Lancashire County Council

Pension Fund Committee

Thursday, 15th September, 2016 at 10.45 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 10 June 2016** To be confirmed, and signed by the Chair.	(Pages 1 - 10)
4.	**Lancashire Local Pension Board - Annual Report 2015/16**	(Pages 11 - 16)
5.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	

Part II (Not open to Press and Public)

6.	**Fund Performance Report**	(Pages 17 - 22)
7.	**Investment Panel Report**	(Pages 23 - 36)
8.	**Local Pensions Partnership Update**	(Pages 37 - 50)

Lancashire County Council

Part I (Open to Press and Public)

9.	**Update on Work being undertaken on Governance and Risk**	(Pages 51 - 56)
10.	**Annual Report and Statement of Accounts of Lancashire County Pension Fund for the year ended 31 March 2016.**	(Pages 57 - 172)
11.	**Statement of Investment Principles**	(Pages 173 - 190)
12.	**Responsible Investment**	(Pages 191 - 214)
13.	**Feedback from Committee Members on External Pension Fund Training Events and Conferences**	(Pages 215 - 216)
14.	**Report of Decisions taken under the Urgent Business Procedure**	(Pages 217 - 218)

15. Urgent Business

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

16. Date of Next Meeting

The next meeting of the Committee will be held on Friday 2 December 2016 at 10am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 10th June, 2016 at 10.00 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

County Councillor Kevin Ellard (Chair)

County Councillors

M Barron	C Pritchard
D Borrow	A Schofield
B Dawson	K Sedgewick
G Dowding	D Westley
M Otter	D Whipp
M Parkinson	

Co-opted members

Paul Crewe, (Trade Union Representative)
Alastair Milloy, (HE/FE sector Representative)
Councillor Peter Rankin, (Lancashire Leaders' Group Representative)
Councillor Edward Pope, (Lancashire Leaders' Group Representative)
Councillor Mark Smith, (Blackpool Council Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

Independent Advisors

Aoifinn Devitt
Eric Lambert

County Councillor Bernard Dawson replaced County Councillor Jackie Oakes at this meeting.

The Chair welcomed William Bourne, Chair of the Lancashire Local Pension Board, to the meeting and thanked him for his earlier presentation to the Committee on the work of the Local Pension Board.

1. Apologies

Apologies for absence were received from County Councillor John Fillis who had been due to substitute for County Councillor Lorraine Beavers.

2. Constitution: Chair, Deputy Chair, Membership and Terms of Reference of the Pension Fund Committee

The Committee considered a report setting out the Constitution of the Committee for 2016/17 and, in particular, the appointment of Chair, Deputy Chair, the membership and the revised Terms of Reference in light of the establishment of the Local Pensions Partnership (LPP).

The Chair welcomed County Councillor Clare Pritchard who had replaced County Councillor Janice Hanson as a member of the Committee. It was also reported that County Councillor Barrie Yates was no longer a member of the Committee and notification from the Conservative Group of a replacement was awaited.

Resolved: - That:

(i) The appointment of County Councillor Kevin Ellard and County Councillor Miles Parkinson as Chair and Deputy Chair, respectively, of the Pension Fund Committee for the 2016/17 municipal year;
(ii) The membership of the Pension Fund Committee as set out in the report, now presented, and as now reported, be noted;
(iii) The revised Terms of Reference of the Pension Fund Committee as set out at Appendix 'A', to the report, now presented, be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

4. Minutes of the Meetings held on 29 January 2016 and 22 March 2016

Resolved: - That the minutes of the meetings held on 29 January 2016 and 22 March 2016 be confirmed as a true and accurate record and be signed by the Chair.

5. External Audit - Lancashire County Pension Fund Audit Plan 2015/16

Karen Murray, Director, Grant Thornton, attended and presented a report setting out details of the Lancashire County Pension Fund's Audit Plan for 2015/16.

The Annual Audit Plan, set out at Appendix 'A', included the nature and scope of work that the external auditor undertook to discharge its statutory responsibilities. The plan included, in broad terms, the programme of work required to give a financial opinion on whether the financial statements:

- Gave a true and fair view of the financial position of the Pension Fund as at 31 March 2016 and of its expenditure and income for the year ended;
- Had been prepared in accordance with proper accounting practice.

It was reported that the total fee for the audit work undertaken was £35,906.

The Audit Plan had been considered by the Audit and Governance Committee on 9 May 2016.

Resolved: - That:

(i) The External Audit Plan for the Lancashire County Pension Fund 2015/16, and the associated fees, be noted;
(ii) Karen Murray be thanked for her attendance.

6. Exclusion of Press and Public

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

7. Local Pensions Partnership Limited - Progress report

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

The Committee considered a report setting out progress on the Local Pensions Partnership, which had gone live on 8 April 2016. The report made specific reference to the following:

- Financial Conduct Authority (FCA) approval;
- Asset transition;
- Wider pooling;
- Treasury management

It was noted that, with regards to wider pooling, the deadline for submission of a detailed submission to the Department for Communities and Local Government (DCLG) was 15 July and that discussions with other potential partners continued.

Resolved: - That:

(i) The report, now presented, be noted;
(ii) The submission to the DCLG due by 15 July 2016 be circulated to members of the Committee at the earliest opportunity;
(iii) A briefing session on the implications of the pooling process be held in due course.

8. Fund Performance Report

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

The Committee considered a presentation and report on the performance of the Fund as at 31 March 2016. A commentary from individual portfolio managers to highlight particular issues, areas of concern and key risks was included.

Particular reference was made to the following areas:

- The economic backdrop;
- The total fund return at 31 March 2016;
- 12 months performance to 31 March 2016 in respect of equities, real estate, credit, infrastructure, private equity;
- Funding ratio since 31 March 2013;
- Fund allocations;
- Contributions net of benefits and investment income.

Resolved: - That the report, now presented, be noted.

9. Investment Panel Report

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

The Committee received a report from the Investment Panel setting out the work of the Panel since the last meeting of the Committee. Whilst the Panel had not met, it had conducted business via e-mail or telephone conference. The Committee's attention was specifically drawn to the following key areas considered by the Panel:

- The Investment and Market Context in which the Fund was operating;
- Performance Report;
- Transactions approved or those it was agreed not to proceed with;
- New ways of operating following the establishment of the Local Pensions Partnership.

Reference was made to central bank activity, the collapse of a number of high profile merger deals in April, and uncertainty over the outcome of the European Union referendum.

Resolved: - That the report, now presented, be noted.

10. Appointment of Interim Independent Advisor

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

Aoifinn Devitt and Elizabeth Carey left the meeting for consideration of this item.

The Committee considered a report setting out proposals for the appointment of an interim independent advisor.

Resolved: - That:

(i) The proposed interim appointment of Elizabeth Carey for a period of up to six months on the same terms as the current independent advisors to the Fund be approved;
(ii) Aoifinn Devitt be congratulated on her temporary appointment as Chief Investment Officer of the Chicago Policemen's Annuity and Benefit Fund.

11. Lancashire County Pension Fund Revised Governance Policy Statement

The Committee considered a report setting out details of a revised Governance Policy Statement for the Lancashire County Pension Fund. It was a requirement that such Policy Statements set out the responsibilities and delegated authorities of those parties involved in the running of the Fund and that it was kept updated on a regular basis.

Following the establishment of the Local Pensions Partnership, a number of consequential changes had been made to the terms of reference and delegated responsibilities of the Committee, the Investment Panel and officers, and these had been reflected in an updated Policy Statement.

Resolved: - That the updated Lancashire County Pension Fund Governance Policy Statement, as set out at Appendix 'A' to the report, now presented, be approved.

12. Lancashire County Pension Fund - Annual Governance Statement 2015/16

The Committee considered a report setting out details of the Annual Governance Statement 2015/16 for the Lancashire County Pension Fund.

The Statement was a review of the governance arrangements for 2015/16 and would be incorporated into the Fund's statement of accounts.

Resolved: - That the Annual Governance Statement 2015/16 for the Lancashire County Pension Fund be approved for signature by the Chair and the Interim Head of Fund.

13. Tracing Missing Members Procedure

The Committee considered a report setting out proposals for amendments to the Lancashire County Pension's Fund existing Tracing Missing Members Procedure.

It was reported that the Fund's data was assessed to be more than 96% compliant against a target of 95% but that a significant number of deferred members, i.e. 5,205, contact details were known to be inaccurate.

In light of this, and following a recommendation from the Lancashire Local Pension Board that a tracing exercise be undertaken every three years in line with the valuation process, it was proposed to make amendments to the current Tracing Missing Persons Procedure.

Resolved: - That:

(i) A missing member tracing exercise be undertaken every three years in line with the actuarial valuation process, as set out in the report, now presented;
(ii) Such an exercise be carried out by the most cost effective means possible;
(iii) The Fund's Communications Policy Statement be amended to reflect this additional communications exercise;
(iv) The Interim Head of Fund be authorised to amend the Communications Policy Statement as set out in (iii) above.

14. Your Pension Service - Annual Administration Report 2015/16

The Committee considered a report setting out details of the Your Pension Service Annual Administration Report for 2015/16.

The annual report was produced in accordance with a Service Level Agreement (SLA) for the provision of pension administration services to the Lancashire County Pension Fund and described performance against the standards set out in the SLA.

It was reported that, in future years, the report would need to be split between the Fund and the Local Pensions Partnership.

Reference was made to the following:

- An increase in membership of the Fund of almost 9,000;
- An increase in the number of deferred pensioners as individuals left local government as a result of spending reductions;
- Improvements were being sought to the average length of time, currently 54 days, for administering the payment of retirement benefits and, in particular, the time taken to receive information from employers and members;
- 38 new employers had joined the Fund;

- The impact of Government policy in relation to academies had the potential to increase the number of employers in the Fund from 250 to over 1,100 which would have significant implications for the administration of the Fund;
- The impact of small employers, e.g. outsourced employers in schools providing cleaning services;
- Work being undertaken to encourage take up of online services;

It was noted that the Local Pension Board had considered many of these issues during its first year of operation and had made suggestions around engaging with employers, encouraging take up of online services and engaging with 'hard to reach' fund members.

Resolved: - That the Your Pension Service - Annual Administration Report 2015/16 as set out at Appendix 'A' to the report, now presented, be noted.

15. Local Pensions Partnership Limited - Non Executive Director Pay Policy

The Committee considered a report setting out a Non-Executive Director Pay Policy for the Local Pensions Partnership.

It was proposed that Non-Executive Directors would receive remuneration of £30,000 per annum but that, in relation to the Shareholder Representative Non-Executive Directors, they would only receive the excess of the £30,000 over and above the allowance that they already received from their sovereign body. In the case of the County Council's Non-Executive Director, the Deputy Leader of the County Council, it was therefore the case that no additional remuneration would be payable.

Resolved: - That the Pay Policy for the Local Pensions Partnership, together with the proposed principle in relation to payments to the Shareholder Non-Executive Directors, as set out in the report, now presented, be approved.

16. Internal Audit Service Annual Report 2015/16 and Plan 2016/17

The Committee considered a report setting out details of the Internal Audit Service's Annual Report 2015/16 and Plan 2016/17 for the Lancashire County Pension Fund.

The report, which complemented the Annual Governance Statement, included details of work undertaken and the work planned for 2016/17. It was pleasing that the Lancashire County Pension Fund had been given an overall opinion of substantial assurance.

Resolved: - That:

(i) The Internal Audit Service annual report for 2015/16 as set out in the report, now presented, be noted;
(ii) The outline annual workplan for 2016/17 be approved;

(iii) That the Head of Service, Internal Audit, and colleagues be thanked for the work undertaken.

17. Framework for the 2016 Valuation - Employer Responses to Consultation

The Committee considered a report setting out details of the employer responses to the consultation on the framework for the 2016 Valuation.

Whilst only a small number of employers had responded to the formal consultation, employers were also engaged at a number of events such as the Director's Brief.

Whilst there was support for the proposed change to the valuation methodology and maintaining the current contribution plan, many employers would like to see a reduction in contribution rates and an extension to the deficit recovery period.

The report set out a broad timetable for the valuation process which included further meetings and sessions with employers.

Resolved: - That:

(i) The results of consultation with employers on the valuation framework, as set out in the report, now presented, be noted;
(ii) The process proposed for managing the valuation process and engaging with employers throughout the process, as set out in the report, now presented, be noted;
(iii) Existing, and any future, Multi-Academy Trusts with more than one school within the Fund, be offered a common contribution rate;
(iv) The Fund's current policy in relation to not allowing reductions in contribution rates for employers who continue to have a deficit within the Fund, be continued.

18. Responsible Investment

The Committee considered a report setting out the quarterly update on Responsible Investment matters.

The issue of disinvestment in, for example, the tobacco industry, was discussed and it was noted that this could be considered as part of the review of the Investment Strategy and Principles of Investment which would take place towards the end of the year.

Resolved: - That the report, now presented, be noted.

19. Feedback on Attendance at Training and Conferences

The Committee considered a report setting out details of attendance by Committee Members at recent conferences, events and external training sessions.

The Chair gave a brief summary of issues which had been topical at recent conferences he had attended. These were as follows:

- Government reforms such as pooling and the potential for Government intervention;
- Valuation;
- Impact of academies and the suggestion for a single pension scheme for academies;
- Environmental, Social and Corporate Governance (ESG);
- Considerable interest had been expressed in the Local Pensions Partnership.

Resolved: - That the report and feedback, now presented, be noted.

20. Urgent Business

There was no urgent business to be considered.

21. Date of Next Meeting

The Committee noted that the next meeting of the Committee would be held on Thursday 15 September 2016 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young
Director of Governance, Finance and Public Services

County Hall
Preston

Agenda Item 4

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected: (All Divisions);

Lancashire Local Pension Board - Annual Report 2015/16
(Appendix 'A' refers)

Contact for further information:
Dave Gorman, (01772) 534261, Legal and Democratic Services
dave.gorman@lancashire.gov.uk

Executive Summary

The Terms of Reference for the Lancashire Local Pension Board includes the requirement that the Pension Board "shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Administering Authority", i.e. the Pension Fund Committee.

The Chair of the Local Pension Board, Mr William Bourne, will attend the meeting to present the report.

Recommendation

The Committee is asked to consider and comment on the Lancashire Local Pension Board's annual report for 2015/16 as set out at Appendix 'A'.

Background and Advice

The Lancashire Local Pension Board was established in December 2014 and, following the process for appointing Board Members by 1 April 2015, the Board met formally for the first time on 8 July 2015.

The Terms of Reference for the Board includes the requirement that the Board "shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Administering Authority". There is a requirement that the contents of the annual report should be subject, in the first instance, to consideration and agreement at a meeting of the Board, and should, in any event, include the following:

a) Details of the attendance of members of the Board at meetings;
b) Details of the training and development activities provided for members of the board and attendance at such activities;

Lancashire County Council

c) Details of any recommendations made by the Board to the Scheme Manager and the Scheme Manager's response to those recommendations;

d) Details of the costs incurred in the operation of the Board

The Board approved its annual report for 2015/16 at its meeting on 5 July 2016 for consideration by the Pension Fund Committee and a copy is set out at Appendix 'A'. The Chair of the Local Pension Board, Mr William Bourne, will attend the meeting to present the report. The report has also been published on the Lancashire County Pension Fund's website.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no significant risks associated with the proposals set out in this report.

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

Paper	Date	Contact/Tel
Report to the Lancashire Local Pension Board - 'Local Pension Board - Annual Report 2015/16'	5 July 2016	Dave Gorman, (01772) 534261

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire Local Pension Board - Annual Report 2015/16

The Lancashire County Pension Fund's Local Pension Board was set up as a result of the 2013 Pensions Act, which obliged all public sector pension schemes to set up representative local pension boards by 1 April 2015. The formal remit of all local pension boards, including this one, is first to secure compliance with all regulations and legislation, and secondly to ensure the effective and efficient governance and administration of the scheme. A further factor behind the establishment of local pension boards was the perceived need for Members and Employers to have some voice within the management of public sector pension schemes.

I was appointed as Independent Chair following a public procurement exercise conducted jointly with the London Pensions Fund Authority (LPFA). Four Board members representing Employers were appointed and four representing Scheme Members, two Active, one Deferred, and one Pensioner, were then chosen through a public election process from a total of 15 candidates with a turnout of over 10,000, or 9% of the membership. The Chair holds office for two years with a two year extension by mutual agreement, members for a term of four years, and no member may serve more than two terms.

Under the Government's legislation, Local Pension Boards have no executive power. We can scrutinise compliance with regulations and call Officers or the Lancashire Pension Fund Committee to account, but we are not a decision-making body. We also have a duty to report material breaches to The Pensions Regulator, and as such the Board has adopted a policy and procedure to enable us to do so if necessary. As we only meet a limited number of times a year, we have chosen to perform as much of the scrutinising function as possible outside meetings. We can then focus our discussions on offering robust challenge to the Pension Fund Committee's decision-making processes and providing Member and Employers perspectives which might not otherwise be available. The Board has met four times in the year under review, (2015/16) and communicates via email between meetings. Table 1 below shows the four meetings held in 2015/16 and the attendance record of each Board Member.

Board Member	Representing	8 July 2015	19 October 2015	18 January 2016	11 April 2016
William Bourne	Independent Chair	√	√	√	√
Steve Browne	Employers	√	√	Apologies	√
Carl Gibson	Employers	√	√	√	√

Kathryn Haigh	Active Members	√	√	√	√
John Hall	Deferred Members	√	√	Apologies	√
Robert Harvey	Retired Members	√	√	√	√
County Councillor Tony Martin	Employers	√	√	√	√
Yvonne Moult	Active Members	√	√	√	√
Steve Thompson	Employers	√	√	Apologies	√

Table 1

Information about the Board, including membership, is publicly available on the Lancashire County Pension Fund website and can be viewed here.

Agenda and minutes of Board meetings can be viewed on the County Council's website here.

Training is also required under the Pensions Act 2013, and is covered by the Fund's Training Policy, which has been refreshed in 2016. An initial session was held to brief members on the activities of the Pension Fund and their role and members are invited to, and have attended, Training Workshops together with members of the Pension Fund Committee. Members are encouraged to attend useful seminars and conferences which will help them to increase their knowledge levels, and have been invited to the regular briefing sessions on the formation, together with the LPFA, of the Local Pensions Partnership (LPP). Internally, a virtual reading room has been set up so that Board members can easily access a wide range of material.

Table 2 below shows Board Members attendance at internal and external events during 2015/16.

Board Member	**Internal Events Attended**	**External Events Attended**
William Bourne	2	14
Steve Browne	5	Nil
Carl Gibson	2	Nil
Kathryn Haigh	7	2
John Hall	6	1
Robert Harvey	12	4
County Councillor Tony Martin	5	Nil
Yvonne Moult	7	1
Steve Thompson	5	Nil

Table 2

The Board receives the same operational and financial monitoring reports as those which are considered by the Pension Fund Committee. Board members are expected to have read these between meetings. While some time at meetings is spent on reviewing reports received and discussing matters arising, we prefer to focus our time at meetings on more detailed discussion on specific topics. The Board has on occasion commissioned specific reports from Officers to cover matters of concern.

