senior Manager

Engagement Manager

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

Olalekan Ayilara, Audit Incharge

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

Client responsibilities

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

Our requirements

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

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

8. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, and is currently being discussed with management and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	£34,169	£27,810	£31,310
Total audit fees (excluding VAT)	**£34,169**	**£27,810**	**£31,310**

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

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

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

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8. Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale (contracted) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale/ original contract fee	26,310	
Raising the bar	1,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,250	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Directly held property	1,250	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin directly held property valuations.
New standards/IFRS 16	1,000	We are required to review any new and future accounting standards and in 2019/20 our audit work will require a review of the disclosures within the financial statements regarding the future implementation of new accounting standards.
Revised scale fee (to be approved by PSAA)	**31,310**	

9. Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard 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.

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 December 2017 (and PSAA's Terms of Appointment) which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

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 other services were identified.

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Service	£	Threats	Safeguards
Audit related:			
Provision of IAS 19 Assurances to Scheme Employer auditors	9,000 Expected to be £500 per letter	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £31,310 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. All services have been approved by the Audit, Risk and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees. The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

9. Independence & non-audit services

Services provided by Grant Thornton UK LLP to Local Pensions Partnership

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

Service	£	Threats	Safeguards
Audit related:			
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	TBC	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public Sector arm of the Firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leads in place for the audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance relevant auditing standards and guidance.

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Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. **What will be different in this audit?**

We will continue working with you to seek to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee and management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and will aim for the work to be completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we would be happy to provide further detail about our improvement plans should you require it.

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Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected:
None;

Lancashire County Pension Fund - Q3 budget monitoring
(Appendix 'A' refers).

Contact for further information:
Abigail Leech, Head of Fund, Lancashire County Pension Fund
01772 530808

Executive Summary

This report sets out the financial performance of the Fund for the nine months ended 31st December 2019 and provides a comparison to the budget for the same period.

An updated forecast for the year ending 31st March 2020 is also included.

Recommendation

The Committee is asked to review the financial performance of the fund for the nine months to 31st December 2019 and make comments on the variances outlined in the report.

Background and Advice

The budget for the financial year ending 31 March 2019 was approved by the Pension Fund Committee on the 29 March 2019.

Budgeted net income to the Fund for the year is £13.3m, available for investment, before accounting for changes in the market value of investments during the year. The 2019/20 budget excludes employer contribution income paid in advance by a number of scheme employers as this has been accounted for in an earlier year.

Appendix 'A' sets out a favourable variance of £1.7m against budget for the first nine months of the financial year. The updated forecast for the year reports a favourable variance of £5.4m against the budget.

Individual variances against budget are explained in more detail below.

Income for nine months ended 31 December 2019
Budget £279.3m, actual £298.8m – favourable variance of £19.5m

Income from investments continues to generate a surplus against the budget, with a favourable variance of £11.1m in the nine months to 31 December with the most significant contribution arising on pooled investments in infrastructure (£16m budget variance) and private equity (£11m budget variance) offset in part by reduced property rental income (£13m below budget) and foreign exchange differences which resulted in an under-recovery of £4m for the nine months to end December.

Transfers in for the nine months have exceeded the budget for the full year by £3.3m. Since the flow of funds through transfers is difficult to forecast, no additional transfers in have been forecast for the final quarter of the year.

Contribution income is in excess of budget after nine months of the financial year and this is forecast to continue until end March, resulting in a favourable variance of £5.6m for the full year.

Expenditure for nine months ended 31 December 2019
Budget £271.8m, actual £289.5m – adverse variance of £17.7m

A £14.6m underspend on benefits paid, including pensions and lump sum payments, was reported for the first six months of the year. An investigation into the reason for this variance identified a timing issue. This has now been resolved and pension payments for the nine months to the end of December 2019 were £178.7m against a budget of £175.4m. Based on the payroll for the third quarter, a full year adverse variance of £4.8m is forecast.

No further transfers out of the Fund have been forecast for the final quarter of the year. Transfers paid for the nine months to end of December 2019 are in excess of the full year budget with a variance of £5.2m against the budget for nine months and a forecast variance of £1.8m overspend for the full year.

Expenditure on administration services is in line with budget and no variance is forecast for the full year while small underspends are anticipated on oversight and governance expenses and on legal and other advisory costs .

Investment management expenses are the most significant element of expenditure to the Fund, after payment of retirement benefits, with a budget of £62.7m for the current financial year.

Investment management fees paid directly to the Local Pensions Partnership are based upon the market value of non-pooled assets under management. These costs are in line with budget for the 2019/20 financial year, however some costs relating to 2018/19 which were not known at the end of that year have been recognised during the current year. This has resulted in a forecast overspend of approximately £400,000.

The cost of fees paid directly to other investment managers is running below budget and a full year underspend of £1.1m has been forecast. This is principally the result of the budget including costs associated with legacy managers which are now within the pools.

Most of the Fund's investment management fees are for the management of pooled investments and are not invoiced but instead offset against the value of those investments. They include performance fees but the main component is based on the market value of assets under management. The market value of investment holdings has increased by7% between the end of September 2018, when the budget was set, and the end of December 2019, contributing significantly to the forecast additional costs.

Property expenses are included within investment management expenses as they are a cost of managing the Fund's property portfolio. The Fund's property managers have advised that the over spend in the current year is due to timing of their reporting during the transition between property managers. 2018/19 costs were under accrued as a result and are instead reflected in the 2019/20 fund account. Since the transition of the national property portfolio to Local Pensions Partnership Investments, the Fund's direct property costs should reduce as any costs associated with managing these assets will be incurred by the pool rather than the Fund directly and this is reflected in the forecast.

The full year financial results will be presented on 19 June 2020 and will form part of the draft statutory financial statements of the Fund.

Consultations

Local Pensions Partnership for investment and administrative expenses.

Implications

This item has the following implications, as indicated.

Risk management

Regular budget monitoring is a key control for the Fund. It should assist in the financial management of the Fund and provide an indication 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 2020

	Actual year ended 31 March 2019 £'000	Budget year ended 31 March 2020 £'000	Budget for 9 months to 31 December 2019 £'000	Actual for 9 months to 31 December 2019 £'000	Variance for 9 months to 31 December 2019 £'000	Notes - see below	Forecast year ended 31 March 2020 £'000	Forecast full year budget variance £'000
INCOME								
Contributions Receivable								
From Employers	(112,248)	(109,676)	(82,257)	(89,506)	(7,249)		(119,341)	(9,665)
From Employees	(58,641)	(60,394)	(45,296)	(40,866)	4,430		(56,339)	4,055
Total contributions receivable	**(170,890)**	**(170,070)**	**(127,553)**	**(130,372)**	**(2,819)**		**(175,680)**	**(5,609)**
Transfers in	(11,050)	(9,184)	(6,888)	(12,464)	(5,576)		(12,464)	(3,280)
Total Investment Income	(198,210)	(193,220)	(144,915)	(155,975)	(11,059)		(204,280)	(11,059)
TOTAL INCOME	**(380,149)**	**(372,475)**	**(279,356)**	**(298,810)**	**(19,454)**		**(392,423)**	**(19,948)**
EXPENDITURE								
Benefits Payable								
Pensions	226,522	233,918	175,439	178,701	3,263		238,728	4,810
Lump Sum Benefits	48,783	43,767	32,826	34,319	1,493		43,767	0
Total benefits payable	275,304	277,686	208,264	213,020	4,756		282,496	4,810
Transfers out	15,770	13,702	10,277	15,472	5,195		15,472	1,770
Refund of Contributions	611	555	417	716	300		716	161
Contributions Equivalent Premium	(4)	(4)	(3)	239	242		239	243
Fund administrative expenses								
Administrative and processing expenses:								
LPP administrative expenses	3,647	3,386	2,540	2,539	(0)		3,386	(0)
Other administrative expenses and recharge income				(7)	(7)		(7)	(7)
Write off of bad debts	1	10	8	1	(7)		10	0
Total administrative expenses	**3,649**	**3,396**	**2,547**	**2,534**	**(13)**		**3,389**	**(7)**
Investment management expenses								
Investment management fees:								
LPP directly invoiced investment management fees	1,767	1,895	1,421	1,794	373	1	2,268	373
DIRECTLY INVOICED non LPP investment management fees - direc	1,433	2,291	1,718	861	(857)	2	1,211	(1,080)
Investment management fees on pooled investments	57,604	53,226	42,419	47,867	5,447	3	59,646	6,421
Transition costs	2	120	0	0	0		120	0
Custody fees	29	64	48	15	(33)		64	0
Commission, agents charges and withholding tax	0	2,000	1,500	1,128	(372)		1,504	(496)
LCC recharge for treasury management costs	52	58	44	44	0		58	0
Property expenses	4,674	3,000	2,250	5,216	2,966	4	5,516	2,516
Total investment management expenses	**65,561**	**62,654**	**49,401**	**56,925**	**7,524**		**70,388**	**7,733**
Oversight and Governance expenses								
Performance measurement fees (including Panel)	94	78	59	50	(8)		88	10
IAS19 advisory fees	87	55	41	(34)	(76)		0	(55)
Other advisory fees	179	200	150	45	(105)		95	(105)
Actuarial fees	9	100	75	91	16		122	22
Audit fees	45	26	20	17	(3)		26	0
Legal & professional fees	68	120	90	(4)	(94)		60	(60)
LCC recharges	446	616	462	441	(21)		616	0
Bank charges	7	5	4	3	(0)		4	(1)
Total oversight and governance expenses	**935**	**1,200**	**900**	**610**	**(290)**		**1,012**	**(189)**
TOTAL EXPENDITURE	**361,826**	**359,190**	**271,803**	**289,516**	**17,714**		**373,712**	**14,522**
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(18,323)**	**(13,285)**	**(7,554)**	**(9,294)**	**(1,740)**		**(18,711)**	**(5,427)**

NOTES

1 - Invoicing for 2019/20 in line with budget but February and March 2019 invoices received during 19/20 were not accrued and this has led to overspend in the current year.

