Lincolnshire
COUNTY COUNCIL

Annual Report

and Accounts

For the Year Ended 31st March

2013

Pension Fund

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT FOR THE YEAR ENDED 31st MARCH 2013

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Administering Authority Lincolnshire County Council

Pensions Committee Members at 31st March 2013

County Councillors
E R Chapman
D R Dickinson
C Farrar (Chairman)
N Jackson
P S Przyszlak
J M Swanson
P F Watson (Vice-Chairman)
B Young

District Council Representatives
Cllr M Leaning

Representatives of Other Employers
M J Scott

Employee Representative
A Antcliff (Unison)

Professional Advisors

County Council Officers

Executive Director of Resources and Community Safety	P Moore BA CPFA
Assistant Director of Resources	D C Forbes BSc CPFA
Independent Advisor	P Jones FIA
Fund Actuary	Hymans Robertson
Fund Consultant	Hymans Robertson
Voting Advisor	Manifest Voting Agency

External Investment Managers of Segregated Portfolios
(all Global Equities)

Invesco Asset Management Ltd
Neptune Investment Management
Schroder Investment Management Ltd
Threadneedle Asset Management Ltd

Auditors	KPMG
Investment Custodian	JP Morgan Securities Services
AVC Provider	Prudential
Fund Banker	Barclays
Benefits Administration	Mouchel Group PLC

REPORT OF THE PENSIONS COMMITTEE

Introduction

The Pensions Committee of Lincolnshire County Council approves the investment policy of the Fund and monitors its implementation during the year. The Committee meets, as a minimum, on a quarterly basis and special meetings are convened if considered necessary.

Members of the Committee as at 31st March 2013 are listed on page 2.

All members of the Committee can exercise voting rights.

Corporate Governance and Social Responsibility

The Fund complies with corporate governance best practice by voting its shareholdings at all UK, developed Europe, US and Canada company meetings. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), an organisation that monitors the governance of companies. The LAPFF seeks to protect and enhance shareholder returns by engaging with companies on a wide range of social, environmental and governance issues. The Fund has produced a Stewardship Code Statement, in accordance with the Financial Reporting Council's Stewardship Code, to explain how it acts as a responsible shareholder. This can be found on the Fund's website (details below).

Investment Performance

The Fund has an investment objective to meet its liabilities over the long term, and to produce a return of 1% p.a. over the return produced by the strategic asset allocation benchmark.

The twelve months to 31st March 2013 produced a positive return to the Fund. Equity markets rose despite increasing political uncertainty surrounding the US fiscal cliff and European government finances. With the aid of the European Central Bank's commitment, investors felt safe enough to be active, which resulted in a strong rally, with a number of equity markets reaching all-time highs. Equity returns ranged from 14% in Japan over 19% in the US. Bonds experience a wider range of returns, with index linked bonds returning over 10%, and UK government bonds returning 4%. Property was rather flat, with a return of just 2.5% over the year.

Performance over the year, at 12.6%, was ahead of the specific benchmark return of 11.3%, producing a relative out-performance of 1.2%. This compares to a rise in retail prices of 3.3% and increase in public sector earnings of 1.1%. Over the last ten years, the Fund's annualised investment performance is a solid 8.3%, although this is slightly behind the benchmark return of 9.1%.

Manager Arrangements

During the year, an investment totalling 5% of the Fund was made into the Morgan Stanley Global Brands Fund, a global equity pooled vehicle that invests in a portfolio of global franchises, and includes companies such as Nestle, Unilever and Microsoft. The mandates of the three other active global equity managers, Schroders, Threadneedle and Neptune, were rebalanced to fund the new investment. In addition, a commitment of £10m was made to an infrastructure fund managed by Innisfree.

Fund Governance and Communication Statements and the Statement of Investment Principles

The Fund's investments are managed in accordance with the Statement of Investment Principles (SIP).

The Fund's SIP, Governance Compliance Statement, Communications Policy and Funding Strategy statements are all attached at the end of this report. These documents, and other related publications, can also be downloaded from the Pension Fund's website, at www.lincolnshire.gov.uk/pensions.

Hard copies of any of these statements may be obtained from:

Jo Ray, Group Manager – Pensions & Treasury
Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL
(Tel: 01522 553656)
(email: jo.ray@lincolnshire.gov.uk).

Chris Farrar

CHAIRMAN

PENSIONS COMMITTEE

MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council, providing current and future benefits for over 60,000 scheme members.

Local Government Pension Scheme Membership

Year ended 31st March	2009	2010	2011	2012	2013
Contributors	20,320	20,130	19,043	18,527	19,102
Pensioners	12,130	13,021	13,865	15,143	15,702
Deferred Beneficiaries	19,749	22,930	22,931	24,620	25,799
Total	**52,199**	**56,081**	**55,839**	**58,290**	**60,603**

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

Investment Policy

The Fund is managed with regard to a strategic asset allocation benchmark. The actual allocation at any point in time reflects the decisions and views of the Fund's investment managers.

Strategic Asset Allocation Benchmark

Asset class	Strategic Benchmark 31st March 2013 %	Actual Asset Allocation 31st March 2013 %
UK Equities	20.0	19.9
Global Equities	40.0	41.4
Total Equities	**60.0**	**61.3**
Property and Infrastructure	**11.5**	**10.4**
Alternative (incl. Private Equity)	**15.0**	**14.0**
Fixed Interest	**13.5**	**12.4**
Cash (incl. current assets)	**0.0**	**1.9**
Total	**100**	**100**

Investment Performance

The twelve months period ended 31st March 2013 saw the value of the Fund increase by £159m to £1,495m. The investment return of 12.6% was ahead of the Fund's specific benchmark return of 11.3%. Over the last ten years, the Fund's annualised investment performance of 8.3% is slightly behind the benchmark return of 9.1%.

The main contributors to the out-performance in the year were the alternatives and the private equity portfolios, both managed by Morgan Stanley. The passive and enhanced index portfolios managed internally and by Invesco also contributed positively. The active equity portfolios managed by Threadneedle and Neptune contributed negatively to the overall performance, with Schroders being neutral and Morgan Stanley producing a slight positive effect. Active bonds, managed by Goodhart, had a positive impact, whilst the Fund's overall property investments contributed negatively. The currency overlay positions also produced a small negative contribution.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 8.3% compares to a rise in retail prices of +3.3% and increase in public sector earnings of +3.3%.

Investment Performance of the Fund 1st April 2003 to 31st March 2013

	Lincolnshire Fund Return %	Comparative Benchmark Return %	Retail Price Inflation %	Public Sector Increase in earnings %
2003/04	21.0	23.9	2.6	4.6
2004/05	11.0	11.9	3.2	4.3
2005/06	24.4	24.1	2.4	4.4
2006/07	6.9	6.5	4.8	3.1
2007/08	(4.4)	(3.3)	3.8	3.7
2008/09	(18.6)	(20.0)	(0.4)	3.4
2009/10	29.7	36.7	4.4	4.0
2010/11	7.9	7.8	5.3	2.2
2011/12	1.5	2.4	3.6	1.8
2012/13	12.6	11.3	3.3	1.1
10 years annualised	8.3	9.1	3.3	3.3

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31st March 2013, are set out below. Portfolio values include cash and cash equivalents at the balance sheet date.

Segregated Investment Management Mandates

Asset Class	Manager	Market value £m's	% of the Fund
UK Equities	Lincolnshire County Council	298.3	19.9
Global Equities - (Ex UK)	Invesco	315.6	21.1
Global Equities – All Countries	Neptune	71.4	4.8
Global Equities – All Countries	Schroders	78.3	5.3
Global Equities – All Countries	Threadneedle	79.2	5.3
	Total Equities	**842.8**	**56.4**

The Fund also invests in a number of asset classes by means of collective investment vehicles, also known as pooled funds.

Pooled Funds

Asset Class	Manager	Market value £m's	% of the Fund
Property and Infrastructure	Franklin Templeton	17.1	1.1
	Igloo	6.5	0.4
	Innisfree	21.0	1.4
	Aviva	22.3	1.5
	Royal London	15.2	1.0
	Rreef	2.6	0.2
	Blackrock	16.4	1.1
	Standard Life	54.0	3.6
	Total UK Property	**155.1**	**10.3**
Private Equity	Capital Dynamics	21.6	1.4
	Pantheon	42.3	2.8
	Standard Life	21.9	1.5
	EIG	9.8	0.7
	Total Private Equity	**95.6**	**6.4**
Alternatives	Morgan Stanley	113.6	7.6
	Total Alternatives	**113.6**	**7.6**
Global Equities	Morgan Stanley	74.0	5.0
	Total Global Equities	**74.0**	**5.0**
Fixed Interest	Blackrock	97.1	6.5
	Goodhart	88.0	5.9
	Total Fixed Interest	**185.1**	**12.4**

Actuarial Position

The employers' contribution rates applying in the year ended 31st March 2013, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' Contribution Rates 2012/13

Employer	Rate as a % of pay
Lincolnshire County Council	18.9
Boston Borough Council	23.2
East Lindsey District Council	24.1
Lincoln City Council	23.5
North Kesteven District Council	21.0
South Holland District Council	24.8
South Kesteven District Council	21.1
West Lindsey District Council *	14.1
Lincolnshire Police Authority	19.9
Lincolnshire Probation and After Care Committee	18.3
Boston College	18.3
Lincoln College	19.4
Stamford College	18.9
Bishop Grosseteste College	22.1
Compass Point Business Services	17.7
Priory Federation of Academies	15.4
Boston Witham Federation of Academies	24.9
G4S	19.9

(West Lindsey District Council pay additional lump sum contributions, which are not expressed as a percentage of payroll)*

Stewardship Responsibilities

As a responsible shareholder, the Lincolnshire Pension Fund has produced a Stewardship Code statement in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all company holdings in the UK, developed Europe, US and Canada. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents. Over the year, the Fund voted at 782 company meetings, and cast votes in respect of 11,294 resolutions.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 57 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest. Further information on the work of the LAPFF can be found on their website at www.lapfforum.org. Highlights for the year include:

- Engagement initiated with two British listed tobacco companies in an effort to understand how they manage health and liability risks, as well as how they are planning for future restrictions on the sale of tobacco products.

- The publication of a report "Expectations for Executive Pay" proposing a new approach to remuneration. The paper, which was sent to the top 350 companies in the UK, includes 15 proposals structured around four themes: structure and incentives, pay equity, executive recruitment, and consultation and decision-making.

- Continued engagement with companies as part of the Global Focus List, including Société Generale, JP Morgan & Chase and Flir Systems.

Risk Management

Risk management is an integral element of managing the Pension Fund. The Pension Fund has a risk register which identifies the major risks associated with managing the Fund. This is reviewed by the Pensions Committee annually, and new or increased risks are reported at each quarterly meeting.

The table below highlights the key risks and how they are managed.

Key risk identified:	A range of controls are in place including:
Assets do not cover liabilities	Triennial valuation, diversification of investments, regular monitoring and reporting, professional advisors.
The inability to deliver the Pensions Administration Service, due to failure in the outsourced contract.	Performance and management indicators, monthly meetings, internal and external audits, service level agreement and benchmarking.
Paying pensions correctly	Process controls, checking, audits, reconciliations, tracing bureau, task management.
Collecting contributions correctly	Employer contribution monitoring, annual contribution checks, audits, employer training, reconciliations.
Loss of key staff, knowledge and skills	Diversified staff/team, pensions user groups, procedural notes, section meetings, appraisals.

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

Administration of Benefits

Lincolnshire County Council has contracted with Mouchel to administer LGPS benefits and other services.

The principal points of contact in respect of questions about the LGPS are:

Pension Fund and Investments	Jo Ray, Group Manager – Pensions & Investments Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL Tel: 01522 553656 Email : jo.ray@lincolnshire.gov.uk
Pensions Administration	David Vickers, Pensions Manager Mouchel, Mill House, Brayford Wharf North, Lincoln, LN1 1YT Tel: 01522 836462 Email: dave.vickers@mouchel-lincoln.com

Further information on the benefits offered within the LGPS is detailed on page 49 of this report.