During the year the Board has reviewed and commented among others on the 2014/15 Annual Report, Pension Administration Strategy and Quality of Service Reports, Administering Authorities Discretions, the Communications Policy, the Member Tracing Policy, and the Governance Review associated with the establishment of LPP. It has also scrutinised compliance with The Pension Regulator's Code of Practice 14, which covers public sector pension schemes and was issued in April 2015.

The creation of LPP has inevitably featured largely in our discussions over the year, as it is one of the more important changes in the Fund in recent years. As a Board, we have been supportive of the creation of LPP, but have provided robust challenge to the Pension Fund Committee throughout the process, particularly in the area of governance and compliance. We will continue to do so as LPP finds its feet over the next few years in order to ensure that Members and Employers do benefit from its creation.

We have also spent some time discussing how to improve communications between the Fund and its Members and Employers in both directions As a result, some changes have been made to the forms which the Fund uses to make them easier to use. In the light of The Pensions Regulator's standards for data quality, we have also looked at practical ways to encourage both Members and Employers to provide accurate and timely data.

The Board has an annual budget of £50,000 funded by the Lancashire County Pension Fund, which is used primarily to defray the cost of Members' attendance at training events or conferences, travelling expenses and reimbursement to employers. During the 2015/16 year, the costs of the Board were £20,639.33.

After the first twelve months of the Local Pension Board's activities, we need to look back and ask whether it is adding value to the Lancashire County Pension Fund's operations, and whether it will continue to do so in the future. It is still early days, but I believe that it is already fulfilling two important functions: offering challenge to the Pension Fund Committee; and providing valuable Members' and Employers' perspectives to those managing the Fund which they might otherwise struggle to obtain. We have on a number of occasions made recommendations or suggestions which have been acted on. We are able to do this because we have a fully engaged and experienced Board membership, and also because we have the full support and commitment of the Officers who run the Lancashire County Pension Fund. As Chair, I would like to pay tribute to all members of the Board, who give up their time on an unpaid basis to wrestle with the complex and evolving subject of the regulations and guidance covering the LGPS Scheme generally and to play their part in making this Fund run ever more efficiently.

William Bourne
Chair, Lancashire Local Pension Board
July 2016

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

Document is Restricted

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

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Agenda Item 7

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

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Pension Fund Committee
Meeting to be held on Thursday, 15 September 2016

Electoral Division affected:
(All Divisions);

Update on Work being undertaken on Governance and Risk
(Appendix 'A' refers)

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

Executive Summary

Lancashire County Council, as administering authority of the Lancashire County Pension Fund, has responsibility for ensuring that there is effective risk management in place in relation to the operations of the Fund. The decision to pool the investment and administration operations of the fund within the Local Pensions Partnership (LPP) has changed the governance arrangements for the Fund and therefore the potential risks. The Head of Fund has started to review these arrangements and engaged PwC to do detailed work in this area. Appendix 'A' provides a summary of this work.

Recommendation

The Pension Fund Committee is recommended to note the details in the report.

Background and Advice

Lancashire County Council, as administering authority of the Lancashire County Pension Fund, has responsibility for ensuring that there is effective risk management in place in relation to the operations of the Fund. The decision to pool the investment and administration operations of the fund within the Local Pensions Partnership has changed the governance arrangements for the Fund and therefore the potential risks.

The Head of Fund has started to review these arrangements and has engaged PwC to support her doing detailed work in this area. The 3 areas of work will be:

- Risk workshops to identify and assess risks
- Understanding your assurance requirements
- Risk management framework advice and reporting

Appendix 'A' provides further detail on this work.

Consultations

PwC and LPP.

Implications:

This item has the following implications, as indicated:

Risk management

The Pension Fund Committee is the body charged with exercising the County Council's responsibilities as administering authority of the Pension Fund, and accordingly takes the responsibility for ensuring that there is effective risk management over those operations.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

This report provides an update to the Pension Committee on the review of Lancashire County Pension Fund's ("LCPF") risk and assurance requirements that Lancashire County Council ("LCC"), in its role as the Administering Authority for the Lancashire County Pension Fund and shareholder of the Local Pension Partnership Limited ("LPPL"), is due to undertake.

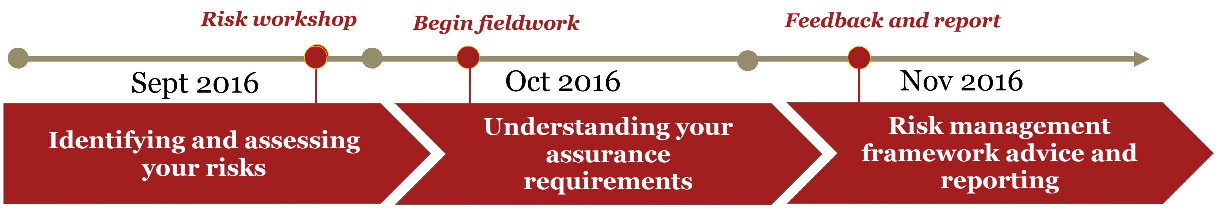
During 2015 and early 2016, the Administering Authority, with support from PwC, undertook a detailed review of the viability of LPPL so that it could sign off on the partnership. Following the approval in the March 2016 Pension Committee meeting, LPPL was established during April 2016, and the administration and asset management of the Lancashire County Pension Fund is in the process of being transferred to LPPL.

Against this backdrop, the Government, in publishing their Investment Reform criteria, has made clear requirements for authorities to establish plans for delivering robust and effective long term investment solutions and expects "Strong governance and decision making", with LCC being required to, amongst other things:

- Ensure risk is adequately assessed; and
- Ensure an appropriate level of assurance is in place to manage / mitigate key risks.

Implementing and embedding risk management is clearly now integral to the success of LCC's transition plan, not only in meeting the Governments expectations in the short term, but also in ensuring the continued success of the new investment and governance structure post LGPS reform. Accordingly, the Head of Fund has started to review the governance requirements of LCC in the formation and set up of LPPL. This includes consideration of the level of risk involved and the associated assurance requirements. In doing this, LCC has requested PwC to assist in the development of LCC's approach to risk management for the Lancashire County Pension Fund ("LCPF"), including the identification and prioritisation of the material risks to the fund which may impact the achievement of objectives, identification of control gaps or weaknesses which require action and determining the priority risk areas where assurance activity should be directed.

This engagement builds on PwC's work with LCC to date, and is set out under the following areas:



- An identification phase to explore and agree with LCC the key risks that need to be managed to ensure the operational success of the Fund, both during transition and, as much as can be ascertained at present, BAU.

- To work with LCC to agree and set out LCC's ongoing control, monitoring and assurance requirements design deficiencies which will require remediation.

- High level advice on how LCC could embed risk management and monitoring processes into the ongoing running of LCPF and reporting.

For each of the phases outlined above, a detailed description of: (i) the approach to be taken; (ii) the proposed output; and (iii) the benefits to the Fund have been provided below:

<table>
<tr><th colspan="2">Phase 1: Identifying and assessing your risks</th></tr>
<tr><th>Approach</th><th>Output(s)</th></tr>
<tr><td>
• PwC will facilitate a risk workshop with key individuals of LCC. During this workshop PwC and LCC will work to identify the key risks to the success of the Fund on transition and a BAU basis and look to understand how these may evolve over time. Risks covered will comprise:
o Operational risk;
o Investment and funding risk:
o Member risk; and
o Transition risk.
• Once Fund risks have been identified PwC will work with LCC to assess both the impact, likelihood and any mitigating factors which will enable LCC to understand those key risks impacting the Fund.
• PwC will interview key representatives of LPPL to understand their interpretation of the risks identified by LCC and any sources of assurance they may plan on providing to LCC in respect of these.
</td><td>
• The key output from the workshop will be a risk register, summarising all of LCPF strategic risks.
• PwC's risk scoring methodology will help LCC to produce a consistent assessment of risks across the categories and prioritise them accordingly.
• This risk register will capture the following:
o Details of the risk;
o Risk owner;
o Risk scoring – inherent and residual;
o High level key controls / mitigating actions to manage risk;
o Target risk score – considering risk appetite; and
o Further action needed, for example, additional activity needed to move actual risk score towards target risk score
</td></tr>
<tr><th colspan="2">Benefits to LCC</th></tr>
<tr><td colspan="2">
• Successful transition – Given the nature of the asset transition and planned new ways of working, clarity on the risks facing this and how they will be managed will be key to the success.
• Achieving Objectives - Integral to the pursuit of your strategic objectives is the taking and managing of risk. Understanding potential risk outcomes allows you to reduce uncertainty which may affect the achievement of key objectives.
• Decision-Making - Effective risk management provides the framework to identify and respond to risks and ultimately inform decision-making.
• Resilience - Acknowledgement of the uncertainties that the Fund may face encourages a proactive approach to managing risk and the creation of more resilient Fund operations.
• Demonstrating compliance - Enables demonstration to Government / regulators your understanding of risks and that you have a process in place for identifying and managing them.
</td></tr>
</table>

Phase 2: Understanding your assurance requirements	
Approach	**Output(s)**
• Assurance can be obtained from various activities and parties, for example, LCC's local team, oversight provided by the Head of Fund and external independent assurance. PwC will consider the level of assurance / oversight currently performed by each of these against LCPF key risks and determine any additional assurance requirements. • In doing this PwC will perform a more detailed design assessment of key controls as identified in the risk register, understanding how these operate on a day to day basis. PwC will provide pragmatic recommendations, commenting on LCC's approach, frequency of activity and potential control gaps. • PwC will also assess and advise on the level of oversight provided by the relevant committees over management control and Fund operations, as well as identifying needs for independent sources of assurance for each material risk. • PwC will provide recommendations on how LCC may wish to structure assurance arrangements to ensure that LCC are monitoring the key things that matter to the Fund and have a reliable and robust structure in place.	• Summary of assurance activities, both existing and required, within a matrix including Fund key risks, the mitigating controls and the assurance need. This will reflect on both the need during transition and also that as part of BAU. • For those risks where there is an opportunity to enhance oversight and assurance provision, PwC will provide LCC with pragmatic recommendations on how best to obtain LCC's assurance requirements, helping inform LCC's action plan for implementation. • In addition, where PwC has identified opportunities to improve the controls in place mitigating those key risks, PwC will provide LCC with recommendations on how to address these based on experience of working with other Funds.
Benefits to LCC	
• **Agreement on the right assurance framework:** Enables management to understand and determine their ideal assurance framework, taking into account their risk appetite, and to put plans in place to achieve this. Our experienced insight will aid the development of plans to formalise assurance arrangements; • **Understand the extent of existing assurance:** To highlight whether current provisions are providing the assurance that is required and provides an adequate balance; and • **Direct resource and promote efficiency:** Help focus limited resource / effort to those areas where assurance may be required and promote efficiency.	

Phase 3: Risk management framework advice and reporting	
Approach	**Output(s)**
• At this stage PwC propose to provide high level advice on how LCC may look to embed this risk process into day to day Fund management, for example, frequency and content. This will provide an overview on of risk management good practice and a possible approach to ensuring the Fund's risk strategy, governance structure, policies and procedures and management information is fit for purpose. • PwC will provide an updated risk register which includes key risk actions identified during phase 2 (e.g. key control and assurance requirements).	• A refreshed risk register taking into consideration key actions identified in step 2 (e.g. key control and assurance requirements). • Overview on how to effectively structure a risk management framework to support the ongoing monitoring of risk.
Benefits to LCC	
• **Understanding:** Provides management with an understanding of risk management good practice and identifies potential gaps in the current framework. • **Planning:** Consideration given to the future requirements of the Fund and required alignment to industry good practice.	

Agenda Item 10

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected:
(All Divisions);

Annual Report and Statement of Accounts of Lancashire County Pension Fund for the year ended 31 March 2016.
(Appendix 'A' refers)

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

Executive Summary

This report sets out the Lancashire County Pension Fund Annual Report for the year ended 31 March 2016.

Recommendation

The Committee is asked to review and approve the Lancashire County Pension Fund Annual Report for the year ended 31 March 2016 as set out at Appendix 'A', for submission to the Full Council.

Background and Advice

The Local Government Pension Scheme (Administration) Regulations 2008 (No 239) requires each administering authority to prepare an annual report for the pension fund and publish it before 1 December following the year end. The regulations prescribe that the following should be included in the annual report:

- A report on the management and financial performance of the fund during the year;
- An explanation of the investment policy;
- A report on the administrative arrangements for the fund;
- A statement from the actuary on the latest funding level;
- The current version of the governance compliance statement;
- The fund account and net asset statement with supporting notes and disclosures;
- The extent to which the fund has achieved its required performance levels; and
- The current version of the funding strategy statement, the statement of Investment principles and communications policy and any other information the authority considers appropriate.

The terms of reference of the Pension Fund Committee require it to approve the annual report for submission to Full Council.

Lancashire County Council

A copy of the Lancashire County Pension Fund Annual Report for the year ended 31 March 2016 is attached at Appendix 'A'. The Annual Report includes the following sections:

An overview of the management and financial performance of the Fund
This highlights both the challenges and changes that have impacted on the Fund during the year 2015/16.

Governance of the Fund
This highlights compliance or otherwise with the guidance given by the Secretary of State.

Administration of the Fund
An update on issues arising from the administration of the fund during the year, including any changes to the administration regulations.

Knowledge and skills framework
A summary of the framework and approach used to ensure that the right knowledge and skills mix exists to meet the financial management needs of the pension fund. Reference is also made to the Lancashire County Pension Fund Training Plan agreed on 29 November 2013 and complying with the Public Service Pension Act 2013.

Investment policy and performance
A summary of the investment activity during the year and an analysis of performance of the investments of the Fund.

The accounts and financial statements
The draft accounts and financial statements of the pension fund approved by the Director of Financial Resources on 30 June 2016 are shown in the County Council's Statement of Accounts and also in the Pension Fund Annual Report. The accounts are being audited by the external auditor and the auditor's opinion, will be included in the published Annual Report once the audit has been finalised and the accounts have been approved at Audit and Governance committee.

Lancashire Local Pension Board Annual Report
A summary about the Lancashire Local Pension Board, their formal remit and details of their activities during the year.

Actuarial valuation
A summary of the latest actuarial valuation carried out at March 2013 and applicable for the three years commencing 1 April 2014.

Standing documents
The following standing policy statements are referred to in the Annual Report as available from the Pension Fund and from its web-site at Your Pension Service - Lancashire Fund Information

• The Annual Governance Statement
• The Governance Policy Statement
• The Communication Policy Statement
• The Funding Strategy Statement
• The Statement of Investment Principles

Consultations

The Investment Panel are consulted on all investment policy issues.

Implications:

This item has the following implications, as indicated:

Risk management

The policy on risk is outlined in the Funding Strategy Statement and the Statement of Investment Principles.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Pension Fund Annual Report 2015-16

Lancashire County Council

www.lancashire.gov.uk

Lancashire County Pension Fund

Annual Report 2015/16

Contents

A. Management Structure

Administering Authority
Lancashire County Council

Lancashire County Council Pension Fund Committee
M Barron
L Beavers
D Borrow
G Dowding
K Ellard (Chair)
J Oakes
M Otter
M Parkinson (Deputy Chair)
C Pritchard
A Schofield
K Sedgewick
D Westley
D Whipp
B Yates

Co-opted Blackburn with Darwen Borough Council representative
R Whittle

Co-opted Blackpool Council representative
M Smith

Co-opted Lancashire Leaders' Group
P Rankin
E Pope

Co-opted Trade Union representative
P Crewe
J Tattersall

Co-opted HE/FE sector representative
A Milloy

Custodian
Northern Trust

Independent Investment Advisers
E Lambert
A Devitt

Director of Lancashire County Pension Fund
(to 31/3/16)
G Graham

Head of Pension Fund
Abigail Leech

Director of Financial Resources
N Kissock CPFA

Actuary
Mercer

Auditor
Grant Thornton

Property Solicitors
Pinsent Masons
DWF

Independent Property Valuer
Cushman & Wakefield

Corporate Governance Adviser
PIRC

Performance Measurement
Northern Trust

AVC Providers
Prudential
Equitable Life

Legal Advisors (other than property)
In-House
MacFarlanes
Eversheds
Clifford Chance
Allen and Overy
Taylor Wessing
Addleshaw Goddard

Tax Advisors
KPMG

Bankers
National Westminster

Fund Managers

AGF Investments
Arclight Capital Partners
Ares Management

Babson Capital Management
Baillie Gifford
Bluebay Asset Management

Capital Dynamics
Christofferson, Robb & Company

EQT

Guild Investments Ltd
Gatefold Hayes LP
Global Infrastructure Partners

Hayfin Capital Management
Heylo Housing Trust
Highbridge Capital Management
Highstar Capital

HSBC Global Asset Management

I Squared Capital
Icon Investments
Investec Asset Management

Kames Capital
King Street Capital Management
Knight Frank Investors
Kreos Capital

Madrileña Red de Gas
M&G Investments
MFG Investments
MFS Investment Management
Monarch Alternative Capital
Morgan Stanley Investment Management
Muzinich & Co

Natixis Global Asset Management
Neuberger Berman

Pacific Investment Management Company
Permira Debt Managers
Pictet Asset Management

Prima Capital Advisors
Robeco Asset Management

SL Capital Partners LLP
Stonepeak Infrastructure Partners

THL Credit

Venn Partners

Westmill Solar Co-operative
White Oak Global Advisors

B. Foreword by County Councillor Kevin Ellard, Chair of the Pension Fund Committee

As ever it has been a very busy year for Lancashire County Pension Fund. The world in which we operate does not stand still, and consequently neither can we.

Over the last 12 months the Fund has concluded the first pooling arrangement within the Local Government Pension Scheme in the Local Pensions Partnership. However, our approach to pooling has always been about the holistic management of the Fund rather than just creating a bigger pot of investment assets and shortly after the end of the financial year all the staff who carry out the investment and administration functions of the fund transferred to the new Partnership. They continue to be based in Preston and continue to focus on making sure that the Lancashire County Pension Fund and the other funds that they are now dealing with are the best run within the Local Government Pension Scheme. As a result of these changes we have a new working arrangements with some of the key staff within the Fund including George Graham the Director of the Fund and Mike Jensen the Chief Investment Officer. Both these individuals have played a key part within the fund and will continue to do so in the partnership arrangements.

While the creation of the partnership with the London Pension Fund Authority has been the largest single issue facing the Fund in the last 12 months we have also made sure that we have kept a clear focus on the business of investing the fund and ensuring that pensions are paid accurately and on time.

In terms of investment the markets have seen a topsy turvy year, however the Fund's investment strategy is designed to minimise the impact on value of the large swings that can be caused by market movements. This year that strategy has paid off and the fund's performance was according to independent experts State Street the best in the Local Government Pension Scheme. We also completed two major infrastructure investments during the year, one acquiring 50% of EDF's Portuguese wind energy business and the other acquiring 12.5% of the Madrid Gas Distribution Network where we are partners with EDF, PGGM one of the largest Dutch pension funds and a Chinese sovereign wealth fund. These assets increase the Fund's infrastructure investment to 9.4% of the fund and provide a long term stable income generating investment ideally suited to help the Fund meet its liabilities going forward. The success of this strategy has again been recognised with a number of awards which are detailed elsewhere in this annual report.