2 - Other than LPP, investment management invoices are received from property managers and independent valuers. The budget assumed continuing fees from underlying investment managers but these investments have since been transitioned into pooled funds and the fees are now recognised accordinly as embedded in NAV.

3 - Most of the Fund's investment management fees are on pooled investments and are not invoiced but are instead offset against the net asset value of those investments. They include performance fees but the main component is based on the market value of assets under management. The MV of investment holdings has increased by7% between end December 2018 and end December 2019, contributing significantly to the forecast additional costs. The forecast includes estimates for both Q3 and Q4 fees not yet disclosed by sub-fund managers.

4 - Property expenses include reimbursement to BNP Paribas of cash float. Expenditure against this budget is not smooth through the year. Property managers have advised that overspend is due to the timing of expenditure reporting around the transition from Knight Frank to BNP Paribas. 18/19 costs were underaccrued as a result and are charged to the 2019/20 fund account.

Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected: None;

Lancashire County Pension Fund - Budget for year ending 31 March 2021
(Appendix 'A' refers)

Contact for further information: Abigail Leech, Head of Fund, Lancashire County Pension Fund Abigail.leech@lancashire.gov.uk 01772 530808

Executive Summary

A one year budget has been set for the Lancashire County Pension Fund for the year ending 31 March 2021. This budget forecasts that the net income available for investment (before accounting for changes in the market value of investments during the year) will be £219.1m.

Recommendation

That the Committee approve the Lancashire County Pension Fund budget for the year ending 31st March 2021, as set out in Appendix 'A' to this report.

Background and Advice

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 the assessment of the overall financial position and performance.

The proposed one year budget for Lancashire County Pension Fund is set out in Appendix 'A' to this report.

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

- The latest (unaudited) forecast for the year ending 31 March 2020.
- Information received from the Local Pensions Partnership in terms of investment income, administration and investment management expenditure.
- The 2019 actuarial valuation in respect of contribution income receivable – pending confirmation of amounts to be paid in advance.
- 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.

A summary of the budget is outlined below, by key budget heading.

INCOME

Contribution income budget £373.1m
Contribution income for the year ending 31 March 2021 includes £219.2m paid in advance by employers taking up the 2019 actuarial valuation option of prepaying future service rate (£206.8m prepayment) and deficit recovery contributions (£12.4m prepayment) for up to three years in advance.

Individual employers have been asked to confirm whether the option to prepay will be taken, by 9 March. The figures included in the budget are the expected outcomes based on confirmations received to date and the options taken following the 2016 valuation.

Our agreed accounting policy for these receipts in advance is to recognise them as income in the year of receipt. This will have a significant and favourable impact on the fund account in the year ending 31 March 2021 but will be offset by reduced contribution income in the following two financial years.

A 5% increase in pension strain and other pension augmentations has been budgeted against the forecast for the year ending 31 March 2019.

A 2% pay award has been recognised in budgeting for employee contributions.

Transfers in budget £12.5m
Transfers in have been budgeted at the same level as the forecast for the year ending 31 March 2020 in the absence of any identifiable trend in this area of income.

Investment income budget £214.5m
Budgeted investment income includes dividend income, net rental income from pooled properties and other direct income streams ('pure income') but also capital returns and distributions from the Fund's investments in private equity and infrastructure for example (capital income).

The Fund's pure income is relatively stable year on year however capital income can fluctuate significantly. The Local Pensions Partnership have forecast an average 5% increase per annum in the market value of the portfolio over a mult-year time horizon. The budget assumes that the pure income will increase at the same rate. Capital income is dependent on a number of market factors and the timing of distributions and liquidations of investments and as a result can vary over time. Any capital income budget is likely to require variance analysis and the forecast will be updated each quarter and for budgeting purposes a 5% increase in this income has also been recognised.

EXPENDITURE

Pensions payable budget £245.7m
Pensions payable are budgeted to increase by 2.6% CPI on the basis of the November 2019 pensioner payroll.

Lump sum benefits £43.8m
Lump sum benefits payable are budgeted in line with the forecast for the year ending 31 March 2020 since this expenditure fluctuates each year and cannot be forecast with accuracy.

Transfers out and other payments in respect of leavers budget £16.4m
Consistent with lump sum benefits payable, this expenditure is budgeted in line with forecasts for the year ending 31 March 2020.

Pension administration costs £4.1m
The budget for pension administration costs is to cover amounts payable to the Local Pensions Partnership for the administration of the scheme. The costs comprise £3.7m for core administration services, at a cost of £21.27 per member (£17.08 per member in 2019/20) and based on membership at 31 March 2019, together with £0.2m for employer risk and a further £0.2m for employer asset and liability modelling, both of which have been increased by an inflation factor of 2.7% on the previous year.

Investment management expenses £70m
The budget for investment management expenses is subject to fluctuations in the market value of the Fund's investment portfolio.

The Fund collects fee data from investment managers and works with the Local Pensions Partnership to ensure reporting complies with guidance on transparency.

Industry practice is to disclose fees in arrears – usually quarterly but sometimes with more delay, and this requires the Fund to estimate fees on best available information. The budget assumes charges embedded in the net asset value of investments held on behalf of the Fund will be in line with the forecast for the year ended 31 March 2020 with an additional £1m in respect of expenses previously incurred on directly held real estate assets which have now been pooled.

The forecast level of direct charges from Local Pensions Partnership Investments Limited for non-pooled assets is £2.1m for the year ending 31 March 2021 and reflects the transition of assets into pools throughout the current year. Charges raised by Local Pensions Partnership Investments Limited for management of the pooled funds held on behalf of the Fund are estimated at £9.4m.

The increase in total investment management fees payable to Local Pensions Partnership is due to the increase in the market value of assets under management. The fees are subject to fluctuations in market value. If the value of the portfolio increases by less than the budgeted rate then the fees payable by the Fund will be lower. The budgeted fees are in line with the Local Pensions Partnership budget which considers average growth of the portfolio value over a multi-year time horizon.

The budget for investment management expenses also includes £1.5m in respect of withholding tax which will ultimately be recovered and treated as investment income, £2.0m expenses for real estate investments directly held by the Fund and an allowance of £0.1m for each of custody and transition fees.

There is a £3.5m reduction in the property expenses from the forecasted expenditure in 2019/20. This reflects the impact of the pooling of property which took place part way through 2019/20 which is referred to above as the expenses will now be incurred by the pool and some non-recurring costs which were recognised in 2019/20.

A proportion of the Lancashire County Council staff recharges (£0.1m) is included within investment management to account for work done by the treasury management team on behalf of the Fund.

Oversight and governance expenditure £1.0m
The budget for oversight and governance of the Fund is broadly in line with the forecast for the year ended 31 March 2020.

The cost of actuarial work is forecast to decrease as much of the work for the 2019 valuation will have been completed. The budget for professional fees has been reduced to reflect the decrease in costs over the last few years as expenditure on potential investment decisions has dropped.

No change to the audit fee has been made and the budget reflects proposed fees as per the Public Sector Audit Appointments published rates. A nationwide consultation on 2020/21 audit fees will close on 6 March 2020.

Staff and other resource costs recharged by Lancashire County Council to the Fund have been budgeted at existing levels.

NET POSITION

The net income available for investment (before accounting for changes in the market value of investments during the year) is budgeted at £219.1m.

This compares very favourably to the latest forecast for the current year (£8.5m net income) due in part to increased investment income (budgeted to increase by 5% per annum) but mainly as a result of contribution income received in advance (£219.2m) which benefits the fund account in the year of receipt but will be offset by corresponding reduced income in the next two financial years.