PENSION FUND KNOWLEDGE AND SKILLS – POLICY AND REPORT

As an administering authority of the Local Government Pension Scheme, Lincolnshire County Council recognises the importance of ensuring all staff and members charged with the financial management and decision making with regard to the pension fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. Within the management of the Pension Fund, LCC seeks to appoint individuals who are both capable and experienced, and will provide and arrange training for staff and members involved to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

An annual training plan is agreed by the Pensions Committee each April, setting out what training will be covered over the coming year and relating it back to the CIPFA Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.

The Assistant Director of Resources, the delegated S151 Officer, is responsible for ensuring that policies and strategies are implemented.

Activity in 2012/13

A training needs assessment was carried out in 2010 to identify and prioritise the training plan. The training plan was then linked to specific areas within the CIPFA Knowledge and Skills Framework.

The 6 areas within the Knowledge and Skills Framework are:

1. Pensions Legislative and Governance Context
2. Pensions Auditing and Accounting Standards
3. Financial Services Procurement and Relationship Management
4. Investment Performance and Risk Management
5. Financial Markets and Products Knowledge
6. Actuarial Methods, Standards and Practices

The table below details the various areas covered in training and Committee presentations during the year, and the areas within the Knowledge and Skills Framework that they relate to:

Date	Topic	KSF area(s)
12th Apr 2012		
Committee topics	Market Update Report Fund Update Report Investment Management Report External Manager Presentation Pensions Administration Strategy	4 and 5 1

Additional training	Procurement	3
31st May 2012 Committee topics	External Manager Presentations	4 and 5
12th Jul 2012 Committee topics	Market Update Report Fund Update Report Investment Management Report Internal Manager Presentation Annual Property Report	4 and 5
18th Sept 2012 Additional training	Currency Management Passive and Active Management	5 5
11th Oct 2012 Committee topics	Market Update Report Fund Update Report Investment Management Report External Manager Presentation Pension Fund Annual Report and Accounts Annual Performance Measurement Report	4 and 5 2 4
6th Dec 2012 Committee topics	External Manager presentations	4 and 5
10th Jan 2013 Committee topics	Market Update Report Fund Update Report Investment Management Report Pensions Administration Report External Manager Presentation	4 and 5 1 5
20th Feb 2013 Additional training	Annual Employer Meeting Understanding the Valuation Process	1 6
12th Apr 2013 Committee topics	Market Update Report Fund Update Report Investment Management Report Pensions Administration Report	4 and 5 1

As the officer responsible for ensuring that the training policies and strategies are implemented, the Assistant Director of Resources can confirm that the officers and members charged with the financial management of and the decision making for the Pension Fund collectively possess the requisite knowledge and skills necessary to discharge those duties and decisions required during the reporting period.

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2013

	See Note	2011/12 £000	2012/13 £000
Contributions and Benefits			
Contributions Receivable	8	78,564	74,559
Transfers in	9	8,231	5,674
		86,795	**80,233**
Benefits Payable	10	77,744	73,235
Leavers	11	5,666	6,900
Administrative expenses	12	997	1,167
		84,407	**81,302**
Net additions from dealings with fund members		**2,388**	**(1,069)**
Returns on Investments			
Investment Income	13	21,806	25,002
Profit (Loss) on Forward Deals & Currency Deals	17	(3,275)	(1,426)
Change in Market Value of Investments	15	831	141,590
Investment management expenses	12	(4,012)	(5,092)
Net returns on investments		**15,350**	**160,074**
Net increase in the Fund during the year		17,738	159,005
Opening net assets of the Fund		1,318,302	1,336,040
Closing net assets of the Fund		**1,336,040**	**1,495,045**

Net Assets statement as at 31st March 2013

	See Note	2011/12 £000	2012/13 £000
Investments	15		
Equities		779,938	842,804
Pooled Investments:			
Property		152,538	155,117
Private Equity		90,949	95,595
Fixed Interest		143,166	155,540
Index Linked Bonds		26,895	29,525
Equities		0	74,037
Alternatives		96,798	113,613
Cash Deposits		28,409	14,696
Other Investment Balances	18	3,279	5,242
		1,321,972	**1,486,169**
Current Assets and Liabilities			
Cash Balances		5,752	3,954
Debtors	19	7,617	7,035
Long Term Debtors	19	3,410	2,558
Creditors	19	(2,711)	(4,671)
		14,068	**8,876**
		1,336,040	**1,495,045**

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Lincolnshire County Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2012/13 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

Membership

Membership of the LGPS is automatic for eligible employees, but they are able to opt out of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 171 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2012	31 Mar 2013
Number of employers with active members	138	171
Number of employees in the scheme		
Lincolnshire County Council	9,479	9,949
Other employers	9,047	9,153
Total	18,527	19,102
Number of pensioners		
Lincolnshire County Council	9,352	9,684
Other employers	5,791	6,018
Total	15,143	15,702
Number of deferred pensioners		
Lincolnshire County Council	17,443	18,146
Other employers	7,177	7,653
Total	24,620	25,799

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31st March 2010, and employer contribution rates were set ranging from 11.9% to 30.5% of pensionable pay.

Benefits

Pensions benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1st April 2008	**Service post 31st March 2008**
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1st April 2011.

LGPS 2014

The new LGPS 2014 comes into effect from 1st April 2014. The table below shows the key benefit changes between the current scheme and the new scheme. Further details are shown on page 51.

	Service pre 1st April 2014	**Service post 31st March 2014**
Scheme	Final salary scheme, with pension based upon the salary at retirement.	CARE scheme (career average revalued earnings) where each year builds up a pension pot that is revalued in line with inflation.
Pension	Each year is worth 1/60 x final pensionable salary.	Each year is worth 1/49 x salary earned in that year, revalued in line with inflation.
50/50 Option	Not available	Option for employees to pay half the contributions to accrue half of the pension.

2 Basis of Preparation

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The Code includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

Contributions receivable are included in the accounts in the year to which they relate. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

Fund account - expense items

Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administrative expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period. The costs of the Pensions Administration team are charged to the Fund.

Investment expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

The cost of obtaining investment advice from external consultants is included in the investment management charges.

The costs of the Council's in-house fund management team are charged to the Pension Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

<u>Net assets statement</u>

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments have been determined as follows:

UK listed securities are stated at bid price.
Overseas listed securities are stated at bid price.
Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment. These valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

Cash and cash equivalents

Cash comprise cash in hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

Foreign currency transactions
Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2013 are shown in note 29.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments
The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:
• the nature of the prior period error;
• for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
• the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

Changes in Accounting Policies
Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Pension Fund will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31st March 2010 indicated that the Fund's assets were £1,203.4m and covered 76% of the Funds liabilities. This compared with assets of £1,145.5m at the valuation as at 31st March 2007, which covered 86% of the Fund's liabilities. The main actuarial assumptions for the 2010 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	6.1	2.8
- Bonds	4.5	1.2
Rate of Pensionable pay inflation	5.3	2.0
Rate of Price inflation	3.3	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31st March 2010 were effective from April 2011. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of 20 years. The next actuarial valuation will be undertaken as at 31st March 2013. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2012 £m	31 Mar 2013 £m
Present value of Promised retirement benefits	1,942	2,266

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £1,213m in respect of employee members, £374m in respect of deferred pensioners and £679m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £190m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	**31 Mar 2012 % p.a.**	**31 Mar 2013 % p.a.**
Inflation/Pension Increase rate	2.5%	2.8%
Salary Increase Rate*	4.8%	5.1%
Discount Rate	4.8%	4.5%

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.2 years	23.4 years
Future Pensioners*	23.7 years	25.7 years

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated 29 April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston

Anne Cranston AFA
14 May 2013
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainly

The accounts contain estimated figures that are based on assumptions made by the council, and other Professionals, about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the accounts for the year ended 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £226m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £41m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £166m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £68m.

Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £95.6m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2012/13

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	100.0%

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31-Mar 2012 £m	%	31-Mar 2013 £m	%
EXTERNALLY MANAGED				
Invesco	271	21	318	21
Neptune	75	6	72	5
Schroders	85	6	79	5
Threadneedle	93	7	81	5
Morgan Stanley (Global Brands)	0	0	74	5
Morgan Stanley (Alternatives)	107	8	117	8
Morgan Stanley (Private Equity)	93	7	99	7
Blackrock	88	7	97	7
Goodhart	82	6	88	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	153	11	157	11
UK Equity	273	21	299	20

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
Goodhart	Bid
INTERNALLY MANAGED	
Pooled Investments:	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £21,083,294 and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year end valued at £23,756,097 which represented 112.7% of the value of securities on loan.

Income received from stock lending activities, before costs, was £223,334 for the year ending 31st March 2013 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2011/12 £000	2012/13 £000
Employers		
Normal	46,735	46,645
Deficit Funding	8,413	8,758
Additional - Augmentation	5,292	1,588
Members		
Normal	17,918	17,387
Additional years	206	181
	78,564	**74,559**

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

	2011/12 £000	2012/13 £000
Lincolnshire County Council	43,817	35,464
Scheduled Bodies	31,534	33,404
Admitted Bodies	3,213	5,691
	78,564	**74,559**

9 Transfers In

During the year individual transfers in from other schemes amounted to £5.7m (£8.231m in 2011/12).

There were no material outstanding transfers due to or from the Pension Fund as at 31st March 2013.

10 Benefits Payable

	2011/12 £000	2012/13 £000
Pensions	52,619	57,730
Commutations & Lump Sum Retirement Benefits	23,877	13,455
Lump Sum Death Benefits	1,248	2,050
	77,744	**73,235**

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

	2011/12 £000	2012/13 £000
Lincolnshire County Council	45,987	40,589
Scheduled Bodies	29,550	30,519
Admitted Bodies	2,207	2,127
	77,744	**73,235**

11 Payments to and on account leavers

	2011/12 £000	2012/13 £000
Individual transfers to other schemes	5,662	6,894
Refunds to members leaving service	4	6
	5,666	**6,900**

12 Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below. The external Audit fee for the year was £24,885 and is included within the administrative expenses below.

	2011/12 £000	2012/12 £000
Benefit Administration Expenses	947	1,123
Actuarial & other Professional Charges	50	44
Administrative expenses	**997**	**1,167**
Investment, Management & Custody	3,906	4,921
Performance Measurement and other advisory charges	106	171
Investment Management expenses	**4,012**	**5,092**

13 Investment Income

	2011/12 £000	2012/13 £000
Equities	20,959	23,673
Pooled Investments		
Property	616	955
Private Equity	(10)	54
Alternatives	(116)	0
Cash deposits	124	47
Stock Lending	233	273
	21,806	**25,002**

14 Taxes on Income

	2011/12 £000	2012/13 £000
Withholding tax - Equities	823	1,188
	823	**1,188**

15 Investments

	Value at 31/03/2012 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2013 £000
Equities	779,938	247,249	285,247	100,865	842,804
Pooled Investments					
Property	152,538	10,274	6,623	(1,072)	155,117
Private Equity	90,949	6,566	12,972	11,052	95,595
Fixed Interest	143,166	4,922	2,923	10,374	155,540
Index Linked Bonds	26,895	0	0	2,630	29,525
Equities	0	67,500	0	6,537	74,037
Alternatives	96,798	28,090	22,480	11,204	113,613
	1,290,284	**364,601**	**330,245**	**141,590**	**1,466,231**
Cash Deposits	28,409				14,696
Other Investment Balances	3,279				5,242
Current Assets & Liabilities	14,068				8,876
	1,336,040	**364,601**	**330,245**	**141,590**	**1,495,045**

	Value at 31/03/2011 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2012 £000
Equities	781,950	272,076	255,361	(18,727)	779,938
Pooled Investments					
Property	145,272	4,940	2,032	4,358	152,538
Private Equity	95,206	9,518	17,434	3,659	90,949
Fixed Interest	136,352	4,286	4,286	6,814	143,166

Index Linked Bonds	23,621	0	0	3,274	26,895
Alternatives	92,064	31,324	28,043	1,453	96,798
	1,274,465	**322,144**	**307,156**	**831**	**1,290,284**
Cash Deposits	20,190				28,409
Other Investment Balances	969				3,279
Current Assets & Liabilities	22,678				14,068
	1,318,302	**322,144**	**307,156**	**831**	**1,336,040**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £504,194 (£498,793 in 2011/12). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme

A further analysis of the market value of investments is given below:

		31-Mar 2012 £000	%	31-Mar 2013 £000	%
Equities					
UK Quoted		294,868	22	319,114	22
Overseas Quoted		485,070	37	523,690	35
Total Equities		**779,938**	**59**	**842,804**	**57**
Pooled Investments					
	Property	124,819	10	127,499	9
	Private Equity	2,061	0	2,032	0
	Fixed Interest	60,918	4	67,577	5
	Index Linked Bonds	26,895	2	29,525	2
	Equities	0	0	74,037	5
	Alternatives	96,798	7	113,613	8
Total UK Pooled		**311,491**	**24**	**414,283**	**28**
	Property	27,719	2	27,618	2
	Private Equity	88,888	7	93,564	6
	Fixed Interest	82,248	6	87,962	6
Total Overseas Pooled		**198,855**	**15**	**209,144**	**14**
Total Pooled Investments		**510,346**	**39**	**623,427**	**42**
Cash					
Short Term Loans/External Deposits		28,409	2	14,696	1
Total		**1,318,693**	**100**	**1,480,927**	**100**

An analysis of the type of pooled investment vehicles is given below:

		2011/12 £000	2012/13 £000
Property			
	Unit Trusts	100,953	97,359
	Other managed funds (LLP's)	51,585	57,758
Private Equity			
	Other managed funds (LLP's)	90,949	95,595
Fixed Interest			
	Other managed funds	143,166	155,540
Index linked gilts			
	Other managed funds	26,895	29,525

Equities			
	Other managed funds	0	74,037
Alternatives			
	Other managed funds	96,798	113,613
Total Pooled Vehicles		**510,346**	**623,427**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The two investments that fall into this category as follows:

Investment	2011/12 Value (£000)	% of net assets	2012/13 Value (£000)	% of net assets
Goodhart Absolute Return Bond Fund	82,248	6.2	87,962	5.9
Morgan Stanley Alternative Investments	96,798	7.2	113,613	7.9
Morgan Stanley Global Brands	0	0	74,037	5.0

16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Over one month						
	GBP	14,480	CHF	(21,300)	0	(382)
	GBP	48,343	EUR	(59,100)	0	(1,702)
	GBP	95,075	JPY	(13,206,000)	2,435	0
	GBP	145,464	USD	(236,823)	0	(6,832)
	GBP	0	HKD	(19,580)	0	(2)
Over one month						
	CHF	19,800	GBP	(13,500)	312	0
	EUR	53,600	GBP	(42,862)	1,413	0
	JPY	12,154,197	GBP	(84,433)	0	(1,827)
	USD	220,620	GBP	(137,896)	5,818	0
Total					**9,978**	**(10,745)**
Net forward currency contracts at 31st March 2013						**(767)**
Prior year comparative						
Open forward currency contracts at 31st March 2012					**6,804**	**(6,926)**
Net forward currency contracts at 31st March 2012						**(122)**

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.8m (loss of £0.1m in 2011/12) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

		2011/12 £000	2012/13 £000
Dividends Receivable		2,833	2,868
Recoverable Tax		634	691
Outstanding Foreign Exchange		(122)	(767)
Unsettled Trades	Purchases	(1,256)	0
	Sales	1,190	2,450
		3,279	**5,242**

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £3,488,135 for contributions due from employers (2011/12 £3,773,082). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31st March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2011/12 £000	2012/13 £000
Debtors		
Central Government Bodies	878	1,341
Other Local Authorities	5,951	4,503
NHS Bodies	0	0
Public Corporations and Trading Funds	200	46
Other Entities and individuals	588	1,144
	7,617	**7,034**
Long Term Debtors		
Central Government Bodies	3,410	2,558
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	3,410	**2,558**
Creditors		
Central Government Bodies	(1,164)	(1,153)
Other Local Authorities	(200)	(256)
NHS Bodies	0	0
Public Corporations and Trading Funds	(1,308)	(3,118)
Other Entities and individuals	(39)	(144)
	(2,711)	**(4,671)**

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £38,672,836.

21 Contingent Assets

Three admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

22 Impairment Losses

The Fund has recognised an impairment loss of £400,000 for possible non-payment of a cessation value where the employer was not backed by a guarantee.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £8,285,488 (£8,523,609 in 2011/12) and member contributions of £1,020,583 (£1,081,594 in 2011/12) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 will be made in 2013. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000. As with the tax claim detailed in the paragraphs above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

During the financial year 2012/13 the County Council successfully lodged a claim with the Austrian tax authorities for the recovery of witholding tax suffered on overseas dividends and received €26,129.62 (approx. £22k) in March 2013.

25 Related Party Transactions

In accordance with Financial Reporting Standard 8 ‘Related Party Disclosures’ material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003/04, Councillors are entitled to join the Scheme. No Members of the Pensions Committee currently receive pension benefits from the Fund. Committee members P Watson, P Przyszlak, M Leaning and A Antcliff are contributing members of the Pension Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council’s cash and lent out in accordance with the Council’s Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £4.014m and interest of £46.3k was earned over the year.

Lincolnshire County Council paid contributions of £26.5m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	2011/12 Designated as fair value through profit & loss £000	2011/12 Loans & receivables £000	2011/12 Financial liabilities at amortised cost £000	2012/13 Designated as fair value through profit & loss £000	2012/13 Loans & receivables £000	2012/13 Financial liabilities at amortised cost £000
Financial Assets						
Equities	779,938			842,804		
Pooled Investments:						
Property	152,538			155,116		
Private Equity	90,949			95,595		
Fixed Interest	143,166			155,540		
IL Bonds	26,895			29,525		
Equities				74,037		
Alternatives	96,798			113,613		
Cash		34,161			18,651	
Other Inv. Balances	11,461			15,987		
Debtors		11,027			9,593	
	1,301,745	**45,188**	**-**	**1,482,217**	**28,244**	**-**
Financial Liabilities						
Other Inv. Balances	(8,182)			(10,745)		
Creditors			(2,711)			(4,671)
	(8,182)	**-**	**(2,711)**	**(10,745)**	**-**	**(4,671)**
	1,293,563	**45,188**	**(2,711)**	**1,471,472**	**28,244**	**(4,671)**

Net gains and losses on financial instruments

	2011/12 £000	2012/13 £000
Financial Assets		
Fair value through profit & loss	831	141,590
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(122)	(767)
Loans and receivables		
Financial liabilities measured at amortised cost		
	709	**140,823**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2012.
The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.
The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2013	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	1,117,893	155,117	209,208	1,482,218
Loans and receivables	28,243			28,243
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,146,136**	**155,117**	**209,208**	**1,510,461**
Financial Liabilities				
Fair value through profit & loss		(10,745)		(10,745)
Loans and receivables				
Financial liabilities measured at amortised cost	(4,671)			(4,671)
Total Financial Liabilities	**(4,671)**	**(10,745)**		**(15,416)**
Net Financial Assets	**1,141,465**	**144,372**	**209,208**	**1,495,045**

Values at 31st March 2012	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	961,460	152,538	187,747	1,301,745
Loans and receivables	45,188			45,188
Financial liabilities measured at amortised cost				-
Total Financial Assets	**1,006,648**	**152,538**	**187,747**	**1,346,933**
Financial Liabilities				
Fair value through profit & loss		(8,182)		(8,182)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,711)			(2,711)
Total Financial Liabilities	**(2,711)**	**(8,182)**		**(10,893)**
Net Financial Assets	**1,003,937**	**144,356**	**187,747**	**1,336,040**

27 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	15.2%
Overseas Equities	12.7%
UK Bonds	5.8%
UK Index Linked	7.0%
Overseas Bonds	7.2%
Private Equity	14.6%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31/03/2013 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	14,696	0.0	14,696	14,696
UK Equities	393,151	15.2	452,910	333,392
Overseas Equities	523,690	12.7	590,199	457,181
UK Bonds	67,587	5.8	71,507	63,667
UK Index Linked	29,525	7.0	31,592	27,458
Overseas Bonds	87,962	7.2	94,295	81,629
Private Equity	95,596	14.6	109,553	81,639
Alternative Investments	113,613	10.0	124,974	102,252
Property	155,117	5.8	164,114	146,120
Dividends Accrued	2,868	0.0	2,868	2,868
Recoverable Tax	691	0.0	691	691
Outstanding FX	(767)	0.0	(767)	(767)
Unsettled Purchases		0.0	-	-
Unsettled Sales	2,450	0.0	2,450	2,450
Total assets available to pay benefits	1,486,179		1,659,082	1,313,276

Asset Type	Value at 31/03/2012 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	28,409	0.0	28,409	28,409
UK Equities	294,868	14.7	338,214	251,522
Overseas Equities	485,070	14.6	555,890	414,250
UK Bonds	60,918	5.5	64,268	57,568
UK Index Linked	26,895	6.4	28,616	25,174
Overseas Bonds	82,248	7.7	88,581	75,915
Private Equity	90,949	14.6	104,228	77,670
Alternative Investments	96,798	10.0	106,478	87,118
Property	152,538	5.8	161,385	143,691
Dividends Accrued	2,833	0.0	2,833	2,833
Recoverable Tax	634	0.0	634	634
Outstanding FX	(122)	0.0	(122)	(122)
Unsettled Purchases	(1,256)	0.0	(1,256)	(1,256)
Unsettled Sales	1,190	0.0	1,190	1,190
Total assets available to pay benefits	1,321,972		1,479,348	1,164,596

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31/03/2012 £000	31/03/2013 £000
Cash deposits	28,409	14,696
Cash balances	5,752	3,954
Pooled Fixed Interest Securities	170,061	185,065
Total	204,222	203,715

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Value at 31/03/2013 £000	Change in Year +1% £000	-1% £000
Cash deposits	14,696	147	(147)
Cash balances	3,954	40	(40)
Pooled Fixed Interest Securities	185,065	1,851	(1,851)
Total	203,715	2,037	(2,037)

Asset Type	Value at 31/03/2012 £000	Change in Year +1% £000	-1% £000
Cash deposits	28,409	284	(284)
Cash balances	5,752	58	(58)
Pooled Fixed Interest Securities	170,061	1,701	(1,701)
Total	204,222	2,042	(2,042)

Currency risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31st March 2013 and 31st March 2012.

Currency Exposure - Asset Type	31/03/2012 £000	31/03/2013 £000
Overseas Equities (quoted)	485,070	523,690
Pooled Investments:		
Overseas Property	27,719	27,618
Overseas Private Equity	88,888	93,564
Overseas Fixed Interest	82,248	87,962
Total	683,925	732,834

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at 31/03/2013 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	523,690	576,059	471,321
Pooled Investments:			
Overseas Property	27,618	30,380	24,856
Overseas Private Equity	93,564	102,920	84,208
Overseas Fixed Interest	87,962	96,758	79,166
Total	732,834	806,117	659,551

Currency Exposure - Asset Type	Value at 31/03/2012 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	485,070	533,577	436,563
Pooled Investments:			
Overseas Property	27,719	30,491	24,947
Overseas Private Equity	88,888	97,777	79,999
Overseas Fixed Interest	82,248	90,473	74,023
Total	683,925	752,318	615,533

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (or equivalent) across three ratings agencies and it maintains its status as a well capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31st March 2013, these assets totalled £1,466.2m, with a further £14.7m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration
This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $18.8 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management
The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

28 Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils
Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards
Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

Parish and Town Councils
Aubourn & Haddington TC
Bourne TC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC
Sudbrooke PC
Washingborough PC
Woodhall Spa PC

FE Establishments
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Academies
Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Grantham Kings School
Grantham Walton Girls
Gypsey Bridge Academy
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant School
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Washingborough Academy
Welton C of E St Mary
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy
Witham St Hughs Academy
Woodhall Spa Academy

Other Scheduled Bodies
Compass Point
Lincolnshire Police Authority
Lincolnshire Probation Service

Admitted Bodies
Acis Group
APCOA
Active Nation
Adults Supporting Adult
Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
May Gurney
Mouchel Connexions
National Child Minding Assoc.
New Linx Housing
Rentokil Initial
Sports & Leisure Management

29 Exchange Rates Applied

The exchange rates used at 31st March 2013 per £1 sterling were:

Australian Dollar	1.4565
Brazilian Real	3.0617
Canadian Dollar	1.5427
Swiss Franc	1.4379
Danish Krone	8.8154
Euro	1.1825
Hong Kong Dollar	11.7872
Indonesian Rupiah	14,755.5377
Israeli Shekel	5.5184
Japanese Yen	142.7647
Korean Won	1,689.4274
Norwegian Krone	8.8564
New Zealand Dollar	1.8120
Swedish Krona	9.8730
Singapore Dollar	1.8838
Thai Baht	44.4678
Taiwan Dollar	45.4055
US Dollar	1.5184

Independent auditor's report to the members of Lincolnshire County Council

We have audited the financial statements of the local government pension fund administered by Lincolnshire County Council for the year ended 31 March 2013 on pages 13 to 39. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director (Resources and Community Safety) and auditor

The Executive Director (Resources and Community Safety) is responsible for the preparation of the pension fund financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for being satisfied that they give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Resources and Community Safety); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Mr Tony Crawleyfor and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants
1 Waterloo Way
Leicester
LE1 6LP

27 September 2013

Lincolnshire County Council Pension Fund ("the Fund")
Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the Fund's Funding Strategy Statement (FSS), dated March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers or pools of employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employers' contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a sufficiently high likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,204 million, were sufficient to meet 76% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £382 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 23 March 2011.