The Fund has also continued to expand its local property holdings in Lancashire and I am particularly pleased with the announcement shortly after the end of the financial year that the Fund will redevelop the Park Hotel building in Preston as a hotel. Where we can, as in this case, achieve the appropriate return from a local investment then there is no reason why we should not pursue it and help achieve the wider social benefits for our area that such investment will bring.

We have continued to work through our approach to responsible investment looking to be a good owner of good assets. This is an area where participating in the Partnership will allow us to devote more resource to this important area. Reassuringly the various campaigns against poor corporate behaviour which have been raised with us over the last year have all been in relation to companies in which the Fund has no investment, or are in relation to broader issues where we are already working with other LGPS funds to influence corporate behaviour. We have also completed the investment programme to put solar panels on the Fund's various properties, thus reducing the environmental impact of the portfolio and providing added benefits to our tenants.

On the administration side the team has continued to deal with the ever increasing number of both members and employers and record levels of retirements while maintaining very high levels of performance. Of particular note is the fact that because of the high level of co-operation between employers and the Fund in relation to managing and providing data we were able to issue 99% of active members' annual benefit statements on time. This was unusual in the Local Government Pension Scheme and reflects well on the effective planning undertaken for the introduction of LGPS 2014 and the strong relationship between the Fund and its employers. A considerable amount of work reviewing various fund policies has also been necessary following the introduction of LGPS 2014 and in the run up to the valuation and this has kept the Pension Fund Committee as well as the team busy.

2016 is valuation year and all expectations are that this valuation will be as challenging as the last one in terms of the ability to balance the various objectives and interests within the process. No doubt this will form a key part of next year's foreword.

County Councillor Kevin Ellard
Chair of the Pension Fund Committee

C. Governance of the Fund

Lancashire County Pension Fund Governance Policy Statement

While the Pension Fund is not technically a separate legal entity, it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework.

Under regulation 55 of the LGPS Regulations 2013, all Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy Statement setting out whether the authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority. The Fund's Governance Policy Statement as revised in May 2016 is at the following link.
Your Pension Service - Lancashire Fund Information

Comprehensive terms of reference have been established for all areas of governance of pension fund activities including the Pension Fund Committee, the Investment Panel, the Lancashire Pension Board and issues delegated to the Head of the Lancashire County Pension Fund.

The Pension Fund Committee has considered the governance arrangements relating to the administration and strategic management of Fund assets and liabilities in the light of guidance issued by the Department for Communities and Local Government (DCLG) and the requirement to complete a Governance Compliance Statement for all areas of governance of pension fund activities.

The Fund's Governance Compliance Statement is shown on the following page:

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance
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* *(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(1)* *(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.* *(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.*	✓ **Partial** See note 1 below ✓ ✓
B. Representation	*(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)* *These include:* *employing authorities (including non-scheme* *employers, e.g. admitted bodies)* *(ii) scheme members (including deferred and pensioner scheme members)* *(iii) independent professional observers (2)* *(iv) expert advisers (on an ad hoc basis)*	**Partial** (see notes 1& 2 below)

Reasons for Partial Compliance

Note 1: Unitary Councils, District Councils and Further and Higher Education employers, are represented. Other admitted bodies only represent 9% of contributors to the fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. Trade Unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

Note 2: Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by the Fund's independent advisers and officers and it is not apparent what added value such an appointment would bring.

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.* *(It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)*	✓
D. **Voting**	*(a) 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.*	✓
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.* *(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.*	✓ ✓

F. **Meetings – Frequency**	*(a) that an administering authority's main committee or committees meet at least quarterly.* *(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.* *(c) that administering authorities who do 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.*	✓ ✓ ✓
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.*	✓
H. **Scope**	*(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	✓
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.*	✓

D. Administration of the Pension Fund

Background to Lancashire County Pension Fund and the Local Government Pension Scheme

The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis". Lancashire County Council as "Administering Authority" is required by law to administer the Scheme within the geographical area of Lancashire.

Pension administration services are provided to Lancashire County Pension Fund by Lancashire County Councils award winning pensions administration service; Your Pension Service (YPS).

Review of the Year

Over the year Your Pension Service has achieved an overall performance level of 99% against the standards and targets set out within a Service Level Agreement.

In July 2015 Your Pension Service was re-accredited with the Governments Customer Service Excellence Award. This award focuses on developing customer insight, understanding scheme members' experience and delivering a first class service. The Service has held this award since 2008. More work is being undertaken to develop further customer insight, to better understand the customers experience and to make improvements.

Membership and employers

The Scheme is administered on behalf of over 300 organisations including local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector.

The Local Government Pension Scheme is open to 2 main types of employers, "Scheduled Bodies and Admissions Bodies". Scheduled Bodies are listed within the LGPS regulations and if they meet criteria are eligible to participate.

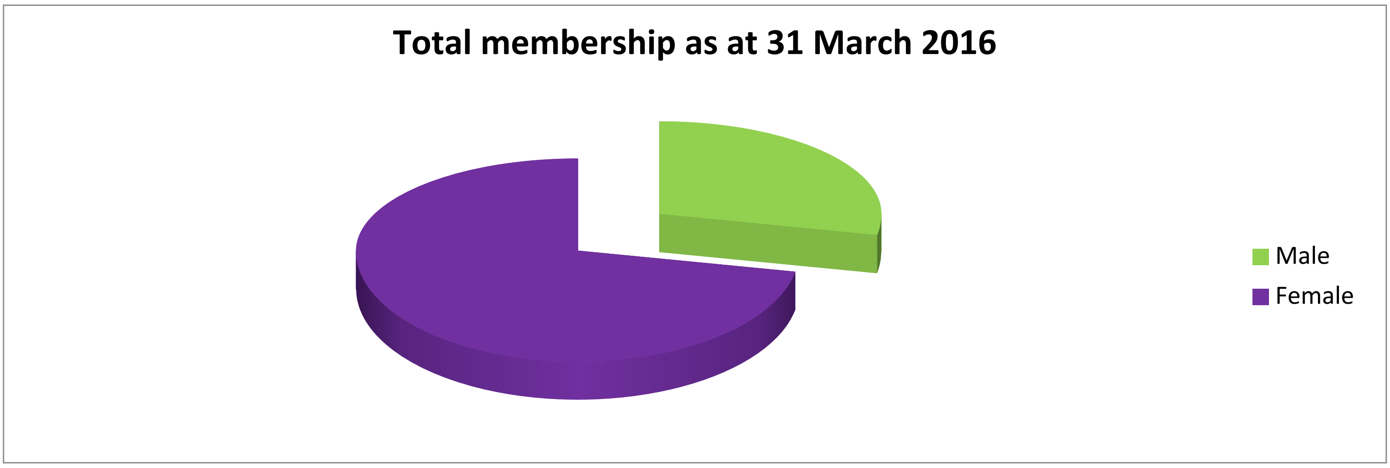
Admissions Bodies participate through a written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership.

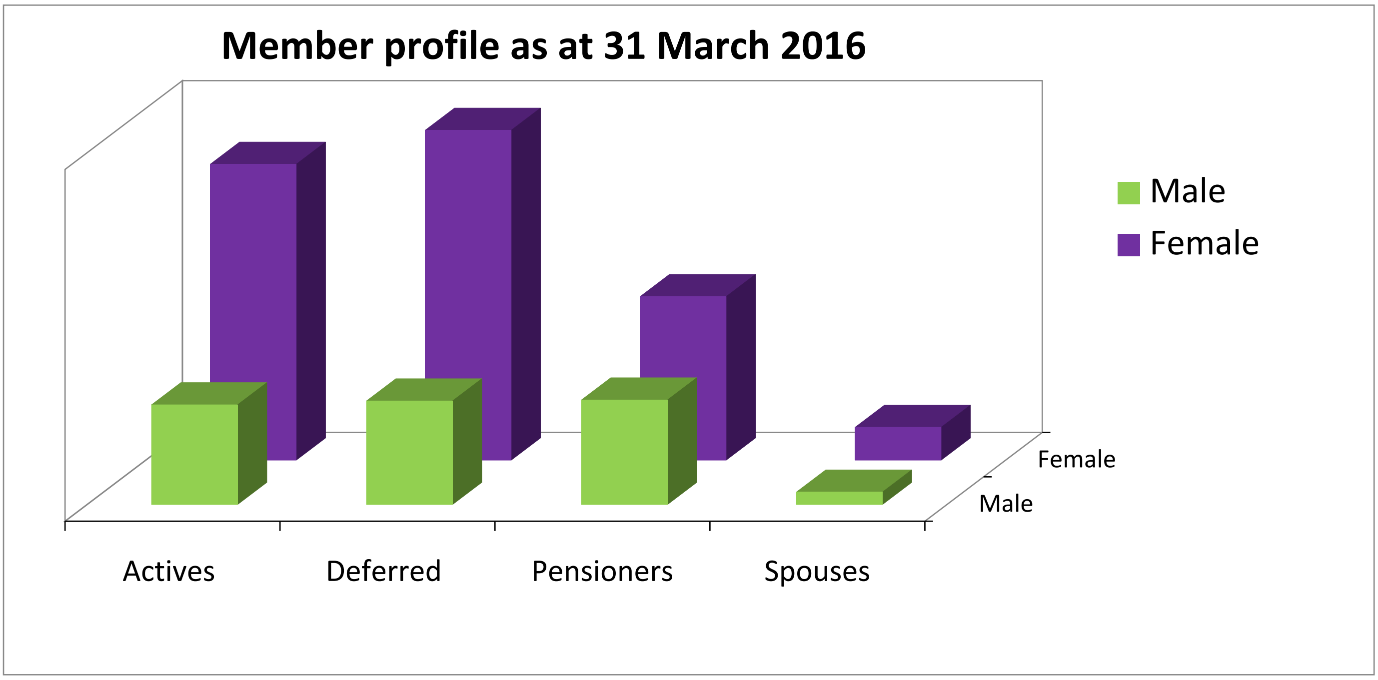
During the period 38 employers applied to join the scheme (2 parish councils, 15 academies and 21 contractors).

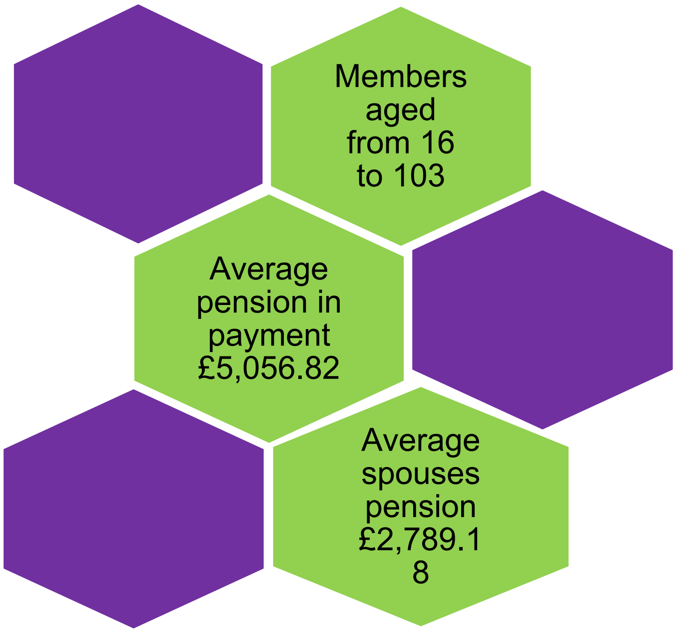
Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

LGPS membership

As at 31 March 2016	Active scheme members	Deferred pensioners	Pensions in payment	Total
Scheduled bodies	51,939	57,362	41,359	150,660
Admitted bodies	4,390	4,268	3,148	11,806
Total	**56,329**	**61,630**	**44,507**	**162,466**
As at 31 March 2015				
Scheduled bodies	49,357	51,496	40,340	141,193
Admitted bodies	4,822	4,317	2,871	12,010
Total	**54,179**	**55,813**	**43,211**	**153,203**







Performance

Lancashire County Council's Pension Fund Committee receives regular reports on the administration of the Fund ensuring that best practice standards are satisfied and met and to satisfy itself and justify to all stakeholders, including employers that the Fund is being run on an efficient and effective basis. A Service Level Agreement (SLA) exists between the Pension Fund and the service provider. The SLA contains specific service level standards and corresponding service level targets and an Annual Administration Report is presented to the Pension Fund Committee.

YPS continues to exceed SLA targets and consistently exceeds its key performance indicator;

'to calculate and pay all retirement benefits within 10 working days'

Overall achievement against SLA targets over the year was 99%.

Over the year online benefit statements were produced for active and deferred Scheme members. This was achieved in line with a new and challenging regulatory deadline of 31 August. Annual newsletters are also posted online alongside statements.

Customer service

Each year the Service's dedicated Partnerships Team undertakes a variety of events, courses and presentations. In addition the team visits Scheme employers to maintain and improve working relationships. The Partnerships Team also undertakes annual pension surgeries and pension drop-in sessions as well as facilitating an annual employer conference.

This year the Team hosted the first annual Fund Members Meeting at the Guildhall in Preston on 11 November 2015 with over 250 members in attendance. The agenda included delivery of the Fund Annual Report

A dedicated telephone helpdesk is the first point of contact for pension scheme members and employers. Over the year 96% of calls were successfully answered against a target of 90%.

Legislative changes

2015/16 has been another year of significant change in the world of pension's law.

At the 2014 Budget, the Chancellor announced huge changes allowing people with defined contribution pension savings greater freedom and choice as to how and when they may access those savings. The changes, in the main, took effect from April 2015. The LGPS gives 'defined benefit' savings rather than 'defined contribution' savings' so the changes did not directly impact on our members. However, the changes had a number of indirect impacts. To give one example, generally speaking, a member must now receive financial advice before they can transfer out their LGPS benefits to a defined contribution scheme.

The new LGPS CARE scheme was introduced in April 2014 and further changes were introduced in April 2015, as part of which a local pension board for each fund was set up and the Pensions Regulator began its new role of overseeing public sector pension schemes.

During the first few months of operating the new CARE scheme rules, LGPS funds had found that various parts were not working well in practise or needed further clarification. To address these issues, Government made The Local Government Pension Scheme (Amendment) Regulations 2015. The changes came into force on 11 April 2015, but in the main had effect back to April 2014.

Government also announced further changes to pension tax relief. In particular, they have reduced the Lifetime Allowance from £1.25 million to £1 million and the Annual Allowance for high earners. Though these changes came into force in April 2016, there were some transitional changes to the Annual Allowance rules impacting on the 2015/16 year.

Service developments

Since 1 April 2014 employers have been submitting monthly files to Your Pension Service, which replace many of the forms that they used to complete, and enable YPS to accurately post and reconcile contributions and pensionable pay to individual member records.

YPS use an internally designed system to do this which has helped to ensure that active member data is accurate and up to date, and that every member receives their correct pension pot entitlement. This system has also led to the successful production of online annual benefit statements within the new statutory deadline of 31 August.

It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund. Work is ongoing to ensure the continued submission of monthly data files from employing organisations in readiness for the 2016 actuarial valuation.

Online Services

My Pension Online is an online facility that was originally developed in 2012. Through 'My Pension Online' members can view their details and also securely update any changes in contact details. As well as this members can run various pension estimates assisting with planning for retirement. Pensioners can view their payslips and P60's online.

Members can also view their annual benefit statement via My Pension Online. Other benefits of the system include: allowing members to view their nominated beneficiaries; access to a host of forms and guides and also means that Your Pension Service can communicate with registered members via email. Currently over 45,000 members are registered online.

Appeals

Fund Members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS rules. The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the administering authority to review the disagreement.

Over the year 5 appeals have been received, 2 have been upheld and 3 cases were ongoing as at 31 March 2016. The majority of appeals relate to ill health.

Charges

YPS makes a charge to Lancashire County Pension Fund on a per member basis which is restricted to the lower quartile as reported in national government LGPS benchmarking returns. The on-going level of charge to the Fund is kept under review.

Other information

For further information relating to the administration of the scheme please refer to the Communication Policy Statement and the Pensions Administration Strategy Statement.

Your Pension Service can be contacted at:

PO Box 100
County Hall
Preston
PR1 0LD
Telephone: 0300 123 6717
E-mail: AskPensions@localpensionspartnership.org.uk
http://www.yourpensionservice.org.uk

E. Knowledge & Skills Framework

There is a requirement for all those involved in the management and oversight of public sector pension funds (whether members or officers) to ensure they achieve the level of knowledge and skill necessary for performing their duties and responsibilities effectively.

CIPFA Pensions Finance Knowledge and Skills Framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a code of practice on public sector pensions finance knowledge and skills in October 2011 in response to recommendations by Lord Hutton within the final report of the Independent Public Service Pensions Commission. The code was revised in 2013 to reflect the provisions of the Public Service Pensions Act 2013 and remains a definitive guide to expected standards. The Code of Practice works in conjunction with detailed Knowledge and Skills Frameworks (KSF) also published by CIPFA which support knowledge and skills development by all those involved in the management and oversight of public sector pension funds.

During 2015 a new KSF focussed on the knowledge requirements of Local Pension Board members has been introduced reflecting the Pensions Regulator Code of Practice No 14 which came into force in April 2015.

CIPFA has identified a syllabus of 8 core areas of knowledge across the KSFs it has published to date:

1. pensions legislation;
2. public sector pensions governance;
3. pensions administration;
4. pensions accounting and auditing standards;
5. financial services procurement and relationship management;
6. investment performance and risk management;
7. financial markets and product knowledge;
8. actuarial methods, standards and practices.

Training approach

Since its adoption of the CIPFA Code of Practice in February 2012 the Pension Fund Committee has reviewed the Fund's training approach at regular intervals. During 2015/16 the Committee approved a refreshed Training Policy for the Fund aimed at ensuring the Fund is overseen by individuals who:

- have appropriate levels of knowledge and skill;
- understand and comply with legislative and other requirements;
- act with integrity;
- are accountable to the Fund’s stakeholders for their decisions.

The new Policy recognises that the competency and performance of senior Officers is assessed under the County Council's Performance Development Review (PDR) process and continuing professional development (CPD) frameworks which uphold the required standards. The new Training Policy therefore focusses on the needs of Pension Fund Committee and Lancashire Pension Board members, supporting them to attain levels of knowledge and understanding which underpin robust decision-making and effective oversight.

The refreshed Training Policy provides a framework for ensuring members receive appropriate support (both collectively and individually) for gaining the knowledge and understanding they need. Training is responsive to the learning needs of individuals in their different roles and members have regular opportunities to build skills and knowledge through a range of methods and approaches including:

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via an online Virtual Reading Room
- access to on-line training and assessment modules via the Pensions Regulators Trustee Toolkit.

Committee and Board members are personally responsible for identifying gaps in their knowledge which could prevent them performing their duties effectively. They are expected to undertake self-directed learning to complement the training provided and to seek additional support and advice from fund officers as required.