Consultations

The Local Pensions Partnership have been consulted in respect of investment management and administration expenses.

Implications:

This item has the following implications, as indicated:

Risk management

Financial Risk

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

Appendix A

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

	Forecast year ended 31 March 2020 £'000	BUDGET year ending 31 March 2021 £'000
INCOME		
Contributions Receivable		
From Employers		
Future service rate contributions	(102,722)	(294,554)
Deficit recovery contributions	(11,822)	(16,082)
Pension strain / augmented pensions	(4,797)	(5,037)
From Employees	(56,339)	(57,466)
Total contributions receivable	**(175,681)**	**(373,139)**
Transfers in	(12,464)	(12,464)
Total Investment Income	(204,280)	(214,494)
TOTAL INCOME	**(392,424)**	**(600,097)**
EXPENDITURE		
Benefits Payable		
Pensions	238,728	245,702
Lump Sum Benefits	43,767	43,767
Total benefits payable	282,495	289,469
Transfers out	15,472	15,472
Refund of Contributions	716	716
Contributions Equivalent Premium	239	239
Fund administrative expenses		
Administrative and processing expenses:		
LPP administrative expenses	3,386	4,128
Other administrative expenses		
Write off of bad debts	10	10
Total administrative expenses	**3,396**	**4,138**
Investment management expenses		
Investment management fees:		
LPP directly invoiced investment management fees	2,268	2,100
DIRECTLY INVOICED non LPP investment management fees - direct holdings	1,211	1,385
Investment management fees on pooled investments	59,647	62,747
Transition costs	120	120
Custody fees	64	60
Commission, agents charges and withholding tax	1,504	1,500
LCC recharge for treasury management costs	58	58
Property expenses	5,516	2,000
Total investment management expenses	**70,389**	**69,970**
Oversight and Governance expenses		
Performance measurement fees (including Panel)	88	82
Lancashire Local Pensions Board		15
IAS19 advisory fees	0	(20)
Other advisory fees (including abortive fees)	96	100
Actuarial fees	121	100
Audit fees	26	26
Legal & professional fees	60	60
LCC recharges	616	616
Bank charges	4	5
Total oversight and governance expenses	**1,012**	**984**
TOTAL EXPENDITURE	**373,719**	**380,989**
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(18,705)**	**(219,108)**

Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected: (All Divisions);

Funding Strategy Statement
(Appendix 'A' refers)

Contact for further information: Abigail Leech (01772) 530808, Head of Fund
abigail.leech@lancashire.gov.uk

Executive Summary

This report sets out the Fund's revised Funding Strategy Statement following the results of the 2019 valuation, as noted by the Committee at its meeting on 7th February 2020. The revised Funding Strategy Statement incorporates the requirements set out in the Fund's Investment Strategy Statement and takes account of comments made under the recent consultation.

Recommendation

The Committee is requested to approve the revised Funding Strategy Statement as set out in Appendix 'A'.

Background and Advice

Regulation 58 of the Local Government Pension Scheme Regulation 2013 (as amended) provides the statutory framework from which Local Government Pension Scheme authorities are required to prepare their Funding Strategy Statement having regard to:

- CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS;
- Its Investment Strategy Statement published under Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

The Funding Strategy Statement must be revised and published whenever there is a material change in either the policy set out in the Funding Strategy Statement or the Investment Strategy Statement. In practical terms this means that the Funding Strategy Statement will need to be comprehensively revisited at a minimum at each triennial valuation.

The Funding Strategy Statement set out at Appendix 'A' has been prepared by Lancashire County Council (the Administering Authority) to set out the funding strategy for the Lancashire County Pension Fund, as required by legislation.

Ensuring that the Fund has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority. The long term objective is for the Fund to achieve this 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. Additionally it seeks to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The Administering Authority is required to prepare and publish its Funding Strategy Statement after consultation with all relevant interested parties involved with the Fund.

Given this, and in accordance with governing legislation, interested parties connected with the Lancashire County Pension Fund have been consulted and given opportunity to comment prior to the Funding Strategy Statement being finalised and adopted. The Funding Strategy Statement takes into consideration all comments and feedback received.

Five responses were received as part of the consultation process, two from scheme employers and three from members of the Lancashire Local Pension Board.

All the comments received were broadly supportive of the Funding Strategy Statement and the revised statement at Appendix 'A' remains largely unchanged apart from minor changes to wording and grammar to add clarity to the statement.

Perhaps the most important point of concern was the methodology that the Fund intends to adopt on employer risk scoring and associated investment strategy. This is a process that the Fund will now be developing with scheme employers and will form a more significant part of the future valuation process. Wording is also now included in the statement to reflect the requirement to discuss risks and options with employers.

The formal Actuarial Valuation report as at the 31 March 2019 is expected to be available no later than 31 March 2020. A copy of the report will be made available for members of the Committee via the secure online Pensions Library. In advance of this the Committee is requested to approve the revised Funding Strategy Statement as set out in Appendix 'A'.

Consultations

The Fund's Actuary, Mercer, individual employers, the Local Pension Board and Committee members have been consulted on the details of the Funding Strategy Statement.

Implications:

This item has the following implications, as indicated:

Risk management

Legal

Non- compliance with statutory regulation

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

Paper	Date	Contact/Tel
Local Government Pension Scheme Regulation 2013 (as amended)	2013	Abigail Leech (01772 530808)
CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS (2016 Edition)	2016	
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended)	2016	

Reason for inclusion in Part II, if appropriate

N/A

FUNDING STRATEGY STATEMENT

LANCASHIRE COUNTY PENSION FUND

DECEMBER 2019

Lancashire County Council

This Funding Strategy Statement has been prepared by Lancashire County Council (the Administering Authority) to set out the funding strategy for the Lancashire County Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Lancashire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Lancashire County Council). The Funding Strategy adopted by the Lancashire County Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

> The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Lancashire County Pension Fund.
>
> It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Lancashire County Pension Fund have been consulted and given opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

The solvency level of the Fund is 100% at the valuation date. However, for many employers in the Fund the funding level will be less than 100% - i.e. their assets within the Fund are less than their liabilities. In these cases, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall. (In a similar manner, where an employer is in surplus it may in certain circumstances be appropriate to reduce the overall contributions payable to reflect this, by way of a "surplus offset".)

Deficit contributions paid to the Fund by each employer will normally be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may, in certain circumstances at the discretion of the Administering Authority, also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The target recovery period for the Fund as a whole is 13 years at this valuation which is 3 years shorter than the target recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation, in certain circumstances the employer will be able to step-up their contributions, with the pattern and period to be decided by the Administering Authority.

In exceptional circumstances the Fund may depart from the above principles for an employer or a particular group of employers. Any such exceptions would be determined by the Head of the Fund and reported to the Committee.

MCCLOUD

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation:

- The Fund has included a margin within its assumptions (a small reduction has been made to the discount rate assumptions) to provide a general allowance in respect of the potential costs of the McCloud judgment
- When considering the appropriate contribution provision for individual employers, the estimated costs of the judgment have been calculated and notified to the employers, highlighting that the final costs may be significantly different. (These figures are calculated on the assumption that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. Under this assumption the underpin therefore would apply to all active members as at 1 April 2012.)

Employers will be able to choose to include the estimated costs in the second bullet above over 2020/23 in their certified contributions. Alternatively, they will need to consider whether to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns <u>in excess</u> of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 1.4% per annum and for determining the future service ("Primary") contribution rates is 2.25% per annum.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Head of the Fund and reported to the Committee. Employers may also choose to fund using a discount rate in line with the Fund's termination policy (see below) if they so choose.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in an Appendix to this statement. Examples of new employers include:

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.
- [Employers may also join the Fund under the 'Deemed Employer' route. Further information on this is set out within Appendix C.]

Different types of employers will pose different risks to the Fund, as such a key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is a guarantor who would subsume the liabilities of the exiting employer, then the standard ongoing funding assumptions are used to assess the termination liabilities. Where there is no guarantor, the Fund's policy is that a discount rate linked to corporate bond yields and a more prudent life expectancy assumption are used.

The Fund's policies on the payment of termination debts and exit credits is covered in section 5 below.

4. Insurance arrangements

For certain employers, the Fund will insure ill health retirement costs via an internal captive insurance arrangement which pools these risks for eligible employers. The captive arrangement will be operated as per the objectives set out in **Appendix C**.

5. Investment options

The Fund intends to implement a choice of "investment" pots to offer to employers, which will exhibit lower investment risk than the current whole fund strategy.

If an employer is deemed to have a weaker covenant than others in the Fund, is planning to exit the Fund or would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (following discussions with the employer to discuss their options) into another strategy to protect the employer and/or the Fund as a whole. The current overall Fund investment strategy (as set out in the Investment Strategy Statement) will then be known as the "return seeking" investment strategy.