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

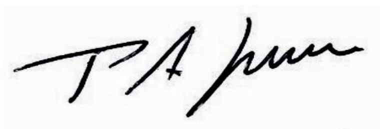
* 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.2 years	23.4 years
Future Pensioners	23.7 years	25.7 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Lincolnshire County Council, Administering Authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



Peter Summers

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

13 May 2013

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

INVESTMENT BACKGROUND

Returns for Major Markets

The twelve months to 31st March 2013 ended with positive returns across all asset classes. Equity markets had a good year, despite the political uncertainty, with returns ranging from 14% in Japan to nearly 20% in the US.

There was a divergence across bond assets, with UK Gilts and overseas Bonds returning around 4%, whilst index linked gilts and UK corporate bonds returned over 10%.

Property was quite flat, returning only 2.5% over the year.

Investment Returns to sterling based investors 1st April 2012 to 31st March 2013

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	17.1
Global Equities	FTSE World (ex UK)	17.6
United States	FTSE North America	19.3
Europe	FTSE Europe (ex UK)	18.0
Japan	FTSE Japan	14.3
Far East	FTSE Pacific (ex Japan)	18.1
Fixed Interest		
UK Index Linked Gilts	FTSE Index–Linked All Stocks	10.2
UK Gilts over 15 yrs	UK Gilts and All Stocks	4.4
Overseas Bonds	JP Morgan World ex UK	4.5
UK Corporate Bonds	IBoxx Sterling Non-Gilts All Stocks	12.0
Property	IPD Index	2.5
Cash	LIBID Seven Day Rate (compounded)	0.4

MARKETS OVER THE REPORTING PERIOD

World Markets

The MSCI World Index ended up 18.5% for the year to the end of March 2013 (total return, sterling terms). Equity markets rose despite increasing political uncertainty surrounding the recent debate about the US fiscal cliff and European government finances. With the aid of the European Central Bank's (ECB) commitment, investors felt safe enough to be active, which resulted in a strong rally, with various all-time highs. Over the 12 month period, emerging markets underperformed their developed counterparts.

The period began with political uncertainty and economic growth concerns which weighed on European equity markets, especially the Spanish equity market which suffered heavy losses. In the United States, mixed economic data combined with a modified stance towards more accommodative monetary policy, resulted in some consolidation of equities. The inability of Greece's political parties to form a coalition government, the fear of a Greek exit from the Eurozone, and disappointing data from China signalling a slowdown in economic growth, all had a negative impact on the equity market. As a result, many investors bought 'safe haven' assets, such as US, UK and German government bonds, pushing the 10 year yields to all-time lows. It was the outcome of the EU summit in June which boosted the performance of global equities, as well as credit sensitive bonds, so they were able to recover ground lost at the beginning of the period.

A series of weak economic data was reported in both the Eurozone and Asia early in July, but this did not prevent a strong rally in global equities, which was initiated through the ECB's commitment to preserve the Euro by all means. This rally continued to mid-September, where the equity markets of Spain and Italy, in particular, rallied strongly in response to the ECB's Outright Monetary Transactions. Also, the US S&P 500 index reached an all-time high in US dollar total return terms. Meanwhile, China cut interest rates again, while introducing further stimulus measures to boost its economy because of downside risks to global growth. Towards the quarter's end, global equity markets moved higher after news of a bond-buying program by the ECB, unlimited quantitative easing by the US Federal Reserve and a surprise monetary stimulus move from the Bank of Japan buoyed investor sentiment.

In autumn, the tone in global equity markets appeared to be dictated by whether or not a US budget deal could be secured by the year end to avert US automatic tax increases and spending cuts. The signs of improvement in the US economy influenced global equities positively and there was further evidence that growth in China appeared to stabilise and bottom out. Political progress, as well as easing tensions in the Eurozone, provided an additional positive effect to equity markets in Europe. The negative sentiment over the so-called fiscal cliff weighed on equity markets for the first half of November and triggered a rally in core government bonds. Increasing optimism towards the end of the year after a positive outcome to the US budget deal, as well as the effect of the monetary stimulus by the central banks, added to more positive investor sentiment and moved global equity prices even higher, with the best results on the stock markets of Japan and China.

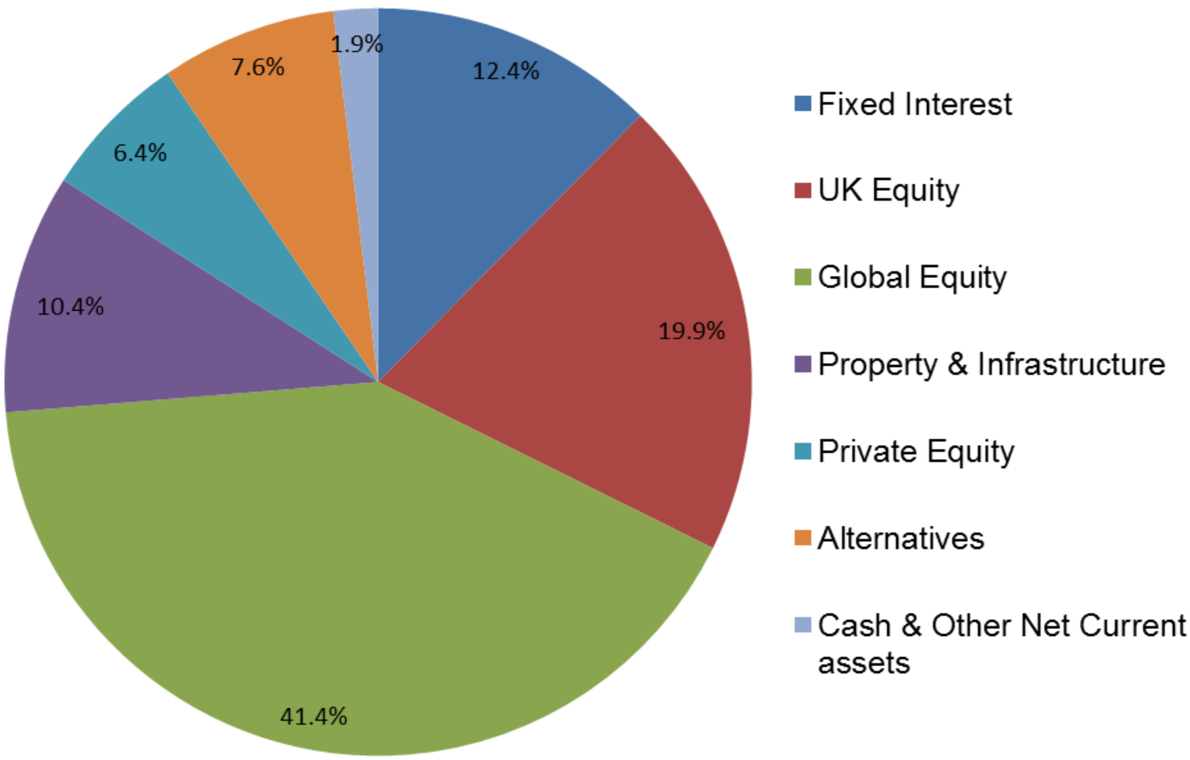
Global equity markets started strongly in 2013, as a result of the temporary resolution of the US government's fiscal cliff, together with improving US and Chinese macroeconomic data. US equities exceeded previous records reached in 2007 to achieve new all-time highs. In February, European and Chinese equities slowed down, due to political uncertainty and manufacturing data suggesting a moderation in the economy's recovery, while US equities continued their rally. By the end of the period, even though the bailout in Cyprus led to some volatility, the US and Japanese rallies held on, while the negative effects of the bailout and weak remaining macroeconomic data led to only slightly positive results on the European market.

UK Commercial Property

UK Commercial property performance continued to remain subdued over the 12 month period, returning 2.5% (IPD Index) over the year. However, some signs emerged that capital values, while still generally negative, were beginning to stabilise. Overseas investors were a key support for the UK property market and remained most active in more liquid sectors such as Central London, which were still considered to be a safe haven. However, against a backdrop of mixed domestic economic data, property investors remained generally cautious and, in this environment, riskier, poorer quality assets continued to witness significantly higher positive yield movement compared to prime quality properties.

ASSET DISTRIBUTION AT 31st MARCH 2013

Asset class	Market Value £000	31/3/13 %	31/3/12 %
Fixed Interest	185,066	12.4	12.7
UK Equity	298,260	19.9	20.1
Global Equity	618,581	41.4	39.4
Property and Infrastructure	155,117	10.4	11.4
Private Equity	95,595	6.4	6.8
Alternatives	113,612	7.6	7.2
Cash & Other Net Current assets	28,814	1.9	3.4
Total	**1,495,045**	**100**	**100**



TWENTY LARGEST HOLDINGS IN THE FUND AS AT 31st MARCH 2013

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	Market Value £000	Proportion of Fund %
Morgan Stanley Alternatives	113,613	7.6
Goodhart Absolute Return Bond Fund	87,962	5.9
Morgan Stanley Global Brands Fund	74,037	5.0
Aquila Life Corporate Bond Fund	48,151	3.2
Standard Life Property Fund	43,499	2.9
Aquila Life Over 5 Year Index Linked Gilt Fund	29,525	2.0
HSBC	22,559	1.5
Aviva Pooled Property Fund	22,271	1.5
Royal Dutch Shell A & B Shares	22,242	1.5
Aquila Life Overseas Bond Fund	19,427	1.3
Vodafone	16,587	1.1
Blackrock Property Fund	16,388	1.1
Royal London Property Fund	15,200	1.0
BP	14,385	1.0
GlaxoSmithkline	13,917	0.9
Standard Life European Strategic Partners 2006	12,967	0.9
Pantheon Europe Fund V	12,585	0.8
British American Tobacco	11,712	0.8
Franklin Templeton Asia Property Fund of Funds	11,624	0.8
Diageo	11,040	0.7
Total	**619,691**	**41.5**

CURRENT SCHEME - SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS FROM 1ST APRIL 2008

Membership of the LGPS is available to all contracted employees of participating employers whether whole time or part time. Casual employees may also be members providing their contract of employment is for a minimum of three months. Whilst membership of the Scheme is not compulsory, employees of Scheme employers who are eligible are deemed to have joined unless they specifically opt out, whilst employees of transferred Admission Bodies are eligible only if they are employed in connection with the service transferred.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribution rate's from 1 April 2008 are based on full-time equivalent pay using the pay band table below. The bands are increased each April in line with inflation by the Department for Communities and Local Government. The bands, as they stood at 31st March 2013, are shown below.

FT Equivalent Pay	Contribution Rate
Up to £13,500	5.5%
More than £13,500 and up to £15,800	5.8%
More than £15,800 and up to £20,400	5.9%
More than £20,400 and up to £34,000	6.5%
More than £34,000 and up to £45,500	6.8%
More than £45,500 and up to £85,300	7.2%
More than £85,300	7.5%

Benefits

The retirement age for scheme members is 65. However, employees may retire between 60 and 65 but would suffer a reduction to their benefits (unless protected under the 85 year rule). Retirement before age 60, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/60th (1/80th for service accrued prior to 1 April 2008) of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over (no age restriction for ill-health) are increased each April in line with inflation.