Details of training provided internally and attended externally by members during 2015/16 are given below:

Date	Subject	Training provider	Venue	Number of attendees
5/06/2015	Top 5 Pension Fund Discretions (Pensions Administration)	Internal – Your Pensions Service	Winckley House - Preston	20
18/06/2015	Initial Training for Pension Board Members (Governance)	Hymans Robertson	County Hall, Preston	9
24/09/2015	Pension Fund Basics (Pensions Administration)	Internal – Your Pensions Service	County Hall, Preston	12
25/09/2015	Introduction to the Local Government Pension Scheme (Governance, Legislation)	CIPFA Pensions Network	Northern Trust Offices	2
30/09/2015	2016 Fund Valuation (Actuarial Methods)	Mercers	County Hall, Preston	14
01/10/2015	CIPFA Pensions Network Seminar	CIPFA	Midland Hotel- Manchester	1
14/10/2015 - 16/10/2015	NAPF Annual Conference	NAPF	Manchester	3
16/10/2105	LGPS Investment Pooling Event	Local Govt. Assoc.	LGA House, London	1
20/10/2015 - 22/10/2015	13th Annual Local Govt. Pension Investment Forum	IBC	Guoman Tower, London.	4
29/10/2015	Pensions Reform (Pension Legislation)	Internal – Your Pensions Service	County Hall, Preston	16
3/11/2015	NAPF Local Authority Forum	NAPF	Cheapside House, London	1
10/11/2015	Meeting the Financial Challenge of Local Govt. Pensions	LGA	Local Government House	2

19/11/2015	Risk and Valuation Part 1 (Risk, Actuarial Methods)	Internal – Your Pensions Service	County Hall, Preston	20
27/11/2015	A Direct Investment – Vasco (procurement & relationships, risk management)	Internal – LCPF Investment Team	County Hall, Preston	16
2/12/2015 – 4/12/2015	LAPFF Annual Conference	LAPFF	Highcliff Marriot, Bournemouth	2
27/01/2016	CIPFA Pensions Summit	CIPFA	Canary Wharf, London	1
28/01/2016	Risk and Valuation Part 2 (Risk, Actuarial Methods)	Internal – Your Pensions Service	County Hall, Preston	16
04/02/2016	LAPF Strategic Investment Forum 2016	LAPF	Andaz Hotel, London	1
23/02/2016	Understanding Investment Performance Reporting	Internal – LCPF Investment Team	County Hall, Preston	14
03/03/2016	Local Govt. Chronicle Investment Seminar	LGC	Carden Park, Chester	1
17/03/2016	Local Authority Pension Investment Strategies and Current Issues “Reviewing Investments & Funding at a Time of Change”	SPS Conferences	Le Meridian Hotel, London	1

F. Investment Policy and Performance

Performance

In the year to 31 March 2016, The Fund delivered 4.36% return on assets, outperforming the Lancashire Plan Benchmark of 3.59% and placing Lancashire's investment performance as the best amongst all of the Local Authority Pension Scheme members. The value of the Fund's assets at 31 March 2016 was £6,036.2m, up from £5,830.7m at 1 March 2015.

Whilst it is pleasing to be able to report strong performance once again, the Fund invests its assets to meet its own liabilities over the medium to long-term time frame and therefore performance should be judged against those objectives and over a corresponding period. Annual returns can be volatile, as seen in 2008/09 (fund down 20%) and 2009/10 (fund up 35%); short term returns do not necessarily indicate the underlying health of the Fund.

Investment types

In line with the investment strategy adopted by the Pension Fund Committee in 2013 and more detailed sub-strategies adopted since then, the Fund's investments are divided into four principal sub groups as follows:

Equities

The Fund holds both public and private equity investments. Public equity investments are managed by two unitised investment funds and five active managers who operate with differing and complementary styles of investment selection. The remit of six of these seven pools is unconstrained, high conviction investment in global equities. The final manager has a remit to invest in emerging market equities.

The difficult investment conditions of 2015-16 presented the first real test of the Investment Team's portfolio construction strategy and it was pleasing to see that the diversification that had been deliberately incorporated provided the outcomes expected, with Lancashire's equity portfolio significantly outperforming a volatile market.

Private equity investments are held through a variety of closed-ended limited partnerships, which are invested over a wide range of inception dates and managed by a diverse collection of different managers.

Property

The Fund dedicates a large portion of its investment portfolio to directly owned UK commercial properties managed by Knight Frank. An allocation to local investment opportunities has been adopted, with early investments in this area including the construction of a high-standard student accommodation block in Preston, the construction of a local shopping centre, and the restoration of an iconic Victorian hotel. The Fund also has allocations to a European real estate investment fund managed by M&G, a healthcare property fund managed by Kames, and is a limited partner in a residential development project in the South East commuter belt managed by Invesco.

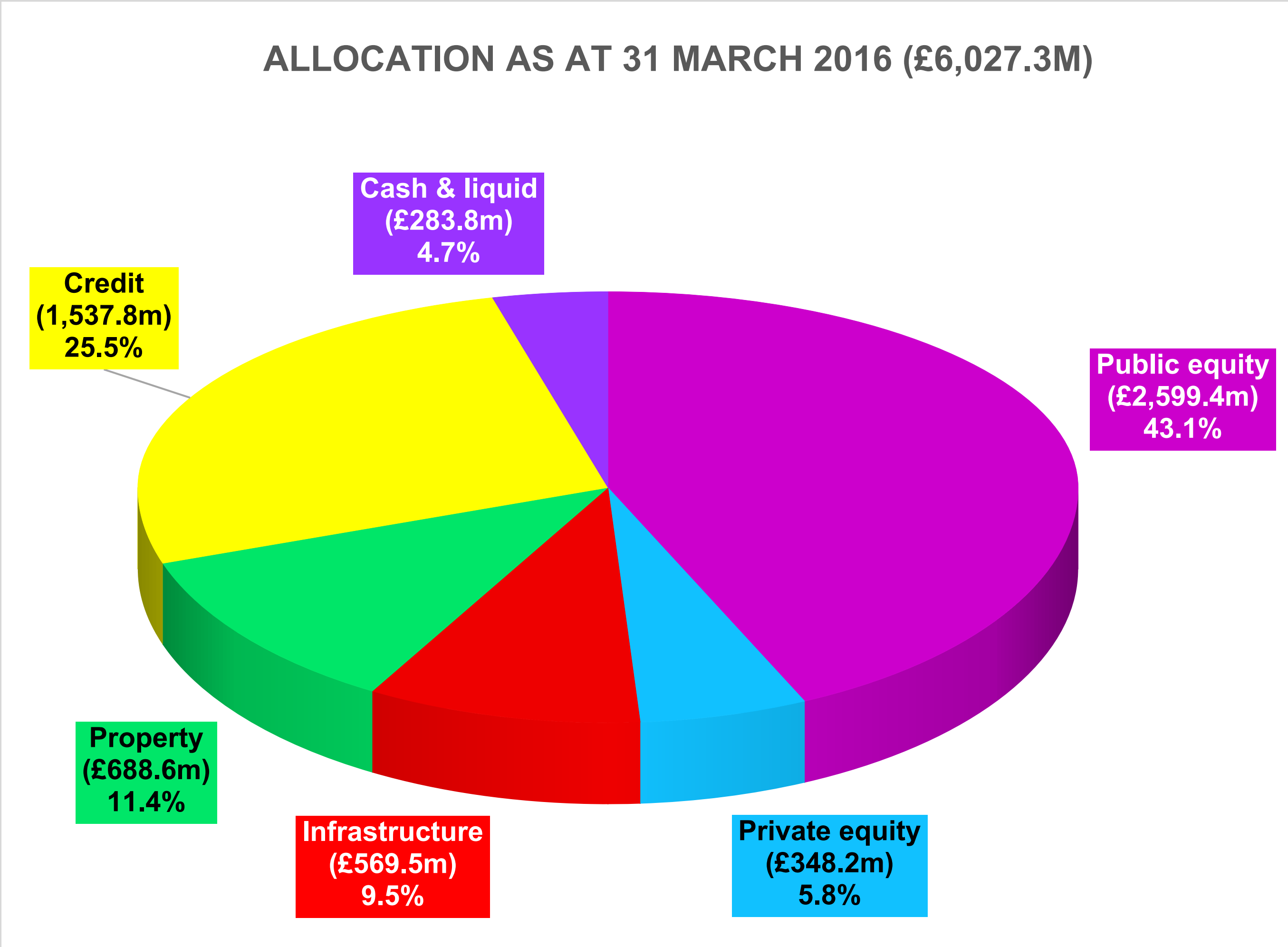
Infrastructure

During 2015-16, The Fund increased its infrastructure allocation to 12.5%. The Fund has allocations to a number of different global infrastructure funds, and also invests directly in global renewable energy infrastructure projects through its majority-owned infrastructure partnership, Red Rose Infrastructure LLP. 2015-16 saw the development of some major international investment collaborations, which facilitated investments in Portuguese wind farm energy generation and Spanish gas distribution. Lancashire's strategic partners in these transactions have included EDF Invest of France, Ginkgo Tree (a state-controlled Chinese investment fund), and PGGM, the leading Dutch pension manager.

Credit strategies
The Fund has an internally managed portfolio, which is split into four broad categories of credit investment: emerging markets sovereign debt, non-investment grade secured lending, cyclical credit opportunities, and debt secured on real assets. These investments include both direct loans made by the Fund and a variety of different externally managed funds. During 2015-16, the Fund entered into several new investments in credit strategies, including seeding of a North-West direct lending fund which focusses on lending to SMEs.

The Investment Team was recognised for its leadership in the field, being awarded 'Best Use of Private Debt' by the Alternative Investment Institute.

A summary of asset allocation, as at 31 March 2016, is shown below.



Future Investments

Implementation of the investment strategy is ongoing and 2015-16 saw further investment commitments which will be spent over coming years.

Commitments made since the investment strategy was adopted in 2013 have started to deliver investment returns, and the results of the substantial changes to that strategy are starting to have a stronger influence on investment performance.

Performance Monitoring

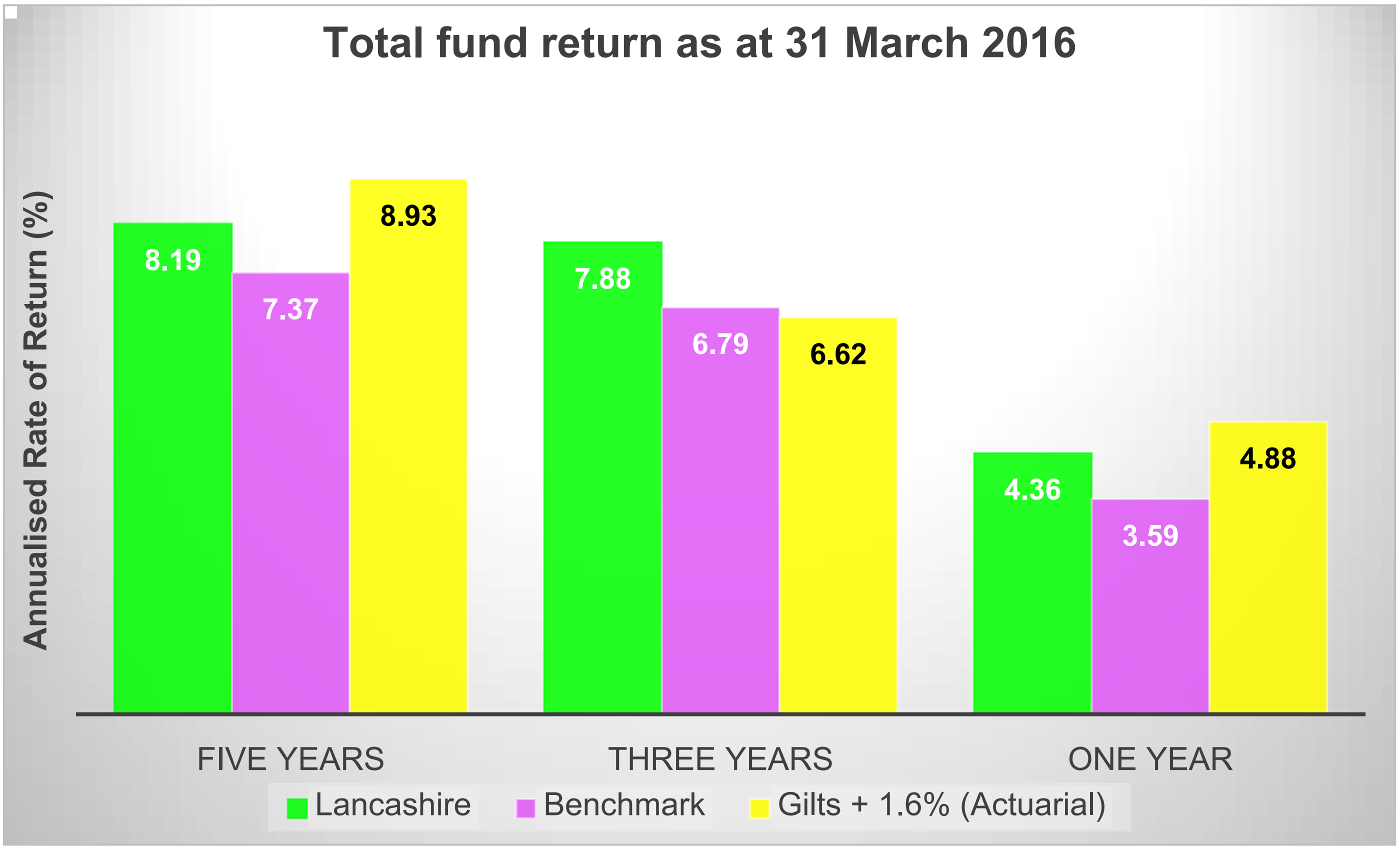
Performance is measured against a number of specific benchmarks with individual managers being given performance targets which are linked to the expected market returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. The performance of investment managers is reviewed on a regular basis by the Investment Management Team and the Investment Panel. Any recommendations arising from those reviews are considered by the Investment Committee.

The Fund subscribes to the annual independent State Street (formerly WM) Survey of UK Local Authority Pension Funds, which compares and contrasts the Fund with other local authority pension funds. It is important to point out that the Fund's absolute performance versus that of other local authority funds may be misleading, as these third-party funds will certainly have different investment strategies designed to meet their own bespoke liability profile.

Nonetheless, it is pleasing to report that the average local authority fund performance during the last year according to the State Street Survey was 0.2%, whereas the Fund's performance at 4.36% placed it first out of all participating funds.

The Fund's primary objective, to have assets available to meet pension liabilities as they fall due, requires the Fund to consistently match or outperform the actuarial assumption of investment returns, being UK gilts+1.6%.

The chart below shows the total return of the Fund compared to the overall Fund-specific benchmark and the actuarial Fund return assumption of gilts+1.6% measured over 1, 3, and 5 years to 31 March 2016.



In the year to 31 March 2016, the total fund return amounted to 4.36% against a benchmark return of 3.59%. The gilts +1.6% actuarial return assumption for the same period was 4.88%.

The more important five-year performance of the Fund shows annualised returns for the Fund of 8.19% per annum versus the benchmark return of 7.37% and the actuarial measure of 8.93%. Readers should note that the five-year figures do not yet reflect the full impact of the 'new' investment strategy, which was put in place in the three year period from 2013-14 through to 2014-15.