The investment strategy for each of the investment pots will be reviewed, following each actuarial valuation, as a minimum. The discount rate assumption used for employers' liabilities who fall into each category is linked directly to the relevant pot's underlying assets allowing for the underlying level of risk associated.

CONTENTS

APPENDICES

1 INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Lancashire County Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

Funding is the making of an advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the Fund and "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pension Fund Committee), the individual employers and the Fund Actuary. Details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

he **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's Actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement pension strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- The Fund does not believe it appropriate for offsets to total contributions in respect of any surplus to be allowed where the employer has a deficit on their termination assumptions, unless there is compelling reason to do so.
- Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Head of Fund and reported to the Committee. Employers may also choose to fund using a discount rate in line with the Fund's termination policy if they so choose.
- The target deficit recovery/surplus offset period for the Fund as a whole will reduce by three years, to 13 years at the 2019 valuation, so as to maintain same "end point". For individual employers who are open to new members, subject to consideration of affordability, as a general rule the recovery/offset period will reduce by 3 years for employers at this valuation when compared to the preceding valuation, subject to a minimum of 13 years. This is to target full solvency over a similar time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Recovery Plan in **Appendix B**).
- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
  - the **Secondary rate**: a schedule of percentages of pensionable payroll or lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

  For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, if the Administering Authority agrees then the increase from the rates of contribution payable in the year 2019/20 may be implemented in steps, over a period agreed by the Administering Authority.
- For those employers who are to be included in the ill-health captive arrangement, the contributions payable over the period 1 April 2020 to 31 March 2023 will be adjusted accordingly to reflect the premium charged to provide continued protection against the risks of excessive ill-health retirement costs emerging. Further details are provided in Appendix C of these adjustments.
- In exceptional circumstances the Fund may depart from the above principles for an employer or a particular group of employers. Any such exceptions would be determined by the Head of the Fund and reported to the Committee. As a particular example, in the event that it appeared that an employer was likely to end its participation in the Fund without its liabilities

being passed on to a successor employer, and without the employer providing sufficient security against its closure position, then the Fund might decide to set a funding plan such that the employer's closure position were expected to be met by the time of its exit from the Fund.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement pension strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period to be determined by the Administering Authority.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. The treatment of any ill-health retirement strain cost emerging will vary depending on the type of employer:

- For those employers who participate in the ill-health captive arrangement, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.

- For those employers who do not participate in the ill-health captive arrangement, the "primary rate" payable over 2020/23 may include an allowance for ill-health retirement costs (alongside those for voluntary early retirements) depending on the employer's profile. Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period (or should an employer not have an allowance within their "primary rate"), the excess strain costs will be included in the employer's deficit (and subsequent deficit contributions) at the 2022 valuation.

TERMINATIONS

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is a guarantor who would subsume the liabilities of the exiting employer, then the standard ongoing funding assumptions are used to assess the termination liabilities. Where there is no guarantor, the Fund's policy is that a discount rate linked to corporate bond yields and a more prudent life expectancy assumption are used. Where deemed appropriate the assessment will include an allowance for the potential impact of the McCloud judgement.

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

- Where there is no Fund guarantor any deficit will be recovered from the outgoing employer in the first instance, and then any bond or security in place where applicable. Any surplus on the termination assumptions will be returned to the employer as an exit credit. The remaining assets and liabilities are then "orphaned", and so become the responsibility of the remaining Fund employers.

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

- In full risk sharing cases, the assets, liabilities and any deficit or surplus will be subsumed by the guarantor (this will be adjusted as appropriate in any cases where there is a partial risk sharing arrangement).

The Fund will not become embroiled in any disagreement between the guarantor and the outgoing employer on the nature of the outgoing employer's participation in the Fund, and the refund of any surplus which is contrary to commercial agreements.

Ultimately, where the position is disputed the Fund may have to comply with the Regulations and therefore pay any surplus as an exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities, the Fund will challenge this (and seek to recover any related costs from the guarantor). Should the guarantor be successful, the basis of assessment on termination will assume the liabilities are orphaned and thus the "corporate bond" approach will apply.

Any exit payments due should be paid within 30 days, although instalment plans may be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of completion of the cessation assessment by the Actuary. The Administering Authority will seek to modify this approach on a case by case basis if circumstances warrant it.

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

[An employer may continue to participate in the Fund with no contributing members and utilise the “Deferred Debt” Arrangements at the sole discretion of the Administering Authority which will be subject to a satisfactory covenant review on an ongoing basis. In this circumstance they will be treated as per any other participating employer in relation to overall funding strategy (including potentially requiring a final exit payment at some point) allowing for the covenant.]

The full termination policy is set out in a separate document.

6
LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2019 valuation show the liabilities to be 100% covered by the current assets, with funding deficits and surpluses relating to individual employers being removed by future deficit contributions / surplus offsets.

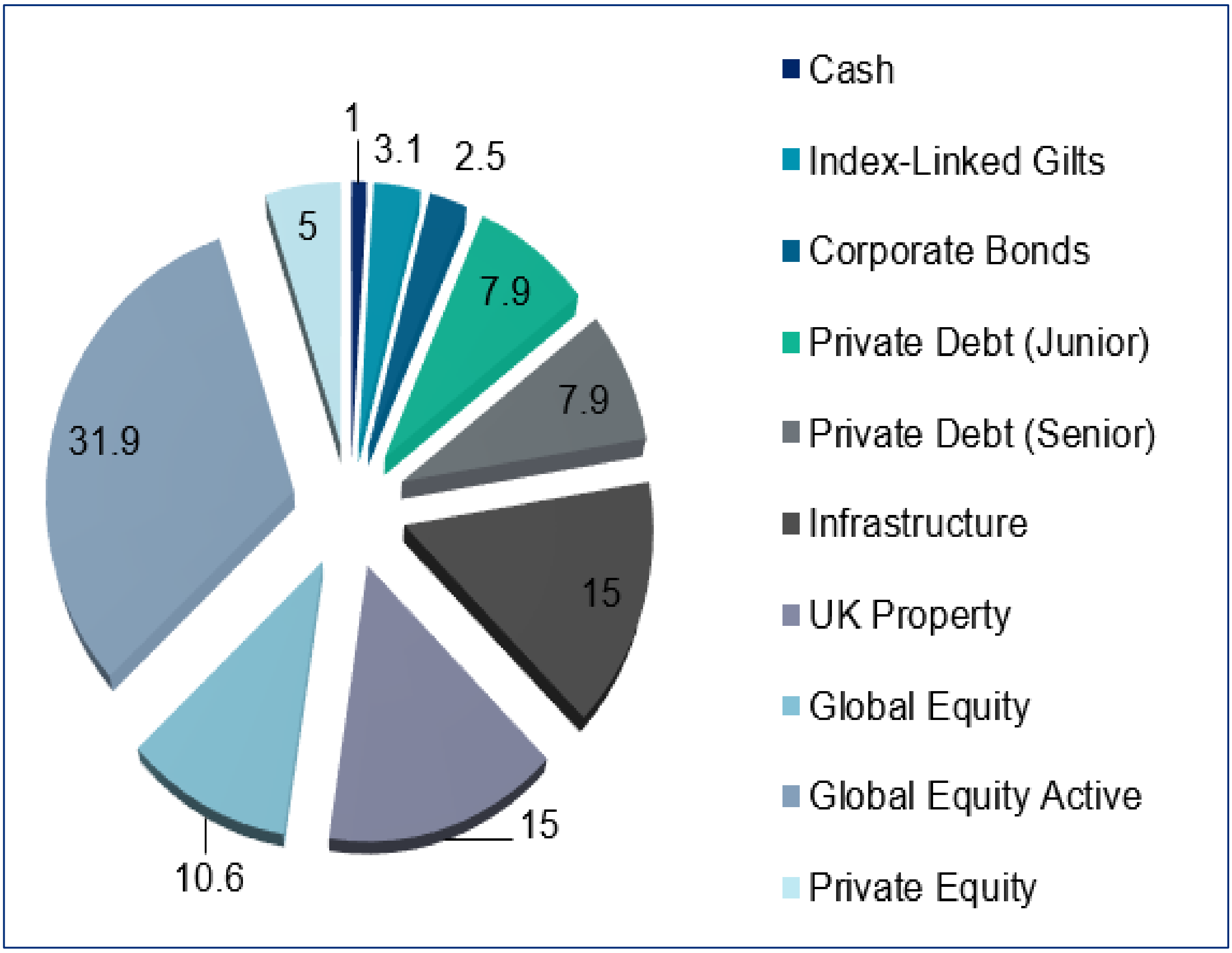
In assessing the value of the Fund’s liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which aims to match the liabilities and represents the minimum risk investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund’s assets in line with the minimum risk portfolio would seek to minimise fluctuations in the Fund’s ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund’s liabilities at the valuation would have been significantly higher, resulting in a funding level of 63%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund’s pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy in percentage terms is:



The Investment Strategy and return expectations set out above equate to an overall best estimate average expected return of 3.03% per annum in excess of CPI inflation as at 31 March 2019. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

INVESTMENT OPTIONS

The Fund intends to implement a choice of "investment" pots to offer to employers, which will exhibit lower investment risk than the current whole fund strategy.