Lump Sum Payments

A member receives a tax free lump of three times their pension on service accrued prior to 1 April 2008. On service from 1 April 2008 there is no automatic lump sum, but members have the option to commute pension at the rate of £12 cash lump sum for every £1 pension given up, subject to maximum tax free lump sum of 25% of capital value of accrued benefits at retirement.

Ill Health Retirement

There are three tiers of benefits. The benefits are calculated as for normal retirement with additional service under tiers one and two depending on age.

Death-benefits

Death in service attracts a tax free lump sum of three time's final pensionable pay. An annual pension is payable to a spouse/civil partner/ 'nominated' dependent partner and eligible children, however civil partners and 'nominated' dependent partners pensions are based on post 5th April 1988 membership only. If a member dies within ten years of their retirement, a single lump sum payment is made of ten times the member's annual pension, less any pension paid since retirement. For a member who retired prior to 1st April 2008 and dies within five years of their retirement, a single lump sum payment is made of five times the member's annual pension less any pension paid since retirement. The surviving spouse is entitled to an annual pension based on 1/160ths accrual of the member's membership.

Supplementary Pensions

Scheme members may purchase additional pension of up to a maximum of £5,000 per annum, in blocks of £250. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions (AVCs). The AVC provider, appointed by the County Council as the administering authority, is Prudential.

FUTURE SCHEME - LGPS 2014

Public sector pensions are changing again. A new LGPS scheme will be introduced from 1st April 2014 (one year ahead of the other public sector schemes). At the time of writing this report, the final details are yet to be published, but the main changes expected are highlighted in the table below, and compared to the current scheme.

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final salary
Accrual Rate (how much do I get for each year of service?)	1/49th	1/60th
Revaluation rate (how is it increased each year?)	Consumer Price Index (CPI)	Based on final salary
Pensionable pay	Pay including non-contractual overtime and additional hours for part-time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee contribution rate	Ranging from 5.5% to 12.5% (it is expected that only higher rate tax payers will see an increase in their rate)	Ranging from 5.5% to 7.5% (see table above)
Retirement age	In line with state pension age	65
Contribution flexibility	Yes, members can pay 50% contributions for 50% of the benefits	No
Vesting period (when can I still get a refund if I opt out?)	2 years	3 months

All benefits accrued up to 31st March 2014 will be protected, and additional protections are being brought in for those members within 10 years of age 65 in 2012.

OLD SCHEME - SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS TO 31st MARCH 2008

The department for Communities and Local Government (CLG) issued amended regulations to replace the existing scheme with a 'New Look' scheme from the 1st April 2008. Prior to this the key features were as follows:

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribute 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of 1/80th of the employee's average 'final' pay in their last twelve months of employment for each year of pensionable service. Pensions for persons aged 55 and over are linked to the movement in inflation.

Lump Sum Payments

A member receives a tax free lump sum payment in retirement of three times their pension, with an option to take a bigger lump sum by exchanging part of their pension. Up to 25% of the capital value of a member's pension can be taken as tax free cash.

Ill Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of pensionable membership.

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single payment is made of five times the member's annual pension (less any pension paid since retirement). The surviving spouse is entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional membership within the Scheme up to a maximum of 6 2/3rd years. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions, up to limits prescribed in scheme rules, to an AVC provider appointed by the County Council as the administering authority. The Lincolnshire AVC provider is Prudential plc.

ADDITIONAL INFORMATION AVAILABLE

Additional information regarding the Pension Fund and the scheme is available by going to the website below:

www.lincolnshire.gov.uk/pensions/

The following documents are included in this report, and can also be found by selecting Fund in the main menu of the Pensions website.

FUNDING STRATEGY STATEMENT

This document is prepared in collaboration with the Fund's actuary, Hymans Robertson, and sets out the Fund's approach to funding its liabilities. It is reviewed in detail every three years.

STATEMENT OF INVESTMENT PRINCIPLES

This document describes the key issues that govern the investment of the Pension Fund, and states the extent to which the Council's investment principles comply with six principles set out in a publication by the Chartered Institute of Public Finance and Accountancy (CIPFA), entitled 'Investment Decision Making and Disclosure in the Local Government Pension Scheme'.

COMMUNICATIONS POLICY

This document details the methods of communication that the Pension Fund uses to comply with relevant legislation and to ensure that relevant individuals and employers receive accurate and timely information about their pension arrangements.

GOVERNANCE COMPLIANCE STATEMENT

This document details how the Pension Fund is governed, and sets out where it complies with best practice guidance as published by the Department for Communities and Local Government.

LINCOLNSHIRE COUNTY COUNCIL

PENSION FUND

FUNDING STRATEGY STATEMENT

MARCH 2011

1. Introduction

This is the Funding Strategy Statement (FSS) of the Lincolnshire County Council Pension Fund ("the Fund"), which is administered by Lincolnshire County Council, ("the Administering Authority").

It has been reviewed by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson, and after consultation with the Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 31st March 2011.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008, No. 239);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

Operating within this framework the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, for example when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years after triennial valuations are carried out, with the next full review due to be completed by 31st March 2014. Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Jo Ray, Group Manager - Pensions & Treasury in the first instance at jo.ray@lincolnshire.gov.uk or on 01522 553656.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM (now the Department for Communities and Local Government (CLG)) stated that the purpose of the FSS is:

- *"to establish a* ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.
This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers or pools of employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

- to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;

- to minimise the degree of short-term change in the level of each employers' contributions where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment"*. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances that are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors that are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer or pool together with individual past service adjustments according to employer (or pool)-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It also identifies which employers' contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund generally operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.9 for the treatment of departing employers.

Where an admission agreement for an admission body, that is not a Transferee Admission Body and with no guarantor, is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

3.3 Ongoing Funding Basis

<u>(a) Life expectancy</u>

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in CLUBVITA, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the CLUBVITA's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach, is to add around one year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

(b) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for an anticipated out-performance of returns from equities relative to Government bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken.

For the purpose of the triennial funding valuation at 31st March 2010 and setting contribution rates effective from 1 April 2011, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than the return available from investing in government bonds at the time of the valuation (this is the same as that used at the 2007 valuation). The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset out-performance assumption (AOA) of 1.6% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

(c) Salary growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11 and 2011/12 in the expectation that pay growth will be limited until March 2012. After this point, the assumption will revert back to RPI plus 1.5% p.a. Following the Chancellor's 2011 Autumn Statement a further extension of the salary increase allowance of 1% p.a. has been applied until 31 March 2015 for employer calculations carried out after 1 August 2012.

(d) Pension increases
The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31st March 2010.

At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

(e) General
The same financial assumptions are adopted for all employers for whom the ongoing basis is deemed to be appropriate. All employers have the same asset allocation: see 3.6.

The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. For the 2010 valuation, the future service rate has been calculated separately for all the employers although employers within a pool will pay the contribution rate applicable to the pool as a whole.

Where it is considered appropriate to do so, the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a lower discount rate (most usually for Admission Bodies in the circumstances outlined in 3.2).

The approach used to calculate the employer's future service contribution rate for any new employer joining the fund will depend on whether or not new entrants are being admitted, in line with the approach described below.
Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long-term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.
The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;

- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers, unless the circumstances dictate otherwise.
The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [where Hymans Robertson calculates asset shares – see section 3.6 below], including, but not limited to the:

- actual timing of regular employer contributions within any financial year;
- effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pools of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer (or pool of employers). This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

The Administering Authority has considered adopting the unitisation approach to allocating Fund assets. Although this is a more rigorous approach than that presently adopted it will involve significant additional levels of administration. On that basis the Administering Authority remains content to continue to adopt the approach described earlier in this section.

3.7 Stability of Employer Contributions

3.7.1 General comments on stability of contributions

In setting employer contribution rates, the Administering Authority must balance the aims of stability and affordability with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The more secure the employer, the more emphasis can be placed on stability of employer contributions without jeopardising the Administering Authority's commitment to prudent stewardship of the Fund. For the most secure, long term employers an explicit stabilisation overlay based on a risk-based, stochastic valuation approach is used (see para 3.7.2).

For less secure and shorter term employers (principally, but not exclusively, the admission bodies) it is generally not possible to achieve the same degree of stability in employer contribution rates without compromising on prudent stewardship. However, the Administering Authority may use other measures to achieve a greater degree of stability of employer contributions than would otherwise be the case. These measures include:

- Extended deficit recovery periods: and
- Pooling

The Administering Authority's policies in respect of the use of these approaches are set out in the remainder of 3.7 and in 3.8 below.

3.7.2 Stabilisation of contributions for the most secure employers

For the most secure, long term employers there is an explicit stabilisation overlay. The actuary analyses a number of metrics over the long-term (around 20 years), including the evolution of the funding level to check the likelihood of achieving the solvency of the Fund over the longer-term under a variety of contribution strategies. This analysis enables the Administering Authority to reduce the effect of short term investment market volatility on the contribution rates of eligible employers.

Stabilisation overlay rules and eligibility

Under the stabilisation overlay, variations in the employer contribution rate from year to year are kept within a pre-determined range so that eligible employers' contribution rates can remain relatively stable. The stabilisation mechanism agreed for the 2010 valuation was:-

- employer contributions each year are frozen until 31st March 2014, after which
- employer contribution increases/decreases each year are limited to 1.0% of salaries from 1st April 2014 to 31st March 2017.

The employers considered eligible for stabilisation were:-

- County Council and Schools (excluding Academies)
- District Councils
- Probation
- Police Authority

Circumstances in which eligibility for stabilisation will be reviewed

- The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security. Possible actions may include increases in contributions expressed as a percentage of pay or revised deficit contributions expressed as monetary amounts.

- Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change with effect from April 2011 from RPI to CPI for increases to pensions in payment).

- The stabilisation rules and eligibility criteria will be reviewed no later than at the 31st March 2013 valuation, with any changes in contribution strategy taking effect from 1st April 2014. The review will take into account factors including, but not necessarily restricted to, market conditions (the long-term risk-based analysis will be recalibrated to market conditions as at 31st March 2013), the Administering Authority's assessment of employer's security and the maturity of each employer's membership profile.

Setting the parameters of the stabilisation overlay

The parameters for the stabilisation overlay have been determined by carrying out an asset liability modelling exercise. This allows for the future uncertainty in investment returns, interest rates and inflation using a stochastic modelling technique. The actuary tested the contribution stabilisation rules to ensure that they were compatible with the current investment strategy. He has advised the Administering Authority that the stabilisation overlay for secure long term employers satisfies the requirement for the funding strategy to take a prudent longer-term view. The actuary believes that there is a sufficiently high likelihood of achieving the long term funding objective (a funding level of 100% on a sufficiently prudent basis) where contributions are paid at the stabilised rate.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers.	A period to be agreed with each employer not exceeding 20 years.
Community Admission Bodies with funding guarantees.	A period to be agreed with each employer not exceeding 15 years.
Transferee Admission Bodies that admit new entrants.	The period from the start of the revised contributions to the end of the employer's contract.
Closed employers and Community Admission Bodies.	The average period from the start of the revised contributions to the date when it is expected that all employee members will have left active membership of the Fund.
All other types of employer.	To be agreed.

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for the 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

As part of the overall Funding Strategy it was agreed to adopt a 'stabilisation mechanism' that limits increases and reductions in contribution rates for public sector bodies: see 3.7.2 above. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

For Transferee Admission Bodies, the aim is to be 100% funded at cessation, and so the preferred approach would be to reduce contributions by spreading the surplus over the remaining contract term, although the approach taken may be discussed and agreed with the Scheme Employer associated with the body under Regulation 6.

Any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions **may** be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions.

3.7.5 Phasing in of Contribution Rises

Any contribution rate rises will be subject to the “stabilisation mechanism” set out in 3.7.2 above for public sector bodies. Other bodies, with the exception of Transferee Admission Bodies, may be permitted to phase in contribution rises over a period of up to four years

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions will be subject to the ‘stabilisation mechanism’ set out in 3.7.2 above for public sector bodies. Other bodies including Transferee Admission Bodies can take the reduction with immediate effect, subject to paragraph 3.7.2 above.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

3.7.8 Pooled Contributions

3.7.8.1Smaller Employers

The Administering Authority allows smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. Normally employers with less than 50 employees would be encouraged to participate in a pool if appropriate. Similar types of employers with more than 50 employees would be allowed to participate in a pool if they requested to do so.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

Employers who are eligible for pooling at the 2010 valuation have been asked, in the past, to give their written consent to participate in the pool.