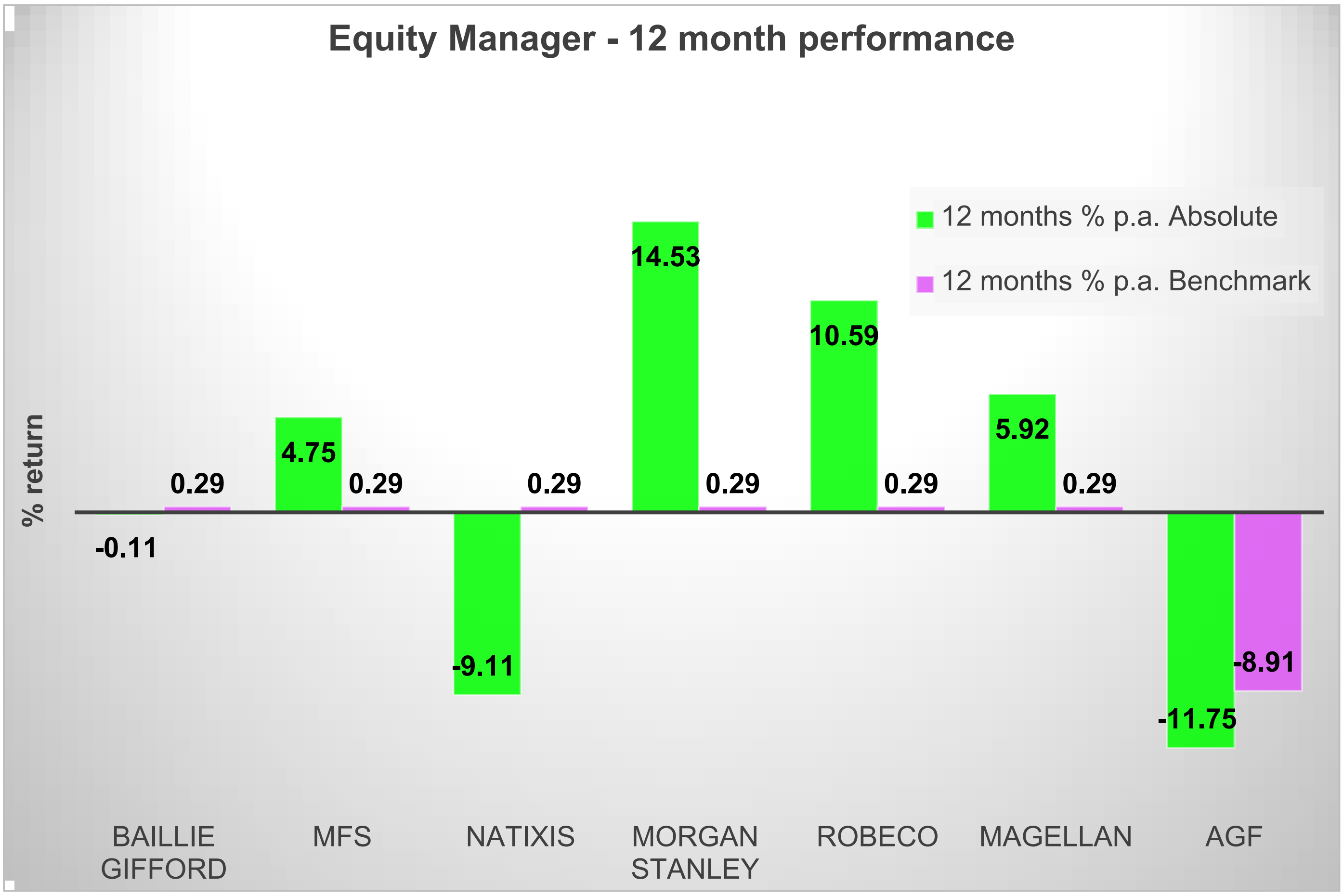
Currency Effects

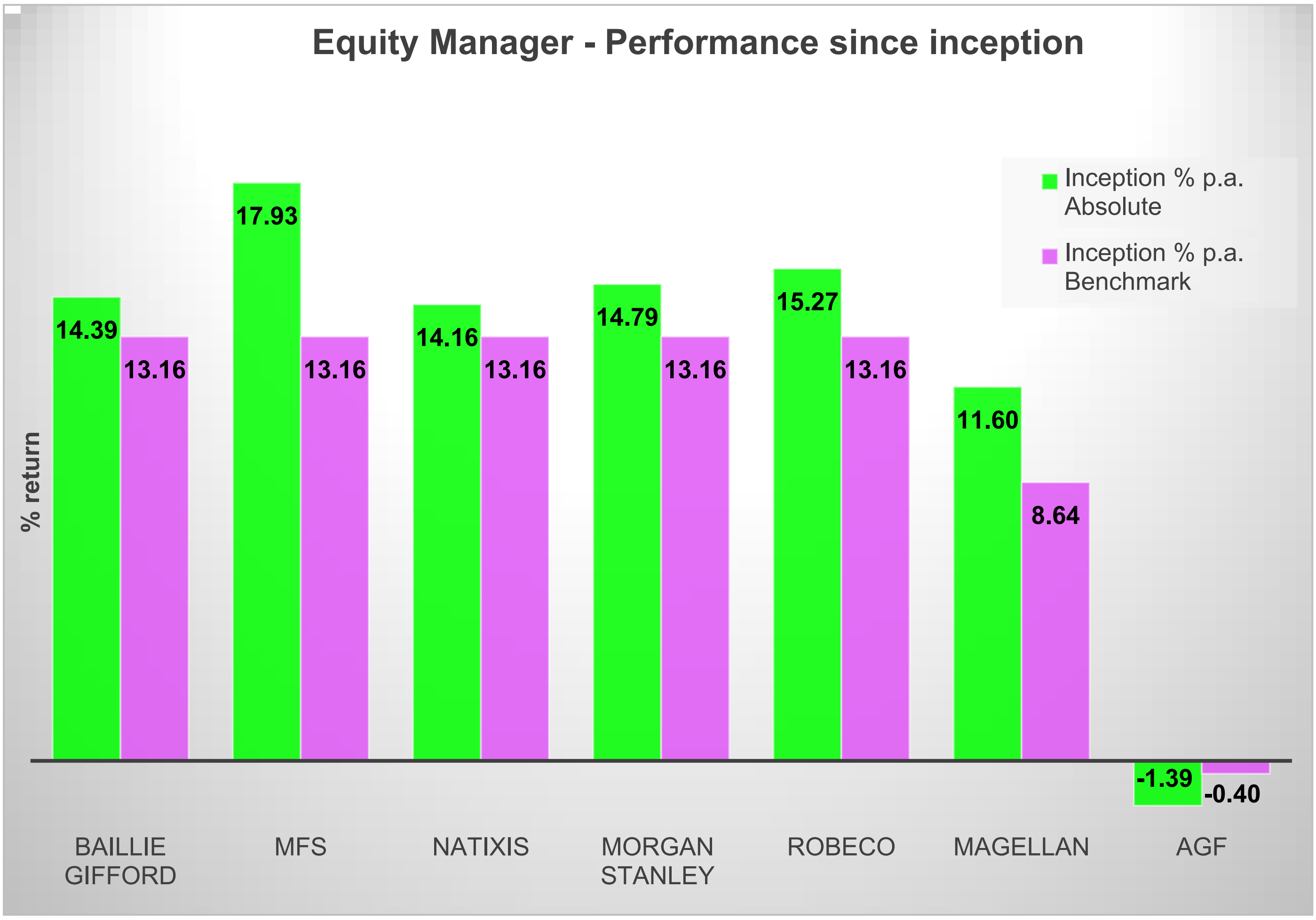
The Fund's strategy is to seek out investments with the most favourable characteristics that indicate yields in the long-run, wherever these may be situated globally. Currency fluctuations have an increased impact on short-term investment performance, but over the long-term this impact should be outweighed by the superior investment characteristics of the new strategy. Over the course of the year, Sterling weakened slightly against the Dollar from a rate of $1.48 at 31 March 2015 to a rate of $1.44 on 31 March 2016, thereby causing appreciation in the Sterling valuation of Dollar denominated assets of 2.8%. In the same period, Sterling also weakened against the Euro from €1.38 at 31 March 2015 to €1.26 on 31 March 2016, thereby increasing the value of Euro denominated assets by 8.7%.

Despite these factors - which can make performance data hard to interpret - underlying investment performance remains strong, with local currency investment returns in line with, or ahead of, expectations.

Listed Equities

The performance of active equity managers is shown in the charts below:





Active managers have discretion to make investments that deviate from the benchmark allocation within agreed constraints and tolerances. These decisions will reflect their views on market conditions within various countries or between various instruments.

As part of an overall equity portfolio strategy, Robeco and Morgan Stanley were installed as defensive managers. As expected in a weaker market, they have significantly exceeded their benchmark over the past 12 months. Baillie Gifford, NGAM, MFS, and Magellan were appointed with a growth bias and their out-performance against the benchmark since inception reflects this. The Fund is very pleased with the managers' performance.

AGF focus entirely on emerging market equities and have performed slightly behind benchmark in a period of extreme volatility. We would expect a high conviction manager who does not seek to track the index to be able to produce excess performance versus the benchmark over time, especially in such a diverse universe as emerging market equities.

The period over which performance is being measured for all of these managers, however, is not yet significant enough to draw any solid conclusions.

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The largest ten direct equity holdings of the Fund as at 31 March 2016 were:

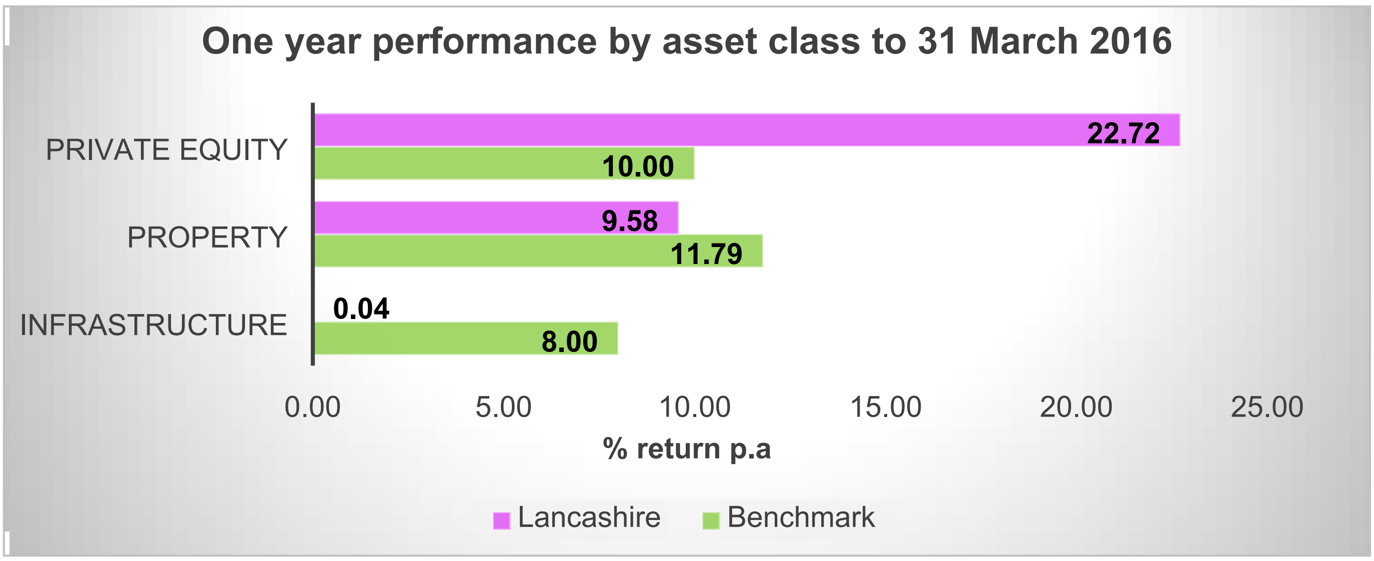
Equity	Market value as at 31 March 2016 £m	Percentage of net assets of the Fund %
Visa Inc	43.5	0.72%
Reckitt Benckiser Group Plc	40.7	0.68%
Accenture Plc	35.9	0.60%
Nestle SA	35.5	0.59%
British American Tobacco Plc	27.4	0.45%
Microsoft Corporation	27.2	0.45%
Walt Disney Corporation	26.9	0.45%
Alphabet Inc (Google)	26.5	0.44%
Amazon.Com Inc	26.1	0.43%
SAP SE	25.6	0.42%
	315.3	**5.23%**

Private Equity and Real Assets

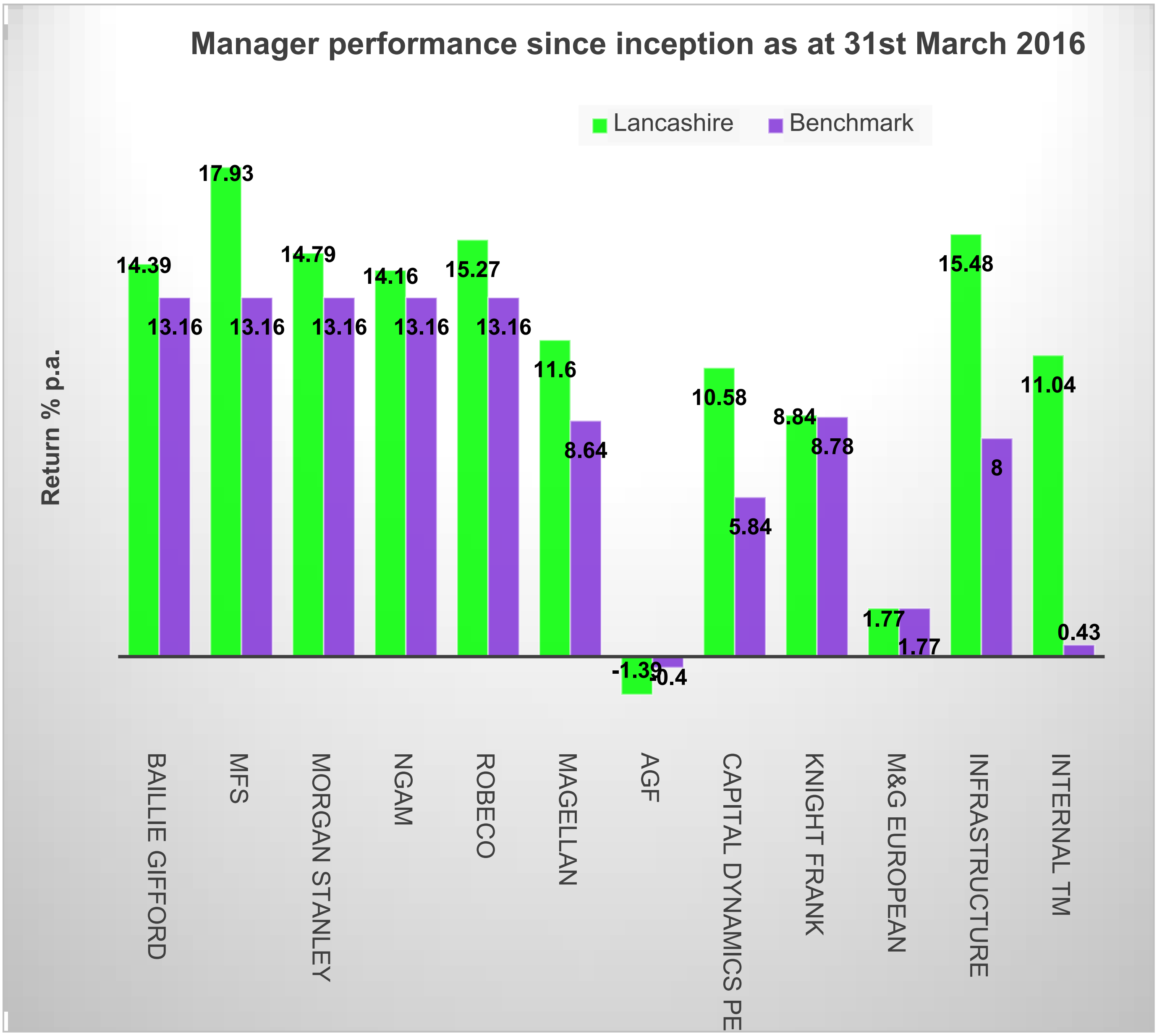
Consistent with last year's strong performance, private equity investments surpassed the benchmark once again during this period.

Conversely, the performance of property was not so strong against benchmark during the period. This reflects the initial transaction and stamp duty costs of the push to increase the portfolio size and the lag in valuation uplift likely to occur in relation to property development activity. The high quality of the commercial real estate portfolio can perhaps be expected to perform worse still relative to a broad benchmark during real estate boom periods, while providing a much more robust portfolio in a downturn. In the long term, real estate investment performance marginally exceeds the benchmark return.

Infrastructure investments, in contrast with the previous 12 month period, generated returns on investment much lower than the benchmark. This is in part due to significant initial investment costs associated with the growth in the portfolio and can also be attributed to some short-term foreign exchange differences. The Fund secured some significant new investments in 2015-16, including the acquisition of a significant stake in EDF Energie Nouvelle's portfolio of Portuguese windfarms and acquiring part ownership of Madrid's gas distribution network.



Annual valuations of these less liquid asset types can be affected by a number of factors. As with all of the Fund's investments, it is long term performance and the role that an investment plays in meeting the overall needs of the Fund that is key. Thus, the Fund is pleased with the strongly positive yields in these asset classes.



Private Equity investments provide alternative opportunities to generate returns linked to movements in stock markets. The higher level of engagement by managers in the investee companies gives an expectation of better long term returns, so this return expectation has to be balanced with the higher risk profile and the lack of liquidity of these investments, which typically have to be held from 7-10 years before gains can be realised.

Infrastructure investments offer long-term returns that are expected to closely match the Fund's investment needs, and, as a bonus, they provide an important source of diversification. As well as investing in traditional infrastructure funds, the Fund has made a number of direct investments in global infrastructure, notably in the renewable energy sector. The ability to invest directly minimises fee costs and has enabled the Fund to negotiate favourable investment terms which have delivered excellent performance since inception.

Real Estate is an important portion of the Fund's investment portfolio because of both the diversification benefits that real estate investments bring and the rental income generated that is used to fund member benefits without the need to liquidate other investments. This role will become increasingly important as the gap between contributions and member benefits will inevitably grow as the fund matures with time.

Property investments accounted for 11.4% of the LCPF's total assets under management as at 31 March 2016. The largest ten direct property holdings of the Fund were:

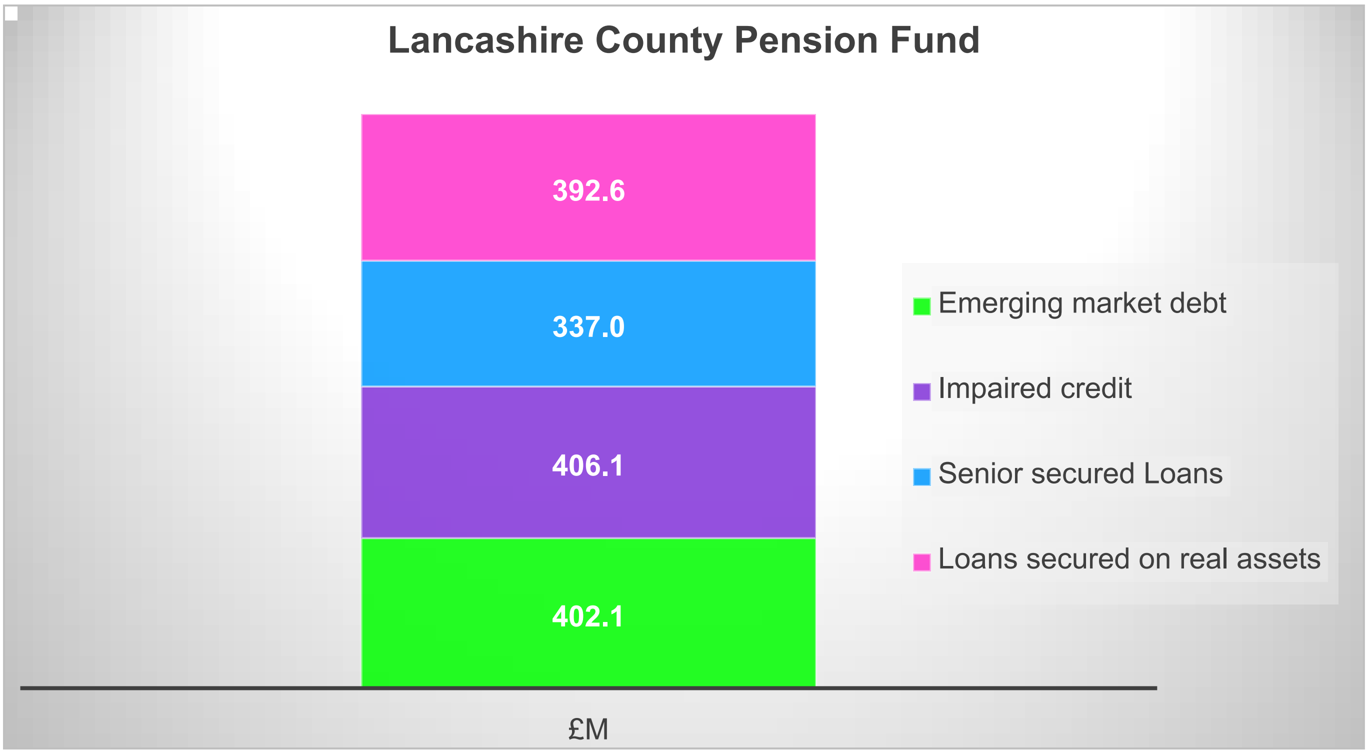
Property	Sector	Market Value as at 31 March 2016 £m
Helmont House, Cardiff	Multi-let commercial	35.6
1-3 Dufferin St, London	Offices	31.3
Princes Mead Shopping Centre, Farnborough	Shopping Centre	28.6
St Edmondsbury Retail Park, Bury St Edmunds	Retail / Warehouse	21.8
1 & 2 Woodbridge Meadows, Guildford	Multi let commercial	20.0
Weir Road, Wimbledon	Industrial / Warehouse	19.8
Unit H, Tuscany Park, Wakefield	Industrial / Warehouse	18.9
Benson House, Leeds	Offices	18.2
Oxonian Park, Oxford	Industrial / Warehouse	17.9
Tuscany Park, Wakefield	Industrial / Warehouse	17.5
		229.6

This year, the Fund has extended its property development activity as a means of acquiring investment assets at competitive prices and focused a part of its property investment allocation on local investment in the County of Lancashire. At 31 March 2016 the Fund had two projects under construction in the private-rented and student accommodation sectors with a gross development value of £50m. Several other North-West based property projects are also being actively considered.

Credit strategies

Credit strategies follow four themes. Investments in emerging market debt amounted to £402.1m (6.7% of the Fund), £337m (5.5%) was invested in non-investment grade secured lending, £406.1m (6.8%) in cyclical credit opportunities and £392.6m (6.5%) in debt secured on real assets.