If an employer is deemed to have a weaker covenant than others in the Fund, is planning to exit the Fund or would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into another strategy to protect the employer and/or the Fund as a whole. The current overall Fund investment strategy (as set out in the Investment Strategy Statement) will then be known as the "return seeking" investment strategy.

The investment strategy for each of the investment pots will be reviewed, following each actuarial valuation, as a minimum. The discount rate assumption used for employers' liabilities who fall into each category is linked directly to the relevant pot's underlying assets allowing for the underlying level of risk associated.

7
IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which Government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Pension Fund Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

In exceptional circumstances, not envisaged in the Funding Strategy Statement, the Fund can apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of the Fund either on representation from funds, scheme employers or of his own motion.

Where the contribution review is triggered by an employer request, the costs associated with the review will be included in the assessment of the contributions if deemed appropriate.

COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HM Treasury, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear part of the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes (“McCloud”), relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

However, the Government has now confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation:

- The Fund has included a margin within its assumptions (a small reduction has been made to the discount rate assumptions) to provide a general allowance in respect of the potential costs of the McCloud judgement
- When considering the appropriate contribution provision for individual employers, the estimated costs of the judgment have been calculated and notified to the employers, highlighting that the final costs may be significantly different. (These figures are calculated on the assumption that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. Under this assumption the underpin therefore would apply to all active members as at 1 April 2012.)

Employers will be able to choose to include the estimated costs (highlighted in the second bullet above) over the period 2020/23 in their certified contributions. Alternatively, they will need to consider whether to make allowance within their budgets and note that any shortfall in contributions could be payable if the remedy is known before the next valuation and would likely be built into future contribution requirements.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.4% per annum above CPI inflation i.e. a real return of 1.4% per annum, equating to a total discount rate of 3.8% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

For any employers who are funding on a corporate or government bond basis the discount rate used will be linked directly to the yields available on relevant assets of an appropriate duration.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term rate of improvement of 1.75% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the future service rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.15% per annum above the long term average assumption for consumer price inflation of 2.4% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer Pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.8% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.55% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S3PA	CMI_2018 [1.75%]	103% / 91%
Ill-health	S3PA	CMI_2018 [1.75%]	125% / 129%
Dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	132% / 110%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	137% / 92%
Current active / deferred:			
Active normal health	S3PA	CMI_2018 [1.75%]	110% / 94%
Active ill-health	S3PA	CMI_2018 [1.75%]	126% / 144%
Deferred	S3PA	CMI_2018 [1.75%]	133% / 109%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	138% / 117%

Other demographic assumptions are set out in the Actuary’s formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are not equal to the liabilities for the majority of employers at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall, or adjustments made to run off the surplus (where appropriate).

Deficit contributions paid to the Fund by each employer will normally be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund. Any surplus offsets will normally be expressed as a percentage adjustment to the primary rate.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers in deficit will be free to select a shorter deficit recovery period and higher contributions if they wish, including, at the discretion of the Administering Authority, the option of prepaying the deficit contributions in one lump sum, either on an annual basis or as a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Normal Deficit Recovery Period	Derivation
Fund Employers	13-16 years (in most cases)	Determined by reducing the period from the preceding valuation by 3 years.
Open Admitted Bodies	13-16 years (in most cases)	Determined by reducing the period from the preceding valuation by 3 years.
Closed Employers	Minimum of 13 years and the future working lifetime of the membership	Determined by the future working life of the membership.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain overall contribution level at least at the expected monetary levels from the preceding valuation (allowing for any indexation in the deficit payments over the recovery period).

In exceptional circumstances the Fund may depart from the above principles for an employer or a particular group of employers. Any such exceptions would be determined by the Head of the Fund and reported to the Committee.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2020/23. Any application of this option is at the ultimate discretion of the Head of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ILL-HEALTH CAPTIVE ARRANGEMENT FOR SMALL EMPLOYERS

OVERVIEW

For certain employers in the Fund a captive insurance arrangement exists to cover ill-health retirement costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into a captive fund which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s future service % contribution rate. The premium for 2020/23 is 1.5% pa.

- The captive fund is then used to meet strain costs emerging from ill-health retirements i.e. there is no impact on funding position for employers within the captive fund.

- Any shortfall in the captive fund is effectively underwritten by all other employers within the Fund. If any excess funds are built up in the captive fund, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary.

- Premiums payable subject to review from valuation to valuation depending on experience and included in employer rates.

- Over the longer-term, given the regular review of the premiums payable into the captive fund there would be expected to be no net cost to those employers underwriting the captive fund in the long-term i.e. any fluctuations in their own contribution requirements arising from experience would smooth out over time.

EMPLOYERS

Those employers (both existing and new) that will be included in the captive fund are those with less than 150 active members (excluding major Councils).

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements would still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against allowance certified with recovery of any excess costs from the employer once the allowance is exceeded.

PREMIUM REVIEW

As part of each actuarial valuation exercise (or earlier review if appropriate) the Fund Actuary will review the experience of the captive fund since the last review.

Should the premiums paid into the captive fund over the period not be sufficient to cover the ill-health retirement costs emerging, any shortfall in the fund will be allocated across all those employers within the Fund underwriting the captive fund. If any excess funds are built up in the captive fund, some or all of those excess funds will be held in reserve to act as a contingency against future adverse experience at the discretion of the administering authority based on the advice of the actuary.

The ongoing premium payable by those employers within the captive fund will also be assessed as part of this process and will be set by the Actuary to cover the period until the next review (e.g. to the next actuarial valuation assessment). The Premiums that will be assessed will take into account the expected level of future ill-health retirements across those employers within the captive arrangement and also to reflect any adverse/favourable experience where appropriate.

APPENDIX D – ADDITIONAL INFORMATION ON EMPLOYERS JOINING THE FUND

[JOINING THE FUND VIA THE 'DEEMED EMPLOYER' ROUTE

This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the deemed employer for the purposes of the Regulations.

It will be the outsourcing Scheme Employer's choice, when initially putting the contract out to tender, whether the Admission Agreement or Deemed Employer approach will be used. The outsourcing scheme employer will be also known as the deemed employer with regard to this admitted body.

If the Deemed Employer route is chosen, the admitted body will not join the Fund and will instead be grouped/pooled with the original scheme employer. This may be used when a pass through arrangement has been agreed.

The Fund's policy will be dependent on the deemed employer's policy and approach to dealing with these outsourcings. This makes it imperative that each outsourcing scheme employer has a clear policy on the treatment of each type of admitted body. The Fund also requires an agreement (similar to the admission agreement) with the admitted body to ensure their duties are fulfilled e.g. payment of contributions.]

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

APPENDIX E - GLOSSARY

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

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

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

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

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

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

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

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

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

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

Employing Bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

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

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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

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

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

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

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

Minimum Risk Funding Basis: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

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

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/Stepping of Contributions: when there is an increase/decrease in an employer’s long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer’s membership or liability reflects various measurements of that employer’s members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

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

Scheduled Bodies: types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

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

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected:
None;

Feedback from members of the Committee on pension related training

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

Executive Summary

An update on pension related training involving members of the Committee since the last meeting.

Recommendation

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

Background and Advice

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

Since the last meeting there has been one pension related training event:

7th February 2020 - Workshop on the Local Pension Partnership Budget at County Hall, Preston attended by County Councillors E Pope, A Schofield, L Collinge and P Steen and the Coopted members - Mr P Crewe and Ms J Eastham.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure that the members of the Pension Fund Committee and 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, together with travel and subsistence costs, are met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance sheet for the pension workshop	7th February 2020	M Neville 01772 533431

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee
Meeting to be held on Friday, 6 March 2020

Electoral Division affected:
(All Divisions);

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

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
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Executive Summary

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

The report at Appendix 'A' from the Local Pensions Partnership provides the Pension Fund Committee with an update on responsible investment matters during the fourth quarter of 2019.

Recommendation

The Committee is asked to note the report and approve the proposal that the Fund does not become a signatory to the new UK Stewardship Code (2020), recognising that that Fund's regulatory requirements and stewardship requirements are met through Local Pensions Partnership Investments being a signatory.

Background

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

The information on voting, engagement and litigation monitoring activities, relates to the fourth quarter of 2019.

UK Stewardship Code (2020) - For Decision:

Further to the update provided at the last Pension Fund Committee and the update also provided within Section 7 of Appendix A, there is a requirement for the Fund to determine whether it becomes a signatory of the new updated UK Stewardship Code (2020).