As at the 2010 valuation separate pools were operated for Town and Parish Councils and for smaller Admission Bodies, Internal Drainage Boards and Further Education Colleges.

3.7.8.2 Other Contribution Pools

Schools and employers with no active members remaining are also pooled with their funding Council.

Those employers that have been pooled are identified in Annex A.

3.7.9 Additional flexibility in return for added security

Where the above methods for improving stability of employer contributions do not automatically apply, the Administering Authority may permit a reduced rate of contribution and/or an extended deficit recovery period, or permit the employer to join a pool with another body (e.g. the Local Authority), if the employer provides added security to the satisfaction of the Administering Authority. Such security may include, but is not limited to, a suitable bond, a guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

The administering authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. The administering authority may, at its sole discretion, agree alternative funding approaches on a case by case basis but will at all times take into account its responsibilities in regard to the security of the Fund.

3.8 Regular reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer’s contract. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

3.9 Admission Bodies ceasing

Admission Agreements for Transferee Admission Bodies contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can be terminated at any point subject to the terms of the agreement.
Notwithstanding the provisions of the admission agreement, the Administering Authority considers any of the following as triggers for the termination of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

In addition, either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation under Regulation 78 to determine whether there is any surplus or deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies, the assumptions would usually be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt valuation assumptions which, to the extent that they are reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis” with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors the default position is that the Admission Body is expected to take full responsibility for its own funding. There may be circumstances where it is agreed that any deficit could be transferred to the guarantor in which case it may be possible to transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.10 Early Retirement Costs

3.10.1 Non Ill Health retirements

The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires “early” (see below) with no reduction to their benefit or receives an enhanced pension on retirement. The current costs of these are calculated by reference to formulae and factors provided by the actuary.

Since the introduction of the new LGPS many members now have two tranches of pension - namely pension which was accrued before and after 1 April 2008. In theory, these can be paid without reduction from two different retirement ages. In practice, the member can only retire once and so both pensions are paid from a single age. It is assumed that the member will retire at the age when all of the members pension can be taken without reduction. The additional cost of premature retirement is calculated by reference to this single age and their actual early retirement age.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. The Administering Authority sets the investment strategy, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31st March 2010, the proportion held in equities and property was 79% of the total Fund assets.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.
The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 2.1).

The Administering Authority is aware that in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority has considered the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

In the light of the admission of Transferee contractors on different terms to other employers and valuation results which showed the sensitivity of individual employers' contributions to changes in investment returns, the Administering Authority considered whether its single strategy should be refined. Enabling other investment strategies would require investment in new systems and higher ongoing costs that would have to be borne by the employers. The potential benefits of multiple investment strategies were not considered beneficial when compared to the potential additional costs involved..

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by conducting an interim valuation within each triennial period. It reports back to employers by means of letter and seminar.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings;

- Financial,
- Demographic,
- Regulatory, and
- Governance.

5.2 Financial Risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations at whole fund and individual employer level (for some), provided on a six monthly basis between formal valuations basis.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Ongoing consideration given to measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.*
Actual Pay and price inflation is significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.*

Risk	Summary of Control Mechanisms
	Inter-valuation monitoring, as above, gives early warning. *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.* *Incorporate a stabilisation mechanism for employers where it is deemed appropriate.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees	*Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.*

Risk	Summary of Control Mechanisms
	Employer ill health retirement experience is monitored.
Reductions in payroll causing insufficient deficit recovery payments	*In some cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation.* *However, there are protections where there is concern, as follows:* *For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increases (see second bullet point under 3.7.2).* *For other employers, review of contributions is permitted in general between valuations (see 3.9) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.*

5.4 Regulatory

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

It considers all consultation papers issued by the CLG and comments where appropriate. The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

The Administering Authority will consult employers where it considers that it is appropriate.

Copies of all submissions are available for upon request from the contact detailed in para.1.2.</td></tr>
<tr><td>Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006</td></tr>
</table>

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements)	*The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer’s contributions (under Regulation 78) between triennial valuations.* *Deficit contributions are expressed as monetary amounts where appropriate (see Annex A).*
Administering Authority not advised of an employer closing to new entrants	*Employers periodically asked to confirm that they operate on an open scheme.*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt	*The Administering Authority requires employers with Transferee contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Transferee Admission Agreements.*
An employer ceasing to exist with insufficient funding or adequacy of a bond	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions

Following the 2010 valuation, the minimum employer contributions as shown in the Rates and Adjustments certificate are detailed in the table below.

Employer code	Employer name	Contributions currently being paid in 2010/11	Minimum Contributions for the Year Ending			Additional Lump Sum Deficit Repayments		
			31 March 2012	31 March 2013	31 March 2014	31 March 2012	31 March 2013	31 March 2014
	Major Employers							
901	Lincolnshire County Council and Schools	18.9%	18.9%	18.9%	18.9%			
902	West Lindsey District Council	14.1%	14.1%	14.1%	14.1%	£480k	£505k	£532k
903	East Lindsey District Council	20.2%	24.1%	24.1%	24.1%			
904	City of Lincoln Council	23.3%	23.3%	23.3%	23.3%			
905	Boston District Council	23.2%	23.2%	23.2%	23.2%			
906	North Kesteven District Council	21.0%	21.0%	21.0%	21.0%			
907	South Kesteven District Council	21.1%	21.1%	21.1%	21.1%			
908	South Holland District Council	20.9%	24.8%	24.8%	24.8%			
914	Lincolnshire Probation	18.3%	18.3%	18.3%	18.3%			
990	Lincolnshire Police Authority	16.0%	16.0%	16.0%	16.0%			
	Admitted Bodies							
814	Visit Lincolnshire	19.1%	20.6%	22.1%	23.7%			
817	ACIS Group Limited	19.1%	20.6%	22.1%	23.7%			
818	Boston Mayflower Limited	19.1%	20.6%	22.1%	23.7%			
910	Bishop Grosseteste College	19.1%	20.6%	22.1%	23.7%			
952	Heritage Trust of Lincolnshire	19.1%	20.6%	22.1%	23.7%			
815	New Linx Housing Trust	20.3%	23.0%	25.7%	28.4%			
824	Centre for British Teaching	20.0%	18.9%	18.9%	18.9%			
826	Active Nation	15.6%	16.9%	18.2%	19.5%			
831	National Child-Minding Association	15.6%	17.3%	19.0%	20.7%			
832	Lincolnshire Sports Partnership	12.9%	14.3%	14.3%	14.3%			
833	Adults Supporting Adults	15.3%	16.7%	18.1%	19.6%			
834	Lincs Home Improvement Agency	10.8%	11.9%	13.0%	14.1%			
848	Mouchel	20.7%	19.7%	19.7%	19.7%			
850	Priory Federation of Academies	18.9%	15.4%	15.4%	15.4%			
851	Gainsborough Trent Academy	18.9%	15.6%	15.6%	15.6%			
856	Sleaford St Georges Academy	18.9%	18.5%	18.5%	18.5%			
857	Sport and Leisure Management	20.7%	20.8%	20.8%	20.8%			
859	Lincoln Business Improvement Group	16.6%	14.3%	14.3%	14.3%			
	Colleges							
974	New College Stamford	16.1%	17.2%	18.3%	19.4%			
975	Grantham College	16.1%	17.2%	18.3%	19.4%			
977	Boston College	16.1%	17.2%	18.3%	19.4%			
978	Lincoln College	16.1%	17.8%	19.4%	21.1%			
	Internal Drainage Board							
820	Lindsey Marsh Drainage Board	26.5%	26.5%	28.5%	30.5%			
911	Witham Third District Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
921	Black Sluice Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
922	Witham Fourth Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
923	Welland and Deeping Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
924	South Holland Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
926	Witham First Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
927	Upper Witham Internal Drainage Board	26.5%	26.5%	28.5%	30.5%			
932	North East Lindsey Drainage Board	26.5%	26.5%	28.5%	30.5%			

Employer code	Employer name	Contributions currently being paid in 2010/11	Minimum Contributions for the Year Ending			Additional Lump Sum Deficit Repayments		
			31 March 2012	31 March 2013	31 March 2014	31 March 2012	31 March 2013	31 March 2014
	Small Scheduled Bodies							
805	Crowland Parish Council	19.3%	20.3%	20.3%	20.3%			
806	Sudbrooke Parish Council	19.3%	20.3%	20.3%	20.3%			
807	Langworth Parish Council	19.3%	20.3%	20.3%	20.3%			
808	Cherry Willingham Parish Council	19.3%	20.3%	20.3%	20.3%			
810	Horncastle Town Council	19.3%	20.3%	20.3%	20.3%			
812	Heighington Parish Council	19.3%	20.3%	20.3%	20.3%			
813	Skegness Town Council	19.3%	20.3%	20.3%	20.3%			
816	Washingborough Parish Council	19.3%	20.3%	20.3%	20.3%			
819	Deeping St James Parish Councl	19.3%	20.3%	20.3%	20.3%			
829	Market Deeping Town Council	19.3%	20.3%	20.3%	20.3%			
830	Auborn & Haddington Parish Council	19.3%	20.3%	20.3%	20.3%			
836	Long Bennington Parish Council	19.3%	20.3%	20.3%	20.3%			
839	Metheringham Parish Council	19.3%	20.3%	20.3%	20.3%			
841	Skellingthorpe Parish Council	19.3%	20.3%	20.3%	20.3%			
842	Saxilby & Ingleby Parish Council	19.3%	20.3%	20.3%	20.3%			
843	Greetwell Parish Council	19.3%	20.3%	20.3%	20.3%			
852	Woodhall Spa Parish Council	19.3%	20.3%	20.3%	20.3%			
853	Gainsborough Town Council	19.3%	20.3%	20.3%	20.3%			
928	Stamford Town Council	19.3%	20.3%	20.3%	20.3%			
935	Nettleham Parish Council	19.3%	20.3%	20.3%	20.3%			
936	Ingoldmells Parish Council	19.3%	20.3%	20.3%	20.3%			
937	Louth Town Council	19.3%	20.3%	20.3%	20.3%			
938	Mablethorpe & Sutton Town Council	19.3%	20.3%	20.3%	20.3%			
941	North Hykeham Town Council	19.3%	20.3%	20.3%	20.3%			
942	Sleaford Town Council	19.3%	20.3%	20.3%	20.3%			
949	Bourne Town Council	19.3%	20.3%	20.3%	20.3%			
	No Actives							
111	Anglian Water Authority	N/A	N/A	N/A	N/A			
121	Glanford Borough Council	N/A	N/A	N/A	N/A			
123	Cleethorpes Borough Council	N/A	N/A	N/A	N/A			
133	Regional Health Authority	N/A	N/A	N/A	N/A			
137	Department of Transport (DVLC)	N/A	N/A	N/A	N/A			
811	Branston & Mere Parish Council	N/A	N/A	N/A	N/A			
825	Sleaford Development Group	N/A	N/A	N/A	N/A			
828	Lincolnshire Enterprise	N/A	N/A	N/A	N/A			
835	Aaron Services Ltd	N/A	N/A	N/A	N/A			
912	Trust for Lincs Archeology	N/A	N/A	N/A	N/A			
913	Alford Drainage Board	N/A	N/A	N/A	N/A			
915	Louth Drainage Board	N/A	N/A	N/A	N/A			
916	Skegness Drainage Board	N/A	N/A	N/A	N/A			
918	Lincs & South Humberside Arts	N/A	N/A	N/A	N/A			
920	Lincolnshire Nature Conservancy Trust	N/A	N/A	N/A	N/A			
925	Lincs Valuation Tribunal	N/A	N/A	N/A	N/A			
929	East Midlands Tourist Board Ltd	N/A	N/A	N/A	N/A			
930	Lincs Magistrates Courts Comm.	N/A	N/A	N/A	N/A			
944	Lincoln City Transport Ltd	N/A	N/A	N/A	N/A			
945	City of Lincoln Archaelogical Trust	N/A	N/A	N/A	N/A			
973	Lincolnshire College of Art and Design	N/A	N/A	N/A	N/A			
976	LCAH Further Education Corp.	N/A	N/A	N/A	N/A			

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect and properly account for employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP; and
- provide advice and guidelines to employers with regard to pensions decisions.