Target levels of investment are approximately £450m in each category and further commitments were made during 2015-16. Investment levels will approach targets over the coming years as those commitments are drawn down.

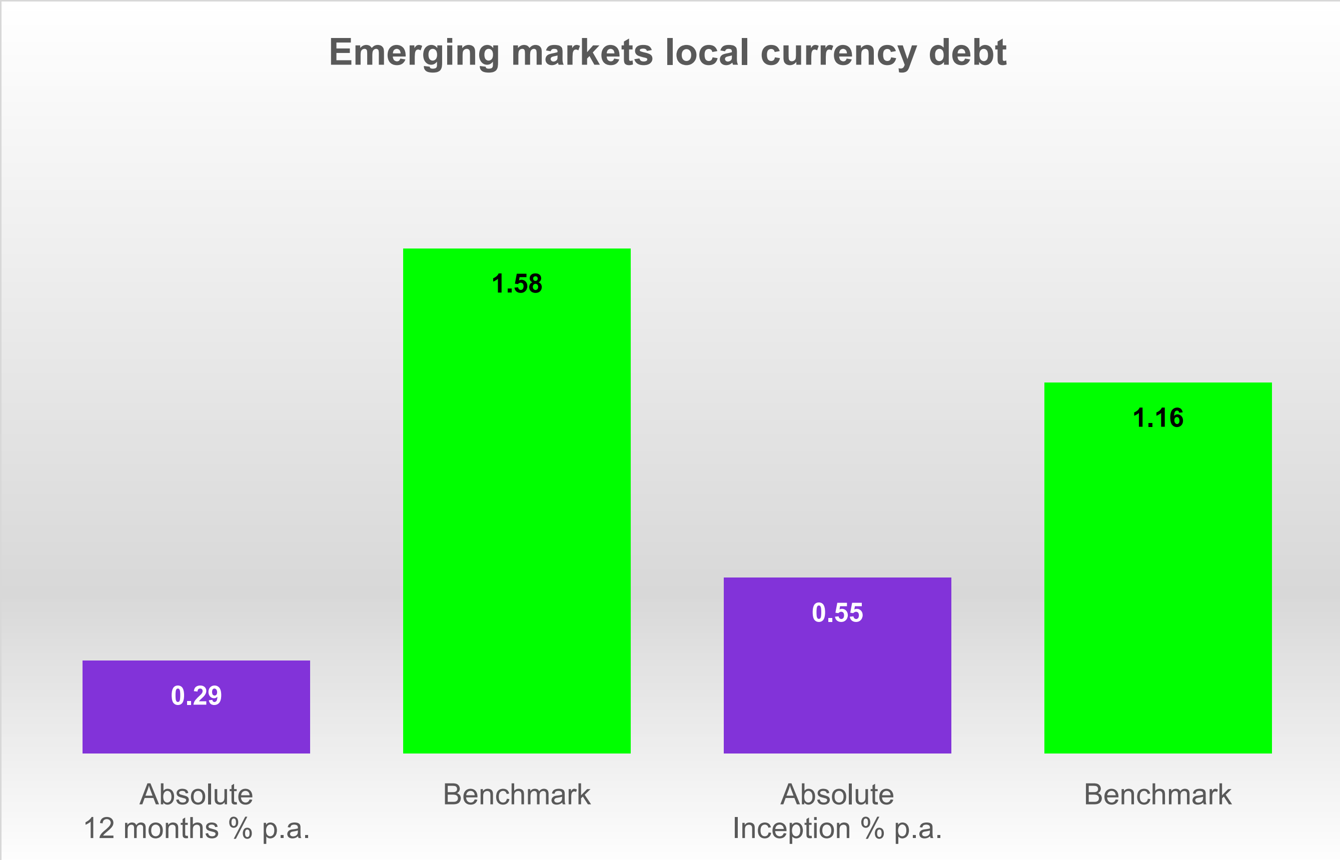


Emerging markets sovereign debt

Returns suffered from a number of different effects, notably ongoing crises in a number of jurisdictions, continuing depression in global economic demand growth, and a large currency devaluation by the Chinese economy.

Since inception, the Fund's investments in emerging markets debt have achieved a small positive return of 0.55%. Emerging markets started the 2016 calendar year well, with the JPM GBI Emerging Markets Global Diversified Index rising at a rate equivalent to 13.84% per annum over the three months to 31 March 2016, with the Fund's emerging market investments rising 10.24% over the same period.

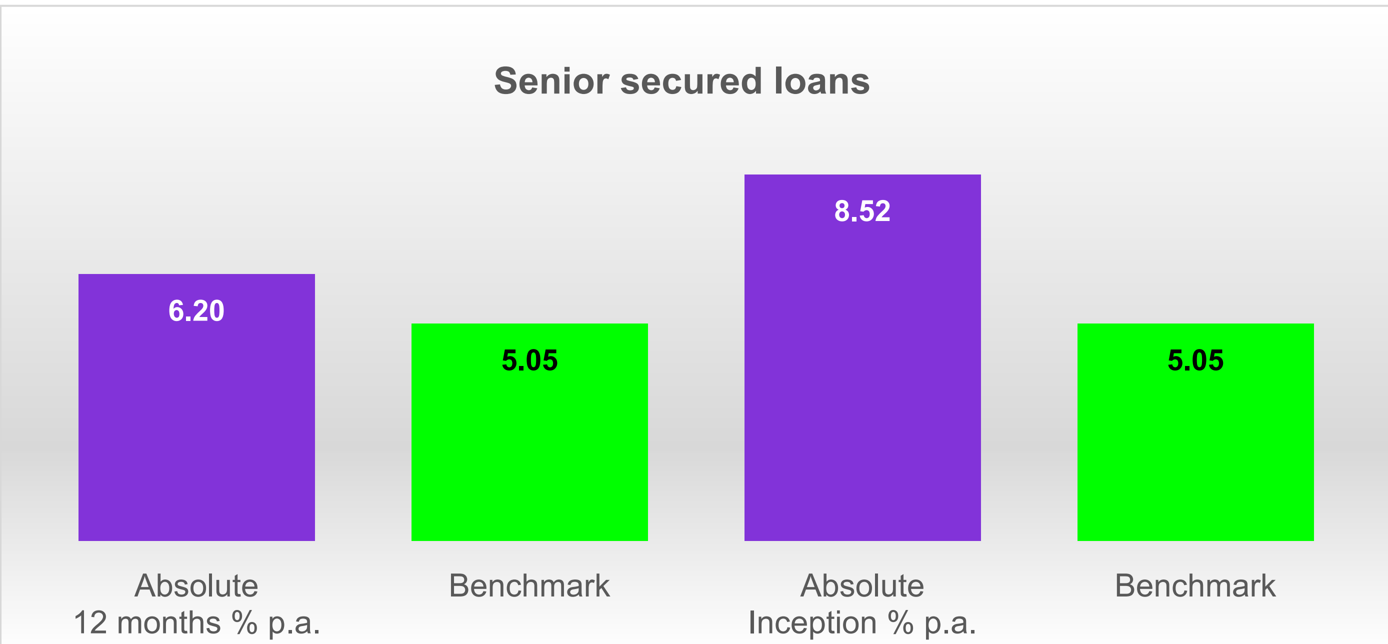
These investments are considered likely to benefit from long-term global economic growth and strengthening of the currencies of emerging economies, even if there is some short term volatility. In addition, the asset class provides useful diversification from other more mainstream credit investments.



Senior secured loans

Investments in non-investment grade secured debt (i.e. lending to smaller companies) recorded a return of 6.2% during the period versus a benchmark of 5.05%. These investments deliver regular cash flows that are reinvested and the investment team believes that they provide an excellent risk/reward profile when compared to traded bonds.

The Fund added further investments to this credit category during the year, and was recognised by the prestigious Alternative Investment Forum with an award for Best Use of Private Debt.



Credit opportunities

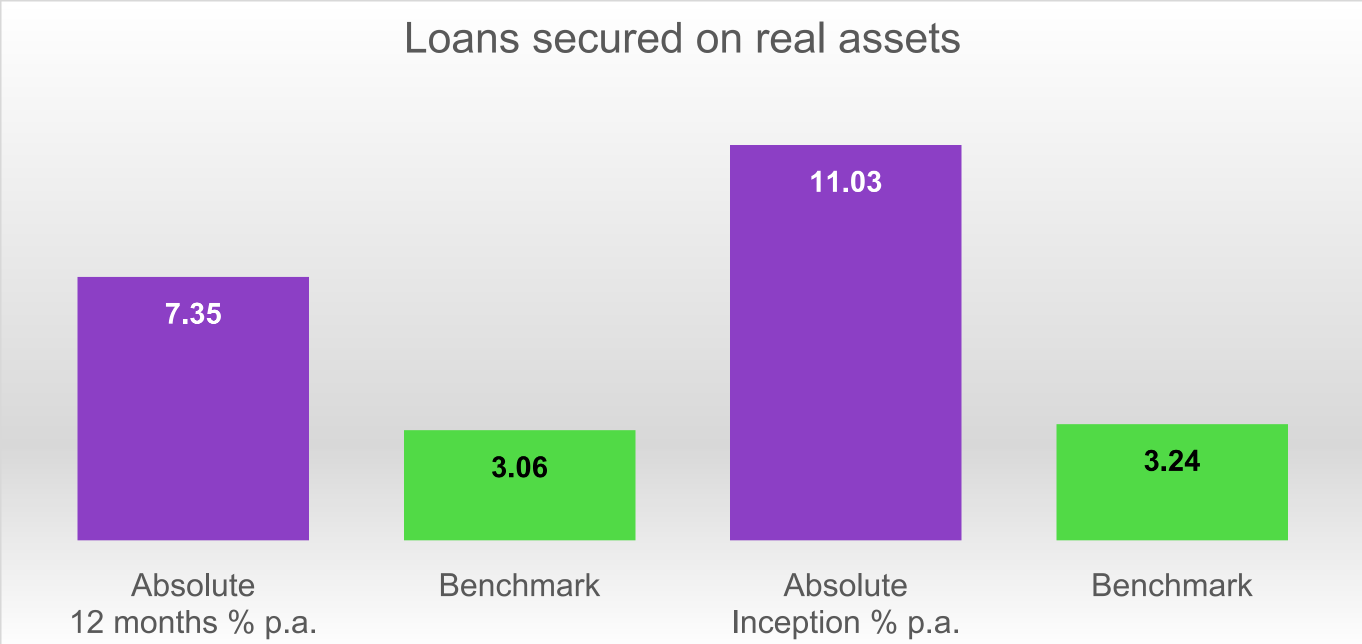
Investments in cyclical credit opportunities delivered 7.21% during the year versus a benchmark of 7.00%. These investments seek to take advantage of specific opportunities where 'technical' factors mean that assets can be acquired at a discount to their long-term economic value.

Generating returns in this credit category requires manager skill in identifying investment opportunities and in managing investments to achieve maximum value. The investments may be illiquid, meaning they have to be held to maturity in order to realise gains. They provide a diversification benefit and the expectation of excess returns over the medium term. However, valuations require a degree of manager judgement, so return figures should be treated with caution until the portfolio is mature and has a significant track record of realising mark-to-market gains.

Loans secured on real assets

These showed significant returns during the period: 7.35% versus a benchmark of 3.06%. The current environment provides an excellent backdrop for good quality deals to be done with higher returns than might be expected in the longer-term.

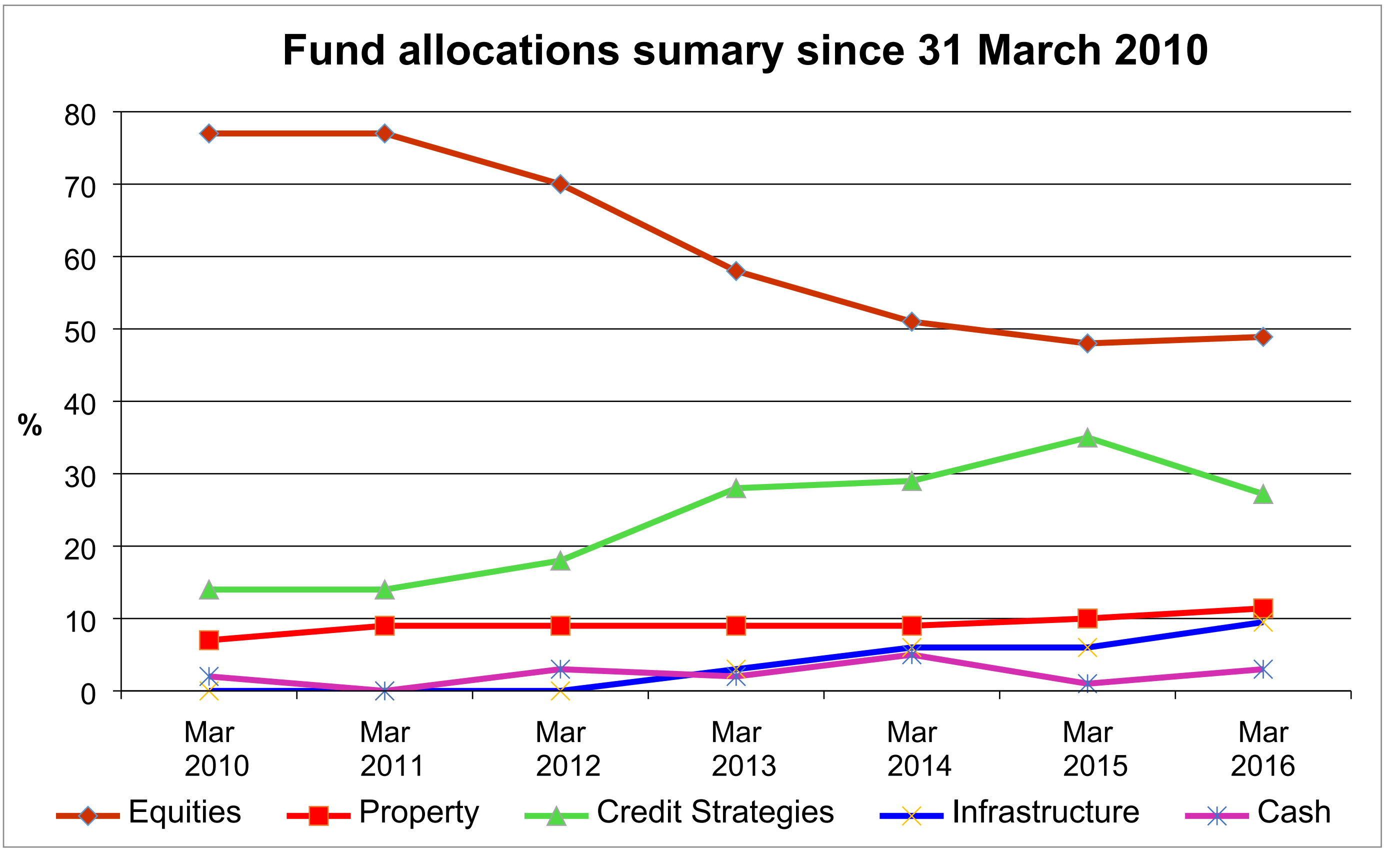
These investments are typically long-dated in nature and provide a very low-risk profile, being secured, typically, on real estate. Properly underwritten and managed, there is a very low expectation of loss. While generating lower expectations of long-term return, these investments should provide a very good match for the long-term needs of LCPF to generate income and protect the value of the portfolio.



Trend

The Fund's investment strategy focuses on reducing reliance on assets such as listed equities in favour of asset classes such as infrastructure and floating rate credit, and to deliver increased diversification, for example through increased allocations to real estate and other alternative asset types.

This move towards a diverse range of asset classes has resulted in equity accounting for 49% of the Fund at 31 March 2016, compared with 77% at 31 March 2010. During the same period, infrastructure investments have increased from 5.6% to 9.5% and are likely to grow further, in line with the Fund's raised aspiration level of 12.5%.



At 31 March 2016, equity holdings were towards the middle of their 40%-60% target range, with assets under management of 48.9%. Property remained at the bottom of its 10-20% target range at 11.4%, and credit, infrastructure and cash, at a total of 39.7% were at the top of the 20-40% target range. The Fund had higher levels of cash than would be the strategic level, due to the impact of transitioning between different asset classes.

Future Commitments

As at 31 March 2016, the Fund had committed to invest a further £323.3m in infrastructure investments, £342m in private equity funds, £33.7m in property developments, and £497.2m in various credit strategies. These commitments will be met from the holdings of cash and cash equivalents that the Fund holds together with distributions from the maturity of existing investments as well as from continuing to rebalance positions in other asset classes.

Cashflow

During 2015-16, cash inflows during the year consisted of £343.2m and cash outflows were £303.6m, representing a net cash inflow of £39.6m (compared with an outflow of £42.2m in the previous year). Benefits payable amounted to £245.8m and were partially offset by net investment income of £99.1m (including £13.1m accrued dividends); contributions of £238.6m and transfers in of £5.5m.

Currently, investment income more than covers any shortfall in contributions received versus benefits paid. As outlined above, the Fund continues to shift its asset allocation towards income generating assets to ensure that this remains the case in the medium term.

Governance

There are four levels of responsibility for the investment management of the Lancashire County Pension Fund:

- The County Council's Pension Fund Committee takes major policy decisions and monitors overall performance. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing other interested organisations;

- The Investment Panel ("the Panel") provides expert professional advice to the Pension Fund Committee in relation to investment strategy. The Panel supports the Head of Fund with the specialist advice required by the Pension Fund Committee. The Investment Panel consists of two independent external investment advisors and the Head of Fund.

- The Investment Management Team of fund employees undertake day-to-day investment fund selection, monitoring and due-diligence;

- Finally, external investment managers (or managers of unitised investments held by the Fund) fix precise weightings and select the individual investments within their particular remit;

A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement. Governance Policy Statement

Social, Environmental, and Ethical Considerations

The Fund takes an active stance on corporate governance issues. It uses Pensions Investment Research Consultants ("PIRC") to vote on its behalf at shareholder meetings. PIRC advises on Socially Responsible Investment issues and issues voting guidance and commentary for shareholder meetings. PIRC is instructed to vote the Fund's shares in accordance with its guidelines unless an Investment Manager requests a different vote for investment management reasons. In the latter case, the Director of the Fund will decide how best to cast the vote in the long-term financial interest of the Fund.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which is a group of like-minded local authority pension funds that meet to discuss and act / engage in respect of Socially Responsible Investment and Corporate Governance issues.

Policy on Voting

For many years, the Fund has followed the voting recommendations of PIRC with the Fund's managers being instructed to vote at shareholder meetings in accordance with PIRC's recommendations. PIRC has been acting as the LCPF's proxy since 2011 and casting the Fund's votes directly at shareholder meetings.

The Fund's investment managers receive advance notice of PIRC's voting intentions and may raise concerns with the Fund if they do not believe the recommended stance on a vote is in the best financial interests of the Fund.

The Committee delegates its agreement of any significant departure from the guidelines proposed by the managers, to the Director as Chair of the Investment Panel. In all voting decisions the long-term financial interests of the Fund are paramount. There were no occurrences of this during 2015-16.