The new code sets a very high benchmark for signatories, which would require onerous annual reporting. For example, it is no longer sufficient to report the fact that appropriate policies and approaches are in place; the new Code requires up to date evidence of activity.

It is important to recognise that there is no requirement for LGPS Funds to be signatories to the new Code. The requirement (conferred under Ministry of Housing, Communities and Local Government Guidance on Preparing and Maintaining an Investment Strategy Statement) is for Administering Authorities to “explain their policy on stewardship with reference to the Stewardship Code”. This can be achieved without being a signatory through placing reliance on the policies and procedures in operation by Local Pensions Partnership Investments Limited.

Based on the above, it is recommended that the fund does not become a signatory to the new UK Stewardship Code (2020), recognising that that fund's regulatory and stewardship requirements are met through Local Pensions Partnership Investments being a signatory.

The new UK Stewardship Code can be accessed via the following link: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Final2.pdf

Points to note:

- Further to the update on Responsible Investment presented to the last Pension Fund Committee, the Fund has now provided feedback as part of the Scheme Advisory Board's consultation for their recently published guidance on Responsible Investment. The guidance is aimed at assisting those responsible for investment decision making in the Local Government Pension Scheme to recognise their responsibilities for developing and maintaining responsible investment policies according to scheme regulations, statutory guidance and the general public law. Further updates will be given as and when available.

- The Local Authority Pension Fund Forum (the Forum) have published their draft Workplan for 2020/21. The Workplan has been discussed at the November 2019 Forum Executive Meeting and also the January 2020 Business Meeting. The Forum have requested feedback from all Fund members by the 9th March 2020. The draft Workplan has been circulated by email to Committee members for comment and feedback by the 2nd March 2020.

- Finally, the Local Pensions Partnership have confirmed that the new 'dashboard' style reports will be introduced for the next quarter - which would cover the period January to March 2020.

Consultations

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

Implications:

This item has the following implications, as indicated:

Risk management

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

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

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

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

Involvement in a non-US type of “class action” may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

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

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

Title of Paper	**Quarterly Report on Responsible Investment (2019 Q4)**
Lead Officer:	Frances Deakin Head of Responsible Investment Local Pensions Partnership Investments Ltd frances.deakin@localpensionspartnership.org.uk

1. Executive Summary

This report provides members of the Pension Fund Committee of Lancashire County Pension Fund (LCPF) with a quarterly update on Responsible Investment (RI) matters.

2. Introduction

The Fund's approach to RI is articulated within an Investment Strategy Statement (ISS) which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code. LCPF's ISS is supplemented by a Responsible Investment Policy which explains that the Fund's preferred approach to RI encompasses four main areas of activity:

- Voting Globally
- Engagement through Partnerships
- Shareholder Litigation
- Active Investing

Responsibility for the practical implementation of the Fund's approach to RI is devolved to Local Pensions Partnership Investments Ltd (LPPI) as LCPF's provider of investment management services. The report which follows provides the Committee with an update on RI activity during the period 1 October to 31 December 2019 plus insights on current and emerging issues.

3. Voting Globally

Through its investment in the LPPI Global Equities Fund (GEF) LCPF owns units in a pooled fund which invests in listed companies globally. Investors in the GEF delegate the control and exercise of shareholder voting to LPPI. This reflects that clients owning units in the GEF are beneficial owners in common but do not directly own shares in underlying companies.

LPPI exercises shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers and takes account of voting recommendations from an external provider of proxy voting and governance research (ISS) in accordance a Sustainability Voting Policy designed to ensure the consideration of

ESG factors within analysis. LPPI reviews voting recommendations and takes the final decision on all voting.

In the fourth quarter of 2019 shareholder voting headlines for the GEF were as follows:

LPPI Global Equities Fund (GEF)

Total company meetings taking place	69
Total resolutions (Management and shareholder proposals)	571
Total company proposals in the period	560
Total shareholder proposals in the period	11

The following table summarises resolutions by type and indicates where opposition voting was concentrated in Q4.

	Proposals			
	For	Against	Withhold	Total
Antitakeover Related	3	0	0	3
Capitalization	58	1	0	59
Directors Related	286	19	8	313
Non-Salary Comp.	65	19	0	84
Preferred/Bondholder	1	2	0	3
Reorg. and Mergers	15	1	0	16
Routine/Business	73	9	0	82
SH-Dirs' Related	1	2	0	3
SH-Other/misc.	3	0	0	3
SH-Routine/Business	3	2	0	5
Total	508	55	8	571

LPPI voted against or withheld support for management proposals in 63 instances (across 23 company meetings).

These included opposing or withholding support for 27 management proposals connected with the election / re-election of directors. Opposition voting most commonly addressed concerns about the composition and independence of company boards and the independence of individual board members but also reflected concern at instances of poor risk oversight and inadequate internal controls.

Director Related

LPPI voted against the re-election of the Chief Finance Officer and incumbent Audit Committee members at Sasol Ltd (South Africa: Diversified Chemicals). This followed material failures in internal controls relating to the construction of a new petrochemicals complex. In the period after a final investment decision in 2014, project costs were revised upwards from USD 8.9bn to 12.9bn and an internal review concluded the project's management team demonstrated a lack of competence and poor transparency. (Results: Between 12.7% and 29.3% against the re-election of the various incumbents).

At Harvey Norman Holdings Ltd (Australia: General Merchandise Stores), LPPI voted against the re-election of two incumbent non-independent directors where the board is not majority independent. One of the incumbents (judged to be non-independent on the basis of excessive tenure) is the Chair of the Remuneration Committee. (Result: 28.4% against the Chair of RemCom and 15.1% against the other incumbent).

At Commonwealth Bank of Australia (Diversified Banks), in place of the Chair (who was not up for re-election) LPPI opposed the re-election of two other incumbent board members in response to severe failings in the prevention of money laundering through its Australian banking services. Reportedly this resulted in the largest ever civil penalty in Australian corporate history. (Result: 4.5% and 1.9% against).

Non-Salary Compensation

Management proposals on compensation arrangements prompted 19 opposition votes. These were in response to a lack of transparency around performance conditions, poor alignment of performance conditions with shareholder interests, and variable pay terms considered to be excessive.

At Wesfarmers Ltd (Australia: General Merchandise Stores) LPPI voted against the remuneration report. This reflected concerns relating to a remuneration structure which produces a high quantum of CEO remuneration (2.25 times peer median), has poor disclosure of performance targets, and uses the same performance measure across two different aspects of remuneration. (Result: 21.4% against).

At Goodman Group (Australia: Industrial Real Estate Investment Trust), LPPI voted against the remuneration report. This reflected a long-term incentive plan considered to be insufficiently testing and excessive relative to the market median in similarly sized industry peers. Remuneration has been a consistent point of contention at Goodman where votes against the remuneration report have ranged between 24% and 45% from 2016-2019. Due to the continuation of problematic remuneration practices, LPPI opposed the re-election of the Chair of the Remuneration Committee. (Results: Remuneration Report – 16.2% against. Remuneration Committee Chair – 26.1% against).

Shareholder Proposals

LPPI supported 7 shareholder proposals across 11 company meetings in Q4.
Two of the four resolutions LPPI did not support were proposals to amend company constitutions to enable shareholders to place resolutions on the agenda (Australia & New Zealand Banking Group, National Australia Bank Limited). LPPI voted against the proposed changes which were broadly expressed and (if put into practice) would not be subject to any legal or regulatory supervision of the appropriateness of shareholder proposals arising.

LPPI supported two shareholder resolutions seeking greater transparency on the gender pay gap (at the AGM of Microsoft and of Oracle Corporation). At Oracle the resolution followed a complaint filed by the US Department of Labor alleging discrimination in compensation practices. (Results: Microsoft: 29.6% for, Oracle: 34.8% for).

LPPI supported a resolution at Cintas Corporation (USA: Diversified Support Services) seeking greater transparency about the company's political contributions. The proposal called for annual reporting on corporate electoral expenditure to improve information and bring Cintas into closer alignment with leading companies which disclose detailed policies governing political expenditures from corporate funds. (Result: 32.3% For).

4. Engagement through Partnerships

Appointment of an Engagement Services Provider

LPPI is a responsible investor on behalf of client pension funds and takes the responsibilities of active asset ownership seriously. We recognise that monitoring and engagement protect long term value and our ongoing efforts include both direct engagements with companies and participation in targeted collaborations alongside other progressive investors.

Engagement is a time consuming and resource intensive activity. The global nature and considerable scale of the listed portfolio LPPI is managing has prompted consideration of how to resource this commitment on an ongoing basis. After considering options our solution is to work with an experienced external provider of engagement services whose expertise and capabilities will complement our in-house approach, extend its coverage and improve our transparency.