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Lincolnshire County Council Pension Fund

Statement of Investment Principles

March 2013

Statement of Investment Principles – Contents

1. INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Regulations) require Lincolnshire County Council, acting as administering authority to the Lincolnshire County Council Pension Fund, to prepare and publish a Statement of Investment Principles (SIP) to describe the key issues that govern the investment of Pension Fund money.

1.2 The SIP is published on the Pension Fund's website at www.lincolnshire.gov.uk/pensions.

1.3 The Pensions Committee (the Committee) act with the delegated authority of Lincolnshire County Council, and consists of eight County Councillors, one District Council representatives, one non Local Authority employer representative and one employee representative. All members of the Committee have full voting rights. The Committee meet at least quarterly.

1.4 Investments are monitored on a regular basis by the Committee, supported by advice from Executive Director of Resources and Community Safety and professional advisers as required.

1.5 The Committee has agreed a long term strategic asset allocation benchmark, reflecting the outcome of the Asset Liability Modelling following the Triennial Actuarial Valuation of the Fund. This is revised every three years, after each Valuation.

1.6 The Committee are responsible for the on-going monitoring and review of all investments, service providers and Fund administration.

1.7 The SIP is reviewed annually and revised if necessary. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the SIP will be updated within six months from the date of any material change in the information detailed in this document.

2 FUND OBJECTIVES

2.1 Primary Objective

The primary objective of the Fund is to ensure that that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments.

As required by the Regulations, an Actuary conducts a triennial valuation to assess to what extent the Fund's assets match its pension obligations and then determines appropriate levels of contributions for the various employers participating in the Scheme.

2.2 Funding Objective

The Pension Fund, in collaboration with the Fund's Actuary, has produced a Funding Strategy Statement (FSS) which is published on the Pension Fund's website at www.lincolnshire.gov.uk/pensions, or is available in hard copy by request (see contact details on page 7).

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The FSS sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The FSS is reviewed every three years following the Actuarial Valuation.

3 INVESTMENT OBJECTIVES

The Fund's investment objective is to achieve a level of return from the assets that will, as a minimum, meet the investment return assumptions made by the Actuary in the triennial valuation. In order to achieve this long term objective, the following has been agreed by the Pensions Committee.

3.1 Investment Policy

The Committee will ensure that one or more investment managers are appointed to manage and invest Fund money, and that they are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee, after seeking appropriate advice, will formulate a policy for investment, called the strategic benchmark, and in doing so consider the variety and suitability of investments. The Fund's strategic benchmark is shown in appendix A. The Fund has an objective to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term.

3.2 Investment Managers

The Managers appointed to manage the Fund's assets are detailed in appendix B. A management agreement is in place for each specialist mandates, detailing performance targets and benchmarks.

3.3 Custody and Stock-Lending

The Fund has appointed JPMorgan as Global Custodian for all listed assets. The Custodian is responsible for the safekeeping of the Fund's assets.

The Fund participates in a collateralised stock-lending programme managed by the Custodian. This is restricted to an overall limit of £220 million and an individual counterparty limit of £33 million, within the 25% maximum allowed in the Regulations.

3.4 Allowable Investments

All investments made by the Fund are in accordance with those permitted under the Regulations. These include equities, bonds, property and a range of alternative investments including private equity. The types of investments held by the current managers are detailed in appendix B.

3.5 Balance Between Types of Investment

The overall strategy of the Fund, to produce the Strategic Benchmark, is reviewed every three years after the Actuarial Valuation. This was last reviewed in 2008 by way of an Asset Liability Study undertaken by the Fund's Investment Consultant, based on the results of the 2007 Actuarial Valuation. Given the changes made at this review, and the time taken to implement them, a full review was not required following the 2010 Valuation. The next review will take place in 2014, after the 2013 Valuation.

The study addressed the long term strategy for the Fund, taking into consideration the liability profile of the Fund, the current solvency level and the risk tolerance of the Committee.

All recommendations of changes to the Strategic Benchmark are agreed by the Pensions Committee, before being implemented over an agreed period of time.

3.6 Risk

The Pensions Committee's appetite for risk is factored into the Asset Liability Study mentioned above, and the overall acceptable level of risk for the Fund is used to allocate funds between different asset classes.

Each asset class, and within that each manager, operates within a tolerance range to ensure that the Fund does not deviate too far from the agreed Strategic Benchmark, whilst allowing for a degree of flexibility.

The appointment of more than one manager diversifies the manager risk within asset classes, and each manager is expected to maintain a degree of diversification within their investment portfolio. This is monitored by the Pensions Committee.

3.7 Expected Returns

The Strategic Benchmark is expected to produce a return in excess of the investment return assumed in the Actuarial Valuation, over the longer term. The assumptions used in the latest Valuation are shown in appendix C. Individual manager performance against benchmark and targets, as well as the overall return to the Fund is regularly monitored by the Pensions Committee.

3.8 Realisation of Investments

The Pension Fund is currently cash positive; in that it has excess cash paid into the Fund each month from contributions and investment income after all pensions are paid. The Fund expects to be cash positive for the short to medium term.

The majority of the Fund's investments are quoted on major stock markets and can be realised quickly, in normal market conditions, if required. More illiquid investments, such as property and private equity make up a smaller proportion of the Fund. The mix of liquid and illiquid investments is one consideration in preparing the Strategic Benchmark.

4 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

All local government pension funds have an in-house AVC scheme where scheme members can invest money, deducted directly from salaries, through an AVC provider. The Fund has appointed Prudential to act as its' provider and a comprehensive range of investment funds is offered.

Information about AVC's is available on the Pension Fund's website at www.lincolnshire.gov.uk/pensions.

5 PENSION FUND CASH

There are two aspects to cash management within the Pension Fund:

5.1 Cash Held in the Pension Bank Account

The cash held in the Pension Fund Bank account is managed by the Lincolnshire County Council (LCC) Treasury Team. This cash is managed in accordance with the LCC Treasury Management Strategy. A Service Level Agreement is in place between the Pension Fund and LCC detailing how risk and return are apportioned.

5.2 Cash Held in the Custodian Bank Accounts

Each investment manager in the Fund with a segregated account will have a number of bank accounts (of various currencies) with the Fund's Custodian. Cash held in these accounts is frictional and arises due to timing issues of purchases, sales or income received; or as a strategic decision by the investment manager. Maximum cash limits are agreed with managers in their Investment Management Agreements, and managers have the discretion as to how this frictional cash is dealt with. Other cash is held by the Custodian to fund investment draw-downs (e.g. for property investments), or currency hedging outflows.

Cash balances at the Custodian are monitored daily.

6 OTHER ISSUES

6.1 Corporate Governance

The Pensions Committee agree that the adoption of good practise in Corporate Governance will improve the management of companies and thereby increase long term shareholder value.

The Fund votes on all UK, developed Europe, US and Canada company holdings. Votes are filed via a third party agent, Manifest Voting Agency, in accordance with a template agreed by the Pensions Committee. The votes cast are reported to the Pensions Committee on a quarterly basis, and this information is available on the Lincolnshire County Council website in the relevant Committee documents.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary organisation of 57 public sector Pension Funds based in the UK. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance in the companies in which they invest.

The Fund has produced a Stewardship Code statement in compliance with the Financial Reporting Council's Stewardship code, and encourages its external managers and service providers to produce their own codes.

6.2 Socially Responsible Investing

Whilst the Fund does not have an explicit policy on socially responsible investing (SRI), most of the fund is managed externally by managers who incorporate a strategic commitment to SRI. Their decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable companies with good all-round credentials. Many of these managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.

6.3 Compliance with the Myners Principles

The Myners report on Institutional Investment in the UK was published in 2001, and included ten principles of good investment practice. The Local Government (management and Investment of Funds) (Amendment) Regulations 2002 required administering authorities to publish the extent to which they complied with these principles.

In 2007, a review was conducted to assess the progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The outcome of this review was reported by the Treasury in 2008, and the ten principles were updated to reflect the findings.

The outcome was a set of six principles, which have been modified in the context of the LGPS, to replace the original ten principles. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require the administering authority to publish the extent to which they comply with these six principles. This is shown at appendix D.

7 CONTACT DETAILS

For further information on any of the subjects contained in the Statement of Investment Principles, please contact:

Jo Ray Group Manager – Pensions & Treasury

Tel: 01522 553656
Email: jo.ray@lincolnshire.gov.uk

Reviewed 4th July 2013 by the Pensions Committee

APPENDIX A – STRATEGIC BENCHMARK

Asset Class	Manager Allocation %	Asset Class Strategic Benchmark %
UK Equities		20.0
Passive - Internally Managed	20.0	
Global Equities		40.0
Enhanced Passive ex. UK– Invesco	20.0	
Active – Neptune	5.0	
Active – Schroders	5.0	
Active – Threadneedle	5.0	
Active – Morgan Stanley	5.0	
Property		11.5
Bonds		13.5
Passive – Blackrock	6.75	
Absolute Return - Goodhart	6.75	
Alternatives		15.0
Absolute Return - Morgan Stanley	15.0	

The Fund has an active currency overlay programme in place with two managers, Record Currency Management and HSBC Trinkaus & Burkhardt, for the Invesco Enhanced Index Global ex UK Equities mandate.

Passive means trying to match the return of a specified index.

Enhanced Passive means trying to outperform an index by a small amount.

Active means trying to outperform an index by a considerable amount, with perhaps little or no regard to the index.

Absolute return means trying to provide a positive return over and above a cash return.

APPENDIX B – INVESTMENT MANAGER ARRANGEMENTS AND OTHER SERVICE PROVIDERS

Manager	Asset Class	Index	Mandate	Relative Targets against index (3yr rolling basis before fees)*	Fee basis
Internal Team	UK Equities	MSCI UK IMI	Passive	+/- 0.5% p.a.	In-house
Invesco	Global ex UK Equities	MSCI World ex UK	Enhanced Passive	+1% p.a.	% of assets and performance fee
Neptune	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Schroders	Global Equities	MSCI AC World	Active	+2% to +4% p.a.	% of assets and performance fee
Threadneedle	Global Equities	MSCI AC World	Active	+2% p.a.	% of assets
Morgan Stanley	Global Equities	MSCI World	Active	n/a*	% of assets
Blackrock	Bonds	50% iBoxx Sterling Non Gilt 30% FTS Govt IL > 5yr 20% JPM GBI Global ex UK	Passive	0% p.a.	% of assets
Goodhart	Bonds	3mth LIBOR	Absolute Return	+3% p.a.	% of assets and performance fee
Various Unit Trusts	Property	IPD	Passive	No formal target	% of assets
Various Funds / Fund of Funds	Specialist Property	Fund specific	Active	Fund specific	% of assets
Morgan Stanley	Alternative Investments	3mth LIBOR	Absolute Return	+4% p.a.	% of assets and performance fee

***** - The Morgan Stanley Global Franchise strategy seeks to generate attractive long term returns by investing in high quality franchises characterised by dominant intangible assets, high barriers to entry and strong free cash flow generation. To achieve this objective, the investment process focuses on minimising the absolute risks associated with the portfolio holdings. Whilst the portfolio construction process is benchmark agnostic, the strategy is expected to outperform broadly based benchmarks such as the MSCI World Index over a full market cycle with less than average absolute volatility.