Policy on Risk

The consideration of investment risk forms as a part of the Pension Fund's overall risk register is presented to Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return while reducing volatility. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian. The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property, and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

Compliance with Myners Principles

The Fund is compliant with the Myners Principles, details of which can be found in the Statement of Investment Principles. Statement of Investment Principles

G. Accounts of the Fund

Responsibilities for the statement of accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Director of Financial Resources, who is also the Director of Financial Resources to the Pension Fund;

- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The responsibilities of the Director of Financial Resources to the Pension Fund

The Director of Financial Resources to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Director of Financial Resources to the Pension Fund has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

In addition, the Director of Financial Resources to the Pension Fund has:

- Kept proper accounting records which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2016 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Neil Kissock

Director of Financial Resources

30 June 2016

Annual Governance Statement 2015/16

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2016 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 162,466 members across 261 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

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

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

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2016.

The Fund's Governance Framework

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

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

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

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

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

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

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

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee.

This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

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

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

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

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

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

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

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making

- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

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

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

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

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

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

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

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

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

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

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

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

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. Following a restructure of the County Council's management the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund. These functions were transferred to the interim Head of Fund on 24 March 2016. This was as a result of establishing the Local Pensions Partnership and the Director of the Fund transferring into this new arrangement.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2015/16 were:

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pensions Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved the arrangements for the pooling of assets and sharing of services with the London Pensions Fund Authority.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The Director of Finance, Governance and Public Services as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Head of Internal Audit who is managerially accountable to the Director of Legal and Democratic Services. The Head of Internal Audit provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Head of Internal audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2015/16 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2016/17

The following specific actions are proposed for completion during 2016/17.

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.
- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.
- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.
- A review of the effectiveness of the Local Pensions Board.
- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

County Councillor Kevin Ellard
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Pension Fund annual report.

Lancashire County Pension Fund
Fund account

	Note	2015/16 £m	2014/15 £m
Dealing with members, employers and others directly involved in the Fund			
Contributions	6	238.6	238.0
Transfers in from other pension funds	7	5.5	4.8
		244.1	242.8
Benefits	8	(245.8)	(240.2)
Payments to and on account of leavers	9	(12.5)	(100.1)
Management expenses	10	(45.3)	(35.4)
		(303.6)	(375.7)
Net withdrawals from dealings with members		**(59.5)**	**(132.9)**
Returns on investments			
Investment income	11	99.1	90.7
Profit and losses on disposal of investments and changes in the market value of investments	14	165.9	684.7
Net return on investments		**265.0**	**775.4**
Net increase / (decrease) in the net assets available for benefits during the year		**205.5**	**642.5**

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Lancashire County Pension Fund

Net assets statement

as at 31 March 2016

	Note	31/03/16 £m	31/03/15 £m
Investment assets	14	6,108.0	6,383.1
Cash deposits	14	210.3	60.0
		6,318.3	6,443.1
Investment liabilities	14	(291.0)	(629.6)
Current assets	20	27.7	28.1
Current liabilities	21	(18.8)	(10.9)
Net assets of the Fund available to fund benefits at the period end		**6,036.2**	**5,830.7**

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2016 and its income and expenditure for the year then ended.

Neil Kissock

Director of Financial Resources

County Councillor Terry Brown

Chair of the Audit and Governance Committee

Notes to the financial statements

1. Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

The published accounts show that in 2015/16 cash inflows during the year consisted of £343.2 million and cash outflows were £303.6 million, representing a net cash inflow of £39.6 million (compared with an outflow of £42.2 million in the previous year). Benefits payable amounted to £245.8 million and were partially offset by net investment income of £99.1 million (including £13.1 million accrued dividends); contributions of £238.6 million and transfers in of £5.5 million.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

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

The Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the Fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at Your Pension Service - Lancashire Fund Information

On 8th April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8th April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

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

- 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 voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 369 employer organisations (2014/15: 320 employer organisations) within Lancashire County Pension Fund including the county council itself, of which 261 have active members (2014/15: 218) as detailed below:

Lancashire County Pension Fund	**31/03/16**	**31/03/15**
Total number of employers	369	320
Number of employers with active members	261	218
Number of active scheme members		
County council	27,106	27,405
Other employers	29,223	26,774
Total	56,329	54,179
Number of pensioners		
County council	22,414	21,765
Other employers	22,093	21,446
Total	44,507	43,211
Number of deferred pensioners		
County council	33,253	29,148
Other employers	28,377	26,665
Total	61,630	55,813
Total membership	**162,466**	**153,203**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2016 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008	Service post 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 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	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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2015/16 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 25 of these accounts.

3. Accounting policies

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

Normal contributions both from the members and from the employer are accounted for on an accruals basis. Member contributions are in accordance with the LGPS Regulations 2013 and employer contributions are at the percentage rate recommended by the scheme actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension 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.

3.1.2 Transfers to and from other schemes

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

3.1.3 Investment income

3.1.3.1 Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3.1.3.2 Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

3.1.3.3 Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.2 Fund account – expense items

3.2.1 Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

3.2.2 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.

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs". Management expenses have now been broken down across the following three categories:

- 3.2.4 - Administrative expenses
- 3.2.5 - Oversight and governance expenses
- 3.2.6 - Investment management expenses

3.2.4 Administrative expenses

Administration expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;

- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and

- Associated project expenses.

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the Fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

3.2.5 Oversight and governance expenses

Oversight and governance expenses include the following costs:

- Selection, appointment and performance management and monitoring of external fund managers;
- Selection, appointment and performance management and monitoring of fund managers;
- Investment advisory services (strategic allocation, manager monitoring and selection, etc);
- Independent advisors to the pension fund;
- Operation and support of the pensions committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

3.2.6 Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets.

All investment management expenses are accounted for on an accruals basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2015/16, £4.7m of fees is based on such estimates (2014/15: £2.3m).

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

3.3 Net assets statement

3.3.1 Financial assets

Financial assets, other than loans and receivables, 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 assets 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 as shown in the net assets statement have been determined as follows:

3.3.2 Market-quoted investments

The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

3.3.3 Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

3.3.4 Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012.

3.3.5 Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.3.6 Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

3.3.7 Freehold and leasehold properties
The properties were valued at open market value at 31 March 2016 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.8 Acquisition costs of investments
The acquisition costs of investments are included within the purchase price.

3.3.9 Valuation of investments
Investments are shown at their fair value as at 31 March 2016. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of 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. Any gains or losses are treated as part of a change in market value of investments.

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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

3.3.12 Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise of trade and other receivables and cash deposits.

3.3.13 Cash and cash equivalents
Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

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

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

3.3.15 Financial liabilities at amortised cost
Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit or loss.

3.3.16 Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 25).

3.3.17 Additional voluntary contributions
Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending
Investments lent under securities lending arrangements continue to be recognised in the net assets statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation.

4. Critical judgements in applying accounting policies

4.1 Unquoted private equity and infrastructure investments
It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012.

4.2 Pension Fund liability
The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £917.7 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,454.2m. There is a risk that these investments might be under or overstated in the accounts.

Bonds secured on affordable housing assets.	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £83.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations.	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £80.5m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of 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 pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £380m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £165m.

6. Contributions receivable

By category	**2015/16 £m**	**2014/15 £m**
Employers	183.7	183.2
Members	54.9	54.8
	238.6	238.0

By authority	**2015/16 £m**	**2014/15 £m**
County council	104.2	102.1
Scheduled bodies	113.2	115.4
Admitted bodies	21.2	20.5
	238.6	238.0

By type	2015/16 £m	2014/15 £m
Employee's normal contributions	54.8	54.8
Employer's normal contributions	122.5	124.4
Employer's deficit recovery contributions	49.0	47.3
Employer's augmentation contributions	12.3	11.5
	238.6	238.0

Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2015/16, £0.4m is voluntary and additional regular contributions (2014/15: £0.4m).

7. Transfers in from other Pension Funds

	2015/16 £m	2014/15 £m
Individual transfers in from other schemes	5.5	4.8
	5.5	4.8

8. Benefits payable

By category	2015/16 £m	2014/15 £m
Pensions	200.2	192.0
Lump sum retirement benefits	40.5	41.7
Lump sum death benefits	5.1	6.5
	245.8	240.2

By authority	2015/16 £m	2014/15 £m
County council	107.2	106.3
Scheduled bodies	120.4	118.5
Admitted bodies	18.2	15.4
	245.8	240.2

9. Payments to and on account of leavers

	2015/16 £m	2014/15 £m
Refunds to members leaving service	0.7	0.2
Individual transfers	11.2	10.3
Group transfers	0.6	89.6
	12.5	100.1

10. Management expenses

	2015/16 £m	2014/15 £m
Administrative costs	4.1	3.5
Investment management expenses	32.5	29.4
Oversight and governance costs	8.7	2.5
	45.3	35.4

Oversight and governance costs rose during the year due to legal and advisory costs arising from the implementation of infrastructure opportunities in line with the Funds investment strategy as well costs associated with the Funds partnership with the LPFA for the pooling of the executive and investment assets of the two organisations.

Included in the oversight and governance costs are the external audit fees. For 15/16 and 14/15 these are £34,169

10.1 Investment management expenses

	2015/16 £m	2014/15 £m
Transaction costs	1.5	1.8
Management fees	27.9	26.4
Performance related fees	2.9	1.0
Custody fees	0.2	0.2
	32.5	29.4

The analysis of costs of managing the Fund has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. Investment income

	2015/16 £m	2014/15 £m
Fixed interest securities	3.3	2.9
Equity dividends	41.6	40.6
Index linked securities	1.1	0.0
Pooled investment vehicles	22.3	15.0
Net rents from properties	29.2	24.3
Interest on cash deposits	0.5	0.5
Other	1.1	7.4
	99.1	90.7

12. Property income

	2015/16 £m	2014/15 £m
Rental income	32.3	29.7
Direct operating expenses	(3.1)	(5.4)
Net income	29.2	24.3

13. Stock lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2015/16 was £1.5m (2015/16: £2.2m)

Securities on loan at the 31st March 2016 were £76.2m (2015: £86m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £76.2m of equities (2015: £86m equities).

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation. The collateral is non cash and totalled £81.6m of bonds (2015: £92m of equities).

14. Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2015 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2016 £m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles	2,740.2	950.4	(842.7)	87.7	2,935.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,739.0	2,380.7	(2,485.2)	165.9	5,800.4
Derivative contracts:					
Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Investment assets	6,443.1				6,318.3
Forward currency contracts liability value	(629.6)				(291.0)
Portfolio value	**5,813.5**				**6,027.3**

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	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	2,639.1	(2,428.3)	684.7	5,739.0
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	5,192.8				6,443.1
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

Investments analysed by fund manager

		31/3/16 £m	%	31/3/15 £m	%
Public equity					
External managers	Baillie Gifford	733.3	12.1%	734.1	12.6%
	MFS	350.1	5.8%	334.2	5.7%
	Morgan Stanley	324.6	5.4%	283.5	4.9%
	NGAM	209.7	3.5%	230.8	4.0%
	Robeco	496.0	8.2%	448.5	7.7%
UCITS funds	AGF	234.5	3.9%	266.9	4.6%
	MFG (Magellan)	251.2	4.2%	238.1	4.1%
		2,599.4	**43.1%**	**2,536.1**	**43.6%**
Private equity					
External managers	Capital Dynamics	336.5	5.6%	269.9	4.7%
Direct	Standard Life	11.7	0.2%	7.6	0.1%
		348.2	**5.8%**	**277.5**	**4.8%**
Long-term credit investments					
Senior secured loans	Ares Institutional	56.0	0.9%	123.2	2.1%
	Babson	74.5	1.2%	72.8	1.3%
	Hayfin	73.0	1.2%	44.2	0.8%
	Highbridge	0.0	0.0%	57.1	1.0%
	Kreos	4.9	0.1%	0.0	0.0%
	Muzinich Private Debt Fund	5.9	0.1%	0.0	0.0%
	Permira Credit Solutions	47.3	0.8%	0.0	0.0%
	THL	57.0	0.9%	55.8	1.0%
	White Oak	18.4	0.3%	0.0	0.0%
Loans secured on real assets	Heylo Housing	83.6	1.4%	42.6	0.7%
	Prima	214.6	3.5%	153.5	2.6%
	Venn Commercial Real Estate	83.0	1.4%	0.0	0.0%
	Westmill	11.4	0.2%	11.7	0.2%
Emerging market debt	Bluebay	125.0	2.1%	128.8	2.2%
	HSBC	60.0	1.0%	58.2	1.0%
	Investec	83.1	1.4%	83.5	1.4%
	Pictet	134.0	2.2%	129.6	2.2%
Credit opportunities	CRC- Christofferson Robb & Co	89.2	1.5%	34.4	0.6%
	EQT	53.0	0.9%	44.3	0.8%
	MFO King Street	109.9	1.8%	54.8	1.0%
	Monarch	52.4	0.9%	53.8	0.9%
	Neuberger Berman	54.0	0.9%	58.8	1.0%
	Pimco Bravo	47.6	0.8%	28.9	0.5%
		1,537.8	**25.5%**	**1,236.0**	**21.3%**

		31/3/16 £m	%	31/3/15 £m	%
Liquid credit (cash and bonds)					
External managers	Babson	0.0	0.0%	226.9	3.9%
	ING	0.0	0.0%	181.9	3.1%
	In-house	283.8	4.7%	457.0	7.9%
		283.8	**4.7%**	**865.8**	**14.9%**
Infrastructure					
Direct	Arclight Energy	62.6	1.0%	35.9	0.6%
	Capital Dynamics Cape Byron	66.4	1.1%	65.6	1.1%
	Capital Dynamics Clean Energy	31.7	0.5%	32.9	0.6%
	Capital Dynamics Red Rose	76.0	1.3%	92.8	1.6%
	Capital Dynamics US Solar	0.7	0.0%	0.0	0.0%
	EQT Infrastructure	9.6	0.2%	13.1	0.2%
	Global Infrastructure Partners	34.3	0.6%	15.9	0.3%
	Guild Investments Ltd	70.4	1.1%	0.0	0.0%
	Highstar Capital	35.2	0.6%	33.4	0.6%
	Icon Infrastructure	34.0	0.6%	29.8	0.5%
	ISQ Global Infrastructure	7.5	0.1%	4.3	0.1%
	Madrilena Red de Gas (MRG)	135.9	2.3%	0.0	0.0%
	Stonepeak Infrastructure	5.2	0.1%	0.0	0.0%
		569.5	**9.5%**	**323.7**	**5.6%**
Property					
Direct	Knight Frank	608.1	10.1%	531.4	9.1%
Indirect	Gatefold Hayes	30.4	0.5%	12.9	0.2%
	Kames Target	14.0	0.2%	0.0	0.0%
	M&G Europe fund	36.1	0.6%	30.1	0.5%
		688.6	**11.4%**	**574.4**	**9.8%**
Portfolio Value		**6,027.3**	**100.0%**	**5,813.5**	**100.0%**

	31/03/16 £m	31/03/15 £m
Fixed interest securities		
UK corporate bonds quoted	85.3	94.2
Overseas corporate bonds quoted	37.8	54.6
	123.1	148.8

	31/03/16 £m	31/03/15 £m
Equities		
UK quoted	191.3	212.3
Overseas quoted	1,878.6	1,788.4
	2,069.9	2,000.7

	31/03/16 £m	31/03/15 £m
Index linked securities		
UK quoted	63.7	317.9
	63.7	317.9

	31/03/16 £m	31/03/15 £m
Pooled investment vehicles		
UK managed funds:		
Fixed income funds	60.0	58.2
Venture capital	369.4	278.5
Property funds	44.5	12.9
Overseas managed funds:		
Equity funds	485.7	505.0
Fixed income funds	1,097.3	1,443.8
Cash funds	0.6	0.5
Property funds	36.1	30.1
Venture capital	842.0	411.2
	2,935.6	2,740.2

	31/03/16 £m	31/03/15 £m
Properties		
UK – freehold	515.7	460.6
UK – long leasehold	92.4	70.8
	608.1	531.4

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

	31/03/16 £m	31/03/15 £m
Balance as at start of the year	531.4	450.5
Additions:		
Purchases	75.5	57.3
Construction	8.9	2.4
Disposals	(52.6)	(26.1)
Net gain/loss on fair value	44.9	47.3
Balance as at the end of the year	608.1	531.4

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2015/16 £m	*2014/15 £m
Leases expiring in the following year	29.5	28.6
Leases expiring in two to five years	87.0	98.2
Leases expiring after five years	87.6	105.8
Total	204.1	232.6

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

*Figures for 2014/15 have been restated due to more detailed information becoming available to the Fund.

Analysis of derivatives

Objectives and policies for holding derivatives
Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency
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 a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	Currency bought*	Local value m	Currency sold*	Local value m	Asset value £m	Liability value £m
Up to one month	GBP	286.0	USD	(405.6)	286.0	(282.2)
Up to one month	JPY	35.5	USD	(0.3)	0.2	(0.2)
One to six months	USD	11.2	CHF	(10.9)	7.7	(8.0)
One to six months	USD	0.8	AUD	(1.1)	0.6	(0.6)
Open forward currency contracts at 31 March 2016					294.5	(291.0)
Net forward currency contracts at 31 March 2016						3.5
Prior year comparative					£m	£m
Open forward currency contracts at 31 March 2015					632.4	(629.6)
Net forward currency contracts at 31 March 2015						2.8

*Currencies are referred to above using International Standards Organisation codes. GBP – British Pound, USD – US Dollar, CHF – Swiss Franc, AUD – Australian Dollar, JPY – Japanese Yen

	31/03/16 £m	31/03/15 £m
Cash deposits		
Sterling	114.9	35.0
Foreign currency	95.4	25.0
	210.3	60.0

15. Financial instruments classification

The accounting policy on financial instruments describes 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 by category and net asset statement heading.

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31/03/16	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	123.1	-	-
Equities	2,069.9	-	-
Index linked securities	63.7	-	-
Pooled investment vehicles	2,935.6	-	-
Derivative contracts	294.5	-	-
Cash deposits	-	210.3	-
Investment accruals	13.1	-	-
Debtors	-	27.7	-
Total financial assets	**5,499.9**	**238.0**	**-**
Financial liabilities			
Derivative contracts	291.0	-	-
Creditors	-	-	18.8
Total financial liabilities	**291.0**	**-**	**18.8**

31/03/15	Fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	148.8	-	-
Equities	2,000.7	-	-
Index linked securities	317.9	-	-
Pooled investment vehicles	2,740.2	-	-
Derivative contracts	632.4	-	-
Cash deposits	-	60.0	-
Investment accruals	11.7	-	-
Debtors	-	28.1	-
Total financial assets	**5,851.7**	**88.1**	**-**
Financial liabilities			
Derivative contracts	629.6	-	-
Creditors	-	-	10.9
Total financial liabilities	**629.6**	**-**	**10.9**

16. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £121.0m (2014/15: £634.1m)

17. Financial instruments – valuation

17.1 Valuation of financial instruments carried at fair value

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

17.1.1 Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. 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.