In January we completed a tender process using the National LGPS framework for Stewardship Services and appointed Robeco as our provider. A joint press release announcing the partnership gives further information on our collaboration to deliver an engagement strategy for the LPPI Global Equities Fund and LPPI Fixed Income Fund. https://www.localpensionspartnership.org.uk/News-and-views/details/LPP-partners-with-Robeco-to-support-engagement-activity-for-Global-Equities-Portfolio

Service take-on is currently underway for the new contract. We will share further information on the overall strategy and provide a first set of reporting on engagement activities underway as part of LPPI's RI report on Q1 2020.

LAPFF

LAPFF has long been LCPF's preferred engagement partner. The Fund is a long-standing member of the Forum and the Head of Fund and Chair of the Pension Fund Committee currently sit on the LAPFF Executive.

The Forum reports on the engagement activities undertaken on behalf of member funds by publishing Quarterly Engagement Reports (QER). To enable Committee members to review the Forum's engagement activity in Q4 2019 a link to the 2019 QERs is provided below.
http://www.lapfforum.org/publications/qrtly-engagement-reports/

At the most recent Quarterly Business Meeting (29 January 2020) LAPFF shared a draft Workplan which identifies where work will focus in the year ahead. LGPS Funds who are Forum members are due to receive the Draft Workplan by email and have an opportunity to review and give feedback as well as to raise additional priorities they would like to be considered. The Committee may wish to take this opportunity to review whether the Fund's RI priorities are reflected in the Forum's forward plan.

PLSA

As reported to the last meeting, the Head of RI is a member of the Pensions and Lifetime Savings Association's Defined Benefit Scheme Stewardship Advisory Group (SAG) and has participated in a detailed review of the Association's Corporate Governance Policy and Voting Guidelines as part of an investor working group.

As a result of the review the PLSA will publish a new, reoriented document - PLSA Stewardship Guide and Voting Guidelines 2020 – in February 2020.

Principles of Responsible Investment (PRI)

LPPI is in the process of assembling detailed annual reporting for submission to the PRI.

The PRI's online reporting platform is open from the middle of January until 31 March each year for signatories to compile and submit the extensive content required. LPPI's reporting period is from 1st Jan to 31st December each year. In due course the information LPPI submits will feature in a Transparency Report publicly available from the PRI website. Separately LPPI will receive a private Assessment Report which evaluates our progress (compared with our first reporting submitted in March 2019) and our position relative to a comparable peer group.

LPPI has supported an investor initiative co-ordinated by the PRI which opposes plans by the US Securities and Exchange Commission (SEC) to

- change current rules around shareholder proposals at company meetings (by increasing the ownership requirements and percentage vote a proposal must receive to be resubmitted, making it more difficult to submit and sustain shareholder proposals).
- Remove the independence of proxy voting advisers by requiring their voting recommendations to be reviewed by and commented on by companies before investors receive them.

The PRI's investor letter to the SEC (**Appendix B**) was signed by LPPI and provides further details on the issues and consequences the SEC is encouraged to avoid.

The letter urges the Commission to preserve the right of shareholders to make their voices heard and to support the mechanisms which enable discussion of emerging ESG issues and allow them the time to evolve and gain shareholder support. The letter also asks the SEC to uphold the independence of proxy voting advice as something many investors (including LPPI) utilise to reach informed and objective decisions about shareholder voting.

5. Shareholder Litigation

LPPI employs Institutional Protection Services (IPS) as an external provider of litigation monitoring services to ensure shareholder litigation cases affecting securities owned by the GEF are known about, claims are filed in a timely way and progress is monitored and followed up with Claims Administrators. In addition, IPS monitor cases relating to shares held by LCPF in the period before the Fund pooled its listed equity investments from November 2016. Litigation can arise quite some time after shares have been sold and monitoring new cases and referring back to historic records to establish rights of ownership is an ongoing task.

IPS provide LPPI with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report for Q4 2019 confirms that two new potential cases have been identified where the Fund may have an entitlement to join a class action and eligibility is being assessed. There are a further 13 confirmations of no claim and no recognised loss.

6. Active Investing

The LCPF Responsible Investment Policy describes active investing as the search for sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. The Fund has not set allocations for investments within specific sectors or identified impact themes but in general favours investments with positive social outcomes and has expressed an interest in understanding where current investments are delivering social benefits in addition to generating investment returns. Examples of socially positive investments are available from across the asset classes the fund invests in.

Infrastructure

In the period since the committee last met the Fund's exposure to renewable energy generation has been increased through an infrastructure investment (via GLIL) in Cubico Sustainable Investments.

A press release produced by GLIL provides further details on the investment in Cubico's UK portfolio of operational wind and solar assets. GLIL has acquired a minority (49%) equity stake in the portfolio, which has been operational for more than three years and comprises over 250 MW of wind and solar projects at 18 sites across the UK.

https://www.glil.co.uk/assets/Press-release-Cubico-sells-minority-stake-in-UK-wind-and-solar-portfolio-to-GLIL-Infrastructure-002.pdf

LGPS Cross Pool Responsible Investment Group

The Head of RI has recently become the Chair of the LGPS Cross Pool Responsible Investment Group. The group is an active network for RI practitioners within the LPGS which brings together representatives from across the 8 constituent LGPS pools to share information, collaborate, and collectively support the development of RI by the LGPS. The group currently produces and delivers the RI content for the Local Government Association's (LGA) LGPS Governance Fundamentals Training.

The group has formed productive relationships with a number of key organisations including the PRI, Financial Reporting Council and LGA and is an efficient forum for collectively discussing new initiatives, sharing insights, noting good practice and providing general commentary when asked to provide an initial LGPS sounding board.

Approached by the LGA, the Head of RI led on the group's review and initial impressions of the LGPS Scheme Advisory Board (SAB) draft guidance on Responsible Investment which was out for consultation from November 2019 to Jan 2020. In follow-up, the Head of RI was invited to be a panellist at a joint SAB/LGA Workshop on Responsible Investment (January 2020) which discussed current regulations and the need for clearer guidance to help Funds understand their responsibilities and recognise the flexibilities they have to pursue RI under current Investment Regulations

LPPI has made a separate response to the consultation on the SAB RI Guidance which was critical of the failure to explicitly reference the role of Pool companies in implementing RI policies for funds and providing support, guidance and a focus for consensus around common standards where assets are under pooled management and stewardship.

7. Other

UK Stewardship Code (2020)

In October 2019 the Financial Reporting Council published the updated UK Stewardship Code (2020) which came into force from January 2020. https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners (moving discernibly forward from the prior Code's comply or explain format). The 2020 Code sets a very high benchmark for potential signatories, requiring them to comply with 12 Principles and disclose on their actions and outcomes against these each year.

It is no longer sufficient to report the fact that appropriate policies and approaches are in place; the new Code requires up to date evidence of activity. This reflects the FRC's intention that the Code will be a basis for differentiating true stewardship best practice. Asset owners and asset managers who wish to be in the first cohort of prospective signatories assessed by the FRC must submit their applications and detailed reporting between January and March 2021.

As a signatory to the prior Stewardship Code (2012) the Fund will continue to be listed as a signatory until the beginning of 2021 at which point it will either need to submit reporting and be assessed against the new Code or will cease to be listed as a Code signatory.

LPPI is currently considering the requirements for compliance with the Stewardship Code (2020) alongside other regulatory requirements coming into force relating to RI and ESG disclosure. We will provide more information on our schedule for LPPI compliance in due course. In the meantime, the Committee is encouraged to consider whether the Fund aspires to be a signatory to the 2020 Code going forward.

It is not a requirement for LGPS Funds to be Code signatories. The requirement (conferred under DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement) is for Administering Authorities to "explain their policy on stewardship with reference to the Stewardship Code". This can be achieved without being a signatory through placing reliance on the policies and procedures in operation by LPPI.

Given the extent of delegation associated with the LPP pooling model (stewardship tasks being undertaken by LPPI) and the high benchmark set by the new Code it would be prudent to reflect in advance on the practicalities of compliance and allowing adequate time for preparation to report against the Code should the Fund wish to take this route.

As an assistance the Head of RI has begun a discussion with the FRC around the situation of LGPS funds whose assets and stewardship are pooled and how this position can best be accommodated under the new Code.

PRI | Principles for Responsible Investment

February 03, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

File numbers: S7-23-19; S7-22-19

Dear Ms. Countryman,

The PRI and its undersigned signatories write to urge you to ensure that the SEC preserve the right of shareholders to make their voices heard and the independence of proxy voting advice. If finalized, the SEC's proposed rules on shareholder proposals and proxy advisers would introduce major impediments to environmental, social and governance (ESG) integration, which has traditionally depended on dedicated investors engaging with management and access to independent and efficient proxy voting advice.