OTHER SERVICE PROVIDERS

Service Provider	Mandate	Fee Basis
Currency Overlay **Record Currency Managers** **HSBC Trinkaus & Burkhardt**	Manage the currency risk for a specific Global equity portfolio, to return 1% p.a. on a rolling three-year basis	% of assets
Custodian **JP Morgan**	Custody of all listed assets	Fee based in part on fixed rates per transaction and in part by percentage of assets
Investment Consultant **Hymans Robertson**	Investment advice to Pensions Committee	Indexed rates for specific types of work
Actuary **Hymans Robertson**	Actuarial advice	Indexed rates for specific types of work
Voting Adviser **Manifest**	Advice and vote processing for UK and European equities	Indexed fixed fee

APPENDIX C – ACTUARIAL ASSUMPTIONS (2010 VALUATION)

Assumption	Derivation	Rate at 31 March 2010	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.3%	-
Pay increases	Assumed to be 2% p.a. in excess of price inflation	5.3%	2.0%
"Gilt-based" discount rate	The yield on fixed interest (nominal) and index-linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.8%

APPENDIX D – COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF GOOD INVESTMENT PRACTISE

	Principle	Compliance Statement
1	**EFFECTIVE DECISION MAKING** Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Pensions Committee of the County Council is delegated with the responsibility for determining the Pension Fund's investment policy, appointing and reviewing managers and advisers, and for considering any other matters relevant to the Fund's management. The Pensions Committee makes decisions after advice from one or more of the Executive Director of Resources and Community Safety, the Fund Actuary and the Independent Advisor. Committee members are encouraged to attend the LGE Fundamentals training course, and are invited to the LGE Annual Conference, to keep up-to date with developments in the Local Government pension world. An annual training plan is agreed by the Pensions Committee, setting out what training will be covered over the coming year and relating it back to the CIPFA Pension Finance Knowledge and Skills Frameworks. Knowledge and skills are acquired and maintained through the regular Pensions Committees, as well as through additional training sessions targeting specific areas and attendance at seminars and conferences.
2	**CLEAR OBJECTIVES** An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	The overall objective for the Fund is to achieve a return of 1% above the return of the strategic benchmark, per annum, over the long term. The Pension Fund is seeking to ensure that there are sufficient resources available to pay current pensions and to build up assets to provide adequate security to make future pension payments. This is done whilst considering the affordability and sustainability of contributions,

		both from the employer and the employee, and is achieved by regular actuarial valuations and Asset Liability Modelling. The Fund's Funding Strategy Statement can be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions.
3	**RISK AND LIABILITIES** In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	The Fund's actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and its' liabilities. Interim valuations are also prepared for the larger employers in the Fund. Following each triennial valuation, the Fund's consultant undertakes Asset Liability Modelling to ensure that the investment strategy is fit for purpose. The Fund is a member of Hymans Robertson's Club Vita, which looks at the longevity risk specific to the Lincolnshire fund.
4	**PERFORMANCE ASSESSMENT** Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	All investment managers are measured against specific targets, which are based on the Fund's bespoke strategic benchmark. Fund and individual investment manager performance is reported to the Pensions Committee on a monthly and quarterly basis. Investment managers report in person to the Pensions Committee at least once every year. Officers from the Investment Team regularly discuss performance with all investment managers, and meet at least once every year. The results from an independent performance measurement company are reported quarterly and annually to the Pensions Committee. The Pensions Committee formally reviews the strategic asset allocation on a triennial basis, as a minimum.
5	**RESPONSIBLE OWNER** Administering authorities should: • Adopt, or ensure their	The Fund's position on Corporate Governance and Socially Responsible

	investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities.	Investment (SRI) is set out in the SIP. The Fund has appointed Manifest Voting Agency to undertake voting services. All votes are cast in accordance with a template agreed by the Pensions Committee, and voting is reported quarterly to the Committee. The Fund has signed up to the Financial Reporting Council's Stewardship code, and a statement is on the Fund's website. The individual fund managers' decision-making process on investments takes into account social, ethical, environmental and governance issues because, as investors, they seek strong, sustainable. Many of our managers are signed up to the UN Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues.
6	**TRANSPARENCY AND REPORTING** Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate.	The Fund's Governance Policy and Compliance Statement, Communication Policy Statement and Stewardship Code Statement can be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions. The Lincolnshire Fund has an Employers' Forum, to ensure that all employers can be updated with the issues concerning the Fund, and can feedback ideas to the Fund. The Forum meets twice a year, and an annual employer meeting is also held. The Fund produces an Annual Report and Accounts, which can also be found on the Pension Fund website at www.lincolnshire.gov.uk/pensions. The Fund sends an Annual newsletter to all Pensioners and a summary of the Report and Accounts to all members alongside their Annual Benefit Statements.

COMMUNICATIONS POLICY STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a communications policy statement. The Fund communicates with over 170 employers and over 61,000 scheme members, in addition to a large number of other interested parties.

The Regulations governing the Local Government Pension Scheme are laid before parliament by the Department of Communities and Local Government. One of the key requirements they make on all Administering Authorities is to prepare, maintain and publish a written statement setting out the information below:-

a) The Fund must now prepare, maintain and publish a written statement setting out its policy concerning communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

b) In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);

ii. the format, frequency and method of distributing such information or publicity; and

iii. the promotion of the Scheme to prospective members and their employing authorities.

The day to day administration of the Local Government Pension Scheme is carried out on behalf of the County Council by Mouchel. Communication material is the responsibility of senior staff within the County Council's Resources Directorate in collaboration with the Mouchel pension service team. All arrangements for forums, workshops and meetings covered within this statement are made in partnership with Mouchel.

The Fund communicates with all stakeholders, as defined in specific legislation, and listed above.

Communication is increasingly distributed via electronic means, with all documents available on a dedicated Pensions website (www.lincolnshire.gov.uk/pensions).

Mouchel provide a dedicated enquiry phone number (01522 836590) and email address (pensions_enquiries@mouchel-lincoln.com) for pension related enquiries. The appropriately qualified staff from the County Council, Mouchel or external advisers will deliver presentations to groups of stakeholders and conduct individual meetings.

The Fund's objective in respect of communication is to comply with relevant legislation and ensure relevant individuals and employers receive accurate and timely information about their pension arrangements. Methods of communication are set out in the table below.

Method of Communication	**Media**	**Frequency**	**Method of Distribution**	**Audience (Active, Deferred, Pensioners, representatives, employers, prospective members or All)**
Scheme Booklet	Paper based and on the website	At joining and major scheme changes	Post to home address or via employers, and available through the website	Prospective and Active Members
Statutory notices	Paper based	Various	Post to home or via employers	Active
Newsletters	Paper based and on the website	Annually and whenever scheme changes take place	Post to home or via employers, and available through the website	Active, Deferred and Pensioners
Guides to specific issues or options	Paper based and on the website	As requested and whenever scheme changes take place	Post to home or via employers, and available through the website	Active, Deferred and Pensioners Employers
Fund Annual Report and Accounts	On the website	Annual	Email on request and available through the website	All
Summary annual report and accounts	Paper based	Annual	Post to home or via employers	Active, Deferred and Pensioners
Estimated Benefit statements	Paper based	Annual	Post to home or via employers	Active and Deferred
Seminars and forums	Face to Face	Twice yearly forums, annual employer meeting and as requested	Held at appropriate venue	All
Statement of Investment Policy	On the website	Annual	Email on request and	All

			available through the website	
Funding Strategy Statement	On the website	Every three years	Email on request and available through the website	All
Pensions Committee agenda, reports and minutes	Paper based and on the website	Quarterly	Post on request and available through the website	All
Pensions Administration Strategy	On website	As required	Email and available through the website	Employers
E-Fundamentals – communication document	On website	As required	Email and available through the website	Employers

Reviewed 4th July 2013 by the Pensions Committee

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

LINCOLNSHIRE COUNTY COUNCIL

LOCAL GOVERNMENT PENSION SCHEME

Lincolnshire County Council, as administering authority for the Local Government Pension Scheme, is required by statute to publish a governance compliance statement. The Council has elected to do this by publishing a concise Governance Policy Statement and then to outline, as required by legislation, the extent to which that statement and the underlying practices demonstrate compliance with best practice guidance as published by the Department for Communities and Local Government. This latter aspect constitutes the Governance Compliance Statement.

The Governance Policy and Compliance Statements are set out in turn below.

GOVERNANCE POLICY STATEMENT

The County Council has delegated its pension fund administering authority functions to a Pensions Committee and the Director of Resources.

Pensions Committee

The Pensions Committee has 11 members in total, 8 of which are County Councillors and 3 co-opted members. All the members have full voting rights.

The 8 County Councillors represent the political balance of the Council.

The 3 co-opted members comprise:

- 1 representative from the other local authorities within the County,
- 1 representative for non Local Authority employers, and
- 1 Trade Union representative, reflecting the interests of scheme members.

Under the County Council's Constitution, the Pensions Committee exercises the following functions, to;

- set investment policies for the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice,
- appoint and review the performance of all Fund Managers and associated professional service providers,
- approve the Annual Report and Statement of Accounts of the Fund,

- consider any other matters relevant to the operation and management of the fund, and

- respond to any relevant consultation impacting upon the benefit provisions of the Local Government Pension Scheme.

The Pensions Committee has four regular meetings in any twelve month period, and two training meetings. In addition, one or more special meetings may be held to appoint new investment managers or other professional advisers.

The Pension Committee's regular quarterly meetings are open to the public and agendas, reports and minutes are made available through the County Council's website. An annual report on the management of the fund is provided to all scheme employers with an abbreviated version distributed to scheme members.

Director of Resources

The Director of Resources is responsible for the day to day administration of the benefits and assets of the pension scheme, specifically to:

- authorise payment of statutory pensions and allowances,

- undertake or arrange for all necessary transactions associated with the management of the assets of the Pension Fund, and

- to agree appropriate means of securing external representation on the Pension Committee, in consultation with relevant external bodies.

Any questions about the governance of the Lincolnshire Local Government Pension Fund should be addressed to Jo Ray, Group Manager – Pensions & Treasury, Finance and Asset Management. Jo.ray@lincolnshire.gov.uk, telephone 01522 553656.

Reviewed 4th July 2013 by the Pensions Committee

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
A - Structure	**a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**	Yes	**See terms of reference for the Pensions Committee in the Policy Statement above.**
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partial	**The Council has not, to date, seen the need to establish a secondary committee/panel. It will, however, keep this aspect under review and does establish working groups from the Committee to deal with specific issues.** **Pensioner and deferred beneficiaries are not presently represented directly on the Committee – see B a. below.**
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Relevant	**As discussed above, no such forum has been established as yet.**
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Relevant	**As discussed above, no such forum has been established as yet.**

B - Representation	**a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-** • **Employing authorities (including non-scheme employers, e.g. admitted bodies);** • **Scheme members (including deferred and pensioner scheme members),** • **Where appropriate, Independent professional observers, and** • **Expert advisors (on an ad hoc basis)**	Partial	**The Committee has 11 members, all with voting rights, of which 8 are County Council Councillors. Other members include one representing other local authorities (district councils) and one representing small scheduled bodies, currently from an Internal Drainage Board. Member related issues are dealt with by having a trade union representative on the Committee.** **Given the statutory guarantee that exists in respect of member benefits, this is felt to be sufficient representation. The Council will review this aspect periodically. The Committee have appointed an independent investment advisor who attends all Committees.**
	b. That where lay members sit on the main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	**All members of the Committee have full voting rights and equal access to information, training, etc.**
C – Selection and Role of Lay Members	**a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**	Yes	**Nationally customised training is available to all members and this is supplemented by locally provided induction sessions for new members of the Committee. In addition, the Committee agrees an annual training plan with specific topics covered on set dates.**

	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	**The declaration of members' interests is a standard item on the agenda of the Pensions Committee.**
D - Voting	a. That the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	**Full voting rights are given to all members of the Committee.**
E – Training/Facility Time/Expenses	a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	**See C a. above. All expenses incurred by members of the Pensions Committee are either met by the body they represent or directly by the Fund itself.**
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	**All members are treated equally in every respect.**
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partial	**The Committee agrees an annual training plan with specific topics covered on set dates. All training undertaken by members of the Pensions Committee is recorded and additional training**

			opportunities are regularly brought to the attention of the Committee, either in monthly update letters or in reports taken to Committee.
F – Meetings - Frequency	**a. That an administering authority's main committee meet at least quarterly.**	Yes	**See Compliance Policy Statement above.**
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Relevant	**As discussed above, no such forum has been established as yet.**
	c. That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not Relevant	**Three added members exist and have equal rights with all mainstream members in all respects.**
G – Access	**a. That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**	Yes	**All members are treated equally in every respect.**
H – Scope	**a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**	Partial	**The terms of reference of the Pensions Committee were changed a few years ago to include benefit related matters which up until that time had been dealt with elsewhere within the governance**

			arrangements of the Council. **At present the Council does not believe there is a strong argument in favour of appointing an independent professional observer on administration/governance issues in addition to the independent advisor already in place in respect of investment matters.**
I - Publicity	**a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.**	**Yes**	**The County Council publishes the many governance documents and communicates regularly with employers and scheme members.**