The shareholder proposal process is critical to the advancement of ESG integration in the US and the fulfilment of the second PRI principle, active ownership. Shareholder proposals are a component of fundamental investor rights in the US. They enable investors to engage with the companies they own at annual elections on critical issues. Those issues include but are not limited to: corporate transparency, executive compensation and climate change. The proposed changes to the 14a-8 thresholds significantly raise the ownership requirements and the percentage vote a proposal must receive to be resubmitted, making it more difficult to submit and sustain proposals. That's especially the case for ESG resolutions, because the reality is that it often takes several years for the investor community to appreciate the importance of an emerging ESG topic and integrate the appropriate response into their voting decisions. Accordingly, if finalized, the SEC's proposed amendments to Rule 14a-8 would in many cases hinder discussion of emerging ESG issues before investors have the chance to analyze and incorporate the latest thinking into voting behavior.

Moreover, proxy advisory firms play a vital role in providing impartial analyses of and recommendations on corporate issues that are important to investors. Many PRI signatories make use of the information from proxy advisers when assessing how to vote their shares. But requiring proxy advisory firms to allow companies to review and comment on recommendations before investors even see them, as the SEC has proposed, is an unprecedented intrusion of management into this arena, greatly limiting investors' access to independent advice on matters brought to a vote in corporate elections. The PRI is deeply concerned that the SEC's proposed rule will undermine the reliability of this source of advice and cause unwarranted delays in an already compressed process. These hurdles will likely make it harder for investors to carry out their fiduciary responsibilities.

Any rulemakings should address the concerns set out in this letter. We urge you to preserve the existing framework and look forward to working with you to make sure that these important elements of shareholder democracy are maintained.

Thank you for the opportunity to share our views. For further conversation and follow up, please feel free to contact our policy team:

- Will Martindale, Director of Policy and Research: will.martindale@unpri.org
- Colleen Orr, U.S. Policy Analyst: colleen.orr@unpri.org

Yours sincerely,

Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

cc. The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison H. Lee, Commissioner

About the PRI

The Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. Launched in New York in 2006, the PRI has grown to over 2,700 signatories, managing over $90 trillion AUM and is still growing. The U.S. is the PRI's largest market, with over 500 signatories investing over $42 trillion AUM.

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Luciane Moessa
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JLens Investor Network

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ATISA Personalvorsorgestiftung der Tschümperlin-Unternehmungen
Bernische Lehrerversicherungskasse
Bernische Pensionskasse BPK
Caisse de pension des sociétés Hewlett-Packard en Suisse
Caisse de pension du Comité international de la Croix-Rouge
Caisse de pensions de l'Etat de Vaud (CPEV)
Caisse de pensions ECA-RP
Caisse de prév. des Fonctionnaires de Police & des Etablissements Pénitentiaires
Caisse de Prévoyance de l'Etat de Genève (CPEG)

Caisse de Prévoyance des Interprètes de Conférence (CPIC)
Caisse de prévoyance du personnel de l'Etat du Valais (CPVAL)
Caisse intercommunale de pensions (CIP)
Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC)
CAP Prévoyance
CCAP Caisse Cantonale d'Assurance Populaire
CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle
Etablissement Cantonal d'Assurance (ECA VAUD)
Fondation de la métallurgie vaudoise du bâtiment (FMVB)
Fondation de prévoyance Artes & Comoedia
Fondation de prévoyance du Groupe BNP PARIBAS en Suisse
Fondation Leenaards
Fonds interprofessionnel de prévoyance (FIP)
Gebäudeversicherung Luzern
GVA Gebäudeversicherung des Kantons St. Gallen
Luzerner Pensionskasse
Nest Sammelstiftung
Pensionskasse Bank CIC (Schweiz)
Pensionskasse Basel-Stadt
Pensionskasse Bühler AG Uzwil
Pensionskasse Caritas
Pensionskasse der Stadt Winterthur
Pensionskasse Pro Infirmis
Pensionskasse Römisch-katholische Landeskirche des Kantons Luzern
Pensionskasse SRG SSR
Pensionskasse Stadt Luzern
Pensionskasse Unia
Personalvorsorgekasse der Stadt Bern
Prévoyance Santé Valais (PRESV)
prévoyance.ne
Profelia Fondation de prévoyance
Prosperita Stiftung für die berufliche Vorsorge
Retraites Populaires
Secunda Sammelstiftung
Solothurnische Gebäudeversicherung
St. Galler Pensionskasse
Stiftung Abendrot
Terre des hommes
Unfallversicherungskasse des Basler Staatspersonals
Université de Genève (UNIGE)
Verein Barmherzige Brüder von Maria-Hilf
Vorsorge SERTO

Pension Fund Committee
Meeting to be held on Friday, 6th March 2020

Electoral Division affected: None;

Approval of 2020/21 Work Plan for the Lancashire Local Pension Board.
(Appendix 'A' refers)

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

Executive Summary

The 2020/21 Work Plan for the Lancashire Local Pension Board is attached to this report for the information of the Committee.

Recommendation

That the 2020/21 Work Plan for the Lancashire Local Pension Board, as set out at Appendix 'A' to this report, is noted.

Background and Advice

Under the Terms of Reference the Pension Board is required to produce a Work Plan each year and submit it to the Pension Fund Committee for information.

At the meeting on the 14th January 2020 the Pension Board considered a draft Work Plan for 2020/21 during which a number of amendments/additions were suggested and the Head of the Pension Fund undertook to update the draft and circulate it to all Board members outside of the meeting for comment so that a finalised version could be presented to the Pension Fund Committee.

The latest version of the 2020/21 Work Plan, which has been shared with the members of the Pension Board is attached at Appendix 'A'.

Consultations

All members of the Lancashire Local Pension 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		

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

Appendix A

Lancashire Local Pension Board – 2020/21 Work Plan

	21 Apr 2020	14 July 2020	13 Oct 2020	19 Jan 2021	20 Apr 2021
Standard					
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
Report - Regulatory changes update	Y	Y	Y	Y	Y
Report - Feedback from Board members on conferences/events and other training received.	Y	Y	Y	Y	Y
Report - Part I/II Reports considered by the recent Pension Fund Committee.	Y	Y	Y	Y	Y
Governance					
Report – Annual Review of the effectiveness of the LLPB - conclusions of the Chair and draft LLPB Annual Report for the previous year.	Y				Y
Report - LLPB Members Training Record – review	Y				Y
Report – Work Plan - update on progress regarding the current LLPB work plan	Y				Y
Report - Constitution, Membership and Terms of Reference of the LLPB		Y			
Report - Local Pension Partnership Pensions Administration Service Update		Y		Y	
Report - The Pension Regulator survey results			Y		
Activity - Annual Review of LLPB effectiveness (Chairs 1 to 1 meetings with members)				Y	
Report - Compliance with COP:14 – review				Y	
Report - Work plan – approval of the LLPB work plan for the following year (send to PFC)				Y	
Report - Terms of Reference of the Board – annual review				Y	
Report - Assurance that Board has fulfilled the broader remit of scrutiny of LCPF	Y				Y
Key Policy documents					
Report - Risk Register – 6 month review	Y		Y		Y
Report - Administration Performance 2019/20		Y			
Report - UK Stewardship Code Compliance		Y			
Report - Governance Policy Statement				Y	
Report - Pension Administration Strategy Statement				Y	
Performance					
Report – Summary of appeals under the internal dispute resolution procedures	Y	Y	Y	Y	Y
Activity - Monitoring of KPIs for admin, complaints, governance, investments (via PFC reports).	Y	Y	Y	Y	Y
Report - Pension Fund Administration Service - Quality of Service Report		Y			
Report - Data Quality			Y		
Actuarial Valuation					
Report - Actuarial Valuation	Y				
Financial Monitoring					
Report - Contributions monitoring and data breaches (quarterly reporting)	Y	Y	Y	Y	Y
Report - LCPF budget review (with particular regard to cost savings, productivity gain, risk reduction, service improvement and performance).	Y				Y
Communications and updates to employers and members					
Activity - Formal reports and internal/external reports	Y	Y	Y	Y	Y
Activity - Assistance with communication to employers/members arising out of regulations and current issues	Y	Y	Y	Y	Y

ADVANCE WORK PLAN – TRIENNIAL REVIEW	2021/22	2022/23	2023/24
Responsible investment Statement	Y		
Admission and Terminations Policy	Y		
Death Grant Policy	Y		
Funding Strategy Statement		Y	
Stewardship Code compliance		Y	
Communications Policy		Y	
Actuarial Valuation		Y	
Investment Strategy Statement		Y	
Discretion Policy		Y	
Bulk Transfer payment policy		Y	
Governance Policy Statement			Y
Monitor employer and administering authority discretions			Y
Transfer Policy			Y
Abatement policy			Y
Pension Administration Statement			Y

(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

(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 C

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

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

Document is Restricted

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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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Agenda Item 16

(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 A

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