17.1.2 Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

17.1.3 Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

The following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31/03/16	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,341.1	245.6	1913.2	5,499.9
Total financial assets	**3,341.1**	**245.6**	**1,913.2**	**5,499.9**
Financial liabilities				
Financial liabilities at fair value through profit and loss	291.0	-	-	291.0
Total financial liabilities	**291.0**	**-**	**-**	**291.0**

31/03/15	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets	**4,047.9**	**368.8**	**1,420.5**	**5,837.2**
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	-	-	629.6
Total financial liabilities	**629.6**	**-**	**-**	**629.6**

18. Nature and extent of risks arising from financial instruments

18.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep 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 cash flow.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

18.2 Market risk

Market risk is risk of 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 objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

18.3 Other price risk

Other 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 and derivatives 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

18.3.1 Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2015/16 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.4%
Total equities	9.6%
Alternatives	6.4%
Total property	2.4%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is also shown):

Asset type	31/03/16 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

Asset type	31/03/15 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

18.4 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 risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/16 £m	31/03/15 £m
Cash and cash equivalents	210.3	60.0
Fixed interest securities	1,280.3	1,650.8
Total	**1,490.6**	**1,710.8**

18.4.1 Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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 +/- 100 BPS change in interest rates:

Asset type		Change in year in net assets available to pay benefits	
	31/03/16 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	210.3	2.1	(2.1)
Fixed interest securities	1,280.3	12.8	(12.8)
Total change in assets available	**1,490.6**	**14.9**	**(14.9)**

Asset type		Change in year in net assets available to pay benefits	
	31/03/15 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

18.5 Currency risk

Currency risk represents the risk that the fair value cash flow 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 the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than £.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous year end:

Currency exposure – asset type	31/03/16 £m	31/03/15 £m
Overseas bonds (including index linked)	850.9	1,498.3
Overseas equities	2,622.9	2,513.8
Overseas alternatives	868.0	191.4
Overseas property	36.1	30.1
Total overseas assets	**4,377.9**	**4,233.6**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (previous year = 6.2%).

A 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/16 £m	+6.1% £m	-6.1% £m
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/15 £m	+6.2% £m	-6.2% £m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

18.6 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 financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial instructions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31st March 2016 was £210.3m (31 March 2015: £60m.) This was held with the following institutions:

Summary	**Rating**	**31/03/16**	**31/03/15**
Bank deposit accounts		**£m**	**£m**
Northern Trust	A+	154.8	30.8
Svenska Handelsbanken	AA-	55.4	30.0
Bank current accounts			
Natwest account	BBB-	0.1	(0.8)
Total		**210.3**	**60.0**

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

The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

All financial liabilities at 31 March 2016 are due within the one year.

19. Additional voluntary contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2015 to 31 March 2016 for Prudential and 1 September 2014 to 31 August 2015 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.0	21.1	22.1
Income (incl. contributions, bonuses, interest & transfers in)	0.0	4.8	4.8
Expenditure (incl. benefits, transfers out & change in market value)	(0.2)	(3.9)	(4.1)
Value at the end of the year	**0.8**	**22.0**	**22.8**

20. Current assets

	31/03/16 £m	31/03/15 £m
Contributions due - employers	13.9	14.4
Contributions due - members	4.6	4.6
Debtors - bodies external to general government	9.2	9.1
	27.7	28.1

Analysis of debtors	31/03/16 £m	31/03/15 £m
Other local authorities	14.9	15.6
Other entities and individuals	12.8	12.5
	27.7	28.1

21. Current liabilities

	31/03/16 £m	31/03/15 £m
Unpaid benefits	1.1	0.1
Accrued expenses	17.7	10.8
	18.8	10.9

Analysis of creditors	31/03/16 £m	31/03/15 £m
Other local authorities	2.1	4.2
Other entities and individuals	16.7	6.7
	18.8	10.9

22. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £665.3m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £497.2m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £19.9m at 31st March 2016. These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £13.8m at 31st March 2016. These amounts are expected to be drawn down over the next few months.

23. Related Party Transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

23.1 Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the Pension Fund.

The council incurred costs of £4.2 m (2014/15: £4.5m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £81.4m to the fund in 2015/16 (2014/15: £79.5m). All monies owing to and due from the Fund were paid in year.

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2016 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2015/16 regarding membership of, and transactions with such persons or their related parties and as such the following related party transactions have been declared:

George Graham, Director of the Lancashire Pension Fund acts in an un-remunerated Chair capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

George Graham was appointed as Executive Director of the Local Pensions Partnership Ltd and Local Pensions Partnership (Administration) Ltd prior to the staff transfer on the 8th April 2016.

Mike Jensen, Chief Investment Officer acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Mike Jensen was appointed as an Executive Director of the Local Pensions Partnership (Investments) Ltd prior to the staff transfer on the 8th April 2016

Richard Tomlinson, Investment Manager acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Trevor Castledine, Deputy Chief Investment Officer acts in an un-remunerated non-executive director capacity of Heylo Housing Ltd in which the Fund has an interest (£83.6m).

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

23.4 Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from 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 Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The Fund does not employ any staff directly. Lancashire County Council employs the staff involved in providing the duties of the administering authority for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Lancashire County Council Statement of Accounts 2015/16.

In the interests of transparency the Fund has incorporated disclosure of the remuneration awarded of senior officers employed by Lancashire County Council who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

The remuneration as charged to Lancashire County Pension Fund of senior officers of Lancashire County Council who have significant management responsibilities for Lancashire County Pension Fund.

2015/16	**Employment period**	**Salary** £	**Pension contributions** £	**Total including pension contributions** £
*Director of Lancashire Pension Fund	1/4/15 - 31/3/16	86,199	10,800	96,999
**Head of Service Pension Fund Client	1/12/15 – 31/3/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/2/16 – 31/3/16	401	25	426
Chief Investment Officer	1/4/15 - 31/3/16	120,150	13,230	133,380

*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31/03/2016

**The Head of Service Pension Fund client, took up this new post on the 1st of December 2015

***The Director of Financial Resources was appointed on the 29th of February 2016. This position was previously held by an interim consultant. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Senior Officers (unless stated above) took up their new posts after a council wide management restructure commencing on 1/4/15 and therefore no comparison has been done for the prior year.

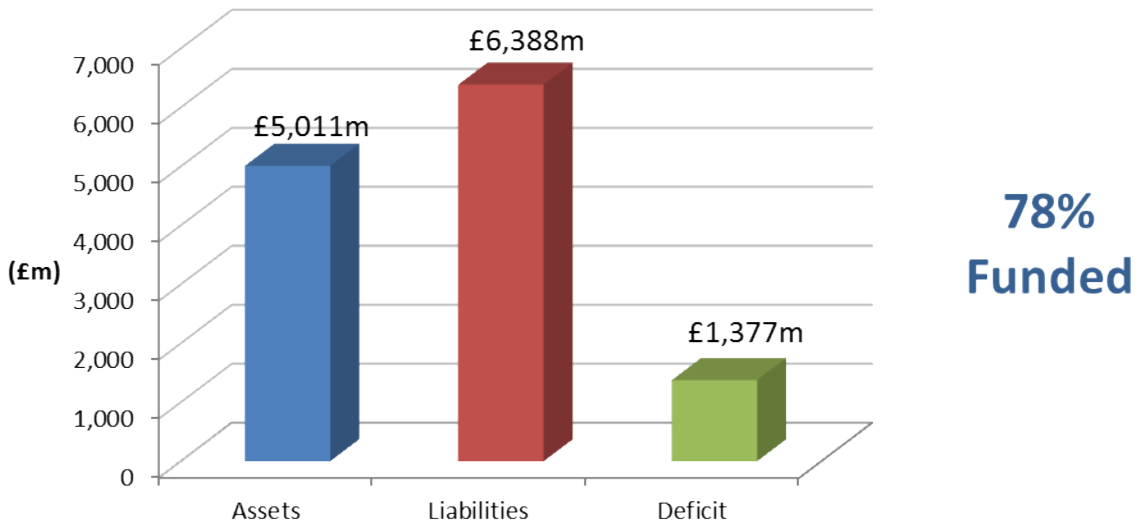
24. Funding arrangements

Accounts for the year ended 31 March 2016 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

25. Actuarial present value of promised retirement benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases *	3.5% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £8,370m. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by approximately £570m. Adding interest over the year increases the liabilities by approximately £276m, and allowing for net benefits accrued/paid over the period increases the liabilities by approximately £30m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £8,106m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

26. Events after the net assets statement date

On 8th April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8th April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

H. Lancashire Local Pension Board Annual Report - 2015/16

The Lancashire County Pension Fund's Local Pension Board was set up as a result of the 2013 Pensions Act, which obliged all public sector pension schemes to set up representative local pension boards by 1 April 2015. The formal remit of all local pension boards, including this one, is first to secure compliance with all regulations and legislation, and secondly to ensure the effective and efficient governance and administration of the scheme. A further factor behind the establishment of local pension boards was the perceived need for Members and Employers to have some voice within the management of public sector pension schemes.

I was appointed as Independent Chair following a public procurement exercise conducted jointly with the London Pensions Fund Authority (LPFA). Four Board members representing Employers were appointed and four representing Scheme Members, two Active, one Deferred, and one Pensioner, were then chosen through a public election process from a total of 15 candidates with a turnout of over 10,000, or 9% of the membership. The Chair holds office for two years with a two year extension by mutual agreement, members for a term of four years, and no member may serve more than two terms.

Under the Government's legislation, Local Pension Boards have no executive power. We can scrutinise compliance with regulations and call Officers or the Lancashire Pension Fund Committee to account, but we are not a decision-making body. We also have a duty to report material breaches to The Pensions Regulator, and as such the Board has adopted a policy and procedure to enable us to do so if necessary. As we only meet a limited number of times a year, we have chosen to perform as much of the scrutinising function as possible outside meetings. We can then focus our discussions on offering robust challenge to the Pension Fund Committee's decision-making processes and providing Member and Employers perspectives which might not otherwise be available. The Board has met four times in the year under review, (2015/16) and communicates via email between meetings. Table 1 below shows the four meetings held in 2015/16 and the attendance record of each Board Member.

Board Member	Representing	8 July 2015	19 October 2015	18 January 2016	11 April 2016
William Bourne	Independent Chair	√	√	√	√
Steve Browne	Employers	√	√	Apologies	√
Carl Gibson	Employers	√	√	√	√

Kathryn Haigh	Active Members	√	√	√	√
John Hall	Deferred Members	√	√	Apologies	√
Robert Harvey	Retired Members	√	√	√	√
County Councillor Tony Martin	Employers	√	√	√	√
Yvonne Moult	Active Members	√	√	√	√
Steve Thompson	Employers	√	√	Apologies	√

Table 1

Information about the Board, including membership, is publicly available on the Lancashire County Pension Fund website and can be viewed here.

Agenda and minutes of Board meetings can be viewed on the County Council's website here.

Training is also required under the Pensions Act 2013, and is covered by the Fund's Training Policy, which has been refreshed in 2016. An initial session was held to brief members on the activities of the Pension Fund and their role and members are invited to, and have attended, Training Workshops together with members of the Pension Fund Committee. Members are encouraged to attend useful seminars and conferences which will help them to increase their knowledge levels, and have been invited to the regular briefing sessions on the formation, together with the LPFA, of the Local Pensions Partnership (LPP). Internally, a virtual reading room has been set up so that Board members can easily access a wide range of material.

Table 2 below shows Board Members attendance at internal and external events during 2015/16.

Board Member	Internal Events Attended	External Events Attended
William Bourne	2	14
Steve Browne	5	Nil
Carl Gibson	2	Nil
Kathryn Haigh	7	2
John Hall	6	1
Robert Harvey	12	4
County Councillor Tony Martin	5	Nil
Yvonne Moult	7	1
Steve Thompson	5	Nil

Table 2

The Board receives the same operational and financial monitoring reports as those which are considered by the Pension Fund Committee. Board members are expected to have read these between meetings. While some time at meetings is spent on reviewing reports received and discussing matters arising, we prefer to focus our time at meetings on more detailed discussion on specific topics. The Board has on occasion commissioned specific reports from Officers to cover matters of concern.

During the year the Board has reviewed and commented among others on the 2014/15 Annual Report, Pension Administration Strategy and Quality of Service Reports, Administering Authorities Discretions, the Communications Policy, the Member Tracing Policy, and the Governance Review associated with the establishment of LPP. It has also scrutinised compliance with The Pension Regulator's Code of Practice 14, which covers public sector pension schemes and was issued in April 2015.

The creation of LPP has inevitably featured largely in our discussions over the year, as it is one of the more important changes in the Fund in recent years. As a Board, we have been supportive of the creation of LPP, but have provided robust challenge to the Pension Fund Committee throughout the process, particularly in the area of governance and compliance. We will continue to do so as LPP finds its feet over the next few years in order to ensure that Members and Employers do benefit from its creation.

We have also spent some time discussing how to improve communications between the Fund and its Members and Employers in both directions As a result, some changes have been made to the forms which the Fund uses to make them easier to use. In the light of The Pensions Regulator's standards for data quality, we have also looked at practical ways to encourage both Members and Employers to provide accurate and timely data.

The Board has an annual budget of £50,000 funded by the Lancashire County Pension Fund, which is used primarily to defray the cost of Members' attendance at training events or conferences, travelling expenses and reimbursement to employers. During the 2015/16 year, the costs of the Board were £20,639.33.

After the first twelve months of the Local Pension Board's activities, we need to look back and ask whether it is adding value to the Lancashire County Pension Fund's operations, and whether it will continue to do so in the future. It is still early days, but I believe that it is already fulfilling two important functions: offering challenge to the Pension Fund Committee; and providing valuable Members' and Employers' perspectives to those managing the Fund which they might otherwise struggle to obtain. We have on a number of occasions made recommendations or suggestions which have been acted on. We are able to do this because we have a fully engaged and experienced Board membership, and also because we have the full support and commitment of the Officers who run the Lancashire County Pension Fund. As Chair, I would like to pay tribute to all members of the Board, who give up their time on an unpaid basis to wrestle with the complex and evolving subject of the regulations and guidance covering the LGPS Scheme generally and to play their part in making this Fund run ever more efficiently.

William Bourne
Chair, Lancashire Local Pension Board
July 2016

I. Actuarial Valuation

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2013 which determines contribution rates effective from 1 April 2014 to 31 March 2017.

The Funding objective is to achieve and then maintain assets equal to the Funding Target. The Funding Target is the present value of 100% of projective accrued liabilities, including allowance for projected final pay. This is to comply with the requirements of the LGPS regulations to secure the solvency of the Fund and is in accordance with the Funding Strategy Statement. The methodology and assumptions by which the Funding Targets and contribution rates are calculated have also been determined in accordance with the Funding Strategy Statement.

The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this is the same as the maximum period of years adopted at the 2010 valuation in accordance with the then published FSS. Where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put into place which requires additional contributions to correct the shortfall.

The valuation (effective from 1 April 2014) revealed a funding level of 78% and an average employer's contribution rate of 13.1% plus a deficit contribution of £81m per annum increasing at 4.1% per annum for 19 years. Since 31 March 2013 there have been significant changes in the financial market position. In particular there has been an increase in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target. Considering changes in the major financial factors only, as at 31 August 2013 the impact of market changes has meant the funding level has increased to approximately 82% (from 78% at 31 March).

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2013, detailing the breakdown of the 78% funding level is as follows:

	£m	
	31 March 2013	**31 March 2010**
Total assets	5,011	3,962
Liabilities:		
Active members	2,440	2,221
Deferred pensioners	1,088	614
Pensioners	2,860	2,120
Total liabilities	6,388	4,955
Past service surplus / (shortfall)	(1,377)	(993)
Funding level	78%	80%

The employer contributions for 2014/2015 are based on the 2013 valuation and the recommended employer contributions for the period 1 April 2014 to 31 March 2017 are set out in the Schedule to the Rates and Adjustments of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Annex 1 of the Funding Strategy Statement.
https://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

The Rates and adjustments certified and accompanying schedule extracted from the actuarial valuation are as follows:

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund	**Lancashire County Pension Fund**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 13.1 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

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

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

Regulation 36(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:
Date of signing: 31 March 2014

Name: John Livesey
Qualification: Fellow of the Institute and Faculty of Actuaries

Schedule to the Rates and Adjustment Certificate dated 31 March 2014

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Academy at Worden	1.4% plus £12,100	14.5% plus £12,100	1.4% plus £12,600	14.5% plus £12,600	1.4% plus £13,100	14.5% plus £13,100
Accrington & Rossendale College	0.0% plus £254,200	13.1% plus £254,200	0.0% plus £285,700	13.1% plus £285,700	0.0% plus £317,600	13.1% plus £317,600
Accrington Academy	-2.6%	10.5%	-2.6%	10.5%	-2.6%	10.5%
Albany Academy	2.2% plus £21,800	15.3% plus £21,800	2.2% plus £22,700	15.3% plus £22,700	2.2% plus £23,600	15.3% plus £23,600
All Saints C.E. Primary School (Academy)	-2.5% plus £13,700	10.6% plus £13,700	-2.5% plus £14,300	10.6% plus £14,300	-2.5% plus £14,900	10.6% plus £14,900
Alternative Futures Group Ltd	-9.3%	3.8%	-9.3%	3.8%	-9.3%	3.8%
Andron	0.8%	13.9%	0.8%	13.9%	0.8%	13.9%
Andron (Kennington Primary School)	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Andron (Ribblesdale High School)	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Arnold Schools Ltd	6.5% plus £22,900	19.6% plus £22,900	6.5% plus £23,800	19.6% plus £23,800	6.5% plus £24,800	19.6% plus £24,800

	2014/15		2015/16		2016/17	
Employers	**Individual Adjustment %**	**Total Contribution Rate %**	**Individual Adjustment %**	**Total Contribution Rate %**	**Individual Adjustment %**	**Total Contribution Rate %**
Bacup Rawtenstall GS (Academy)	0.6% plus £20,500	13.7% plus £20,500	0.6% plus £21,300	13.7% plus £21,300	0.6% plus £22,200	13.7% plus £22,200
Balfour Beatty (Blakewater/Crosshill)	6.6%	19.7%	6.6%	19.7%	6.6%	19.7%
Balfour Beatty (Pleckgate School)	0.5%	13.6%	0.5%	13.6%	0.5%	13.6%
Balfour Beatty Ltd (Darwen Vale)	6.6%	19.7%	6.6%	19.7%	6.6%	19.7%
Balfour Beatty Ltd (Witton Park Cleaning)	6.6%	19.7%	6.6%	19.7%	6.6%	19.7%
Belthorn Primary Academy	4.3% plus £3,700	17.4% plus £3,700	4.3% plus £5,600	17.4% plus £5,600	4.3% plus £7,500	17.4% plus £7,500
Bishop Rawstorne High Academy	1.9% plus £19,100	15.0% plus £19,100	1.9% plus £23,500	15.0% plus £23,500	1.9% plus £27,900	15.0% plus £27,900
Blackburn College	-1.0% plus £215,200	12.1% plus £215,200	-1.0% plus £225,200	12.1% plus £225,200	-1.0% plus £235,500	12.1% plus £235,500
Blackburn St Mary's	-0.1% plus £19,500	13.0% plus £19,500	-0.1% plus £23,400	13.0% plus £23,400	-0.1% plus £27,400	13.0% plus £27,400
Blackburn With Darwen Borough Council	-0.7% plus £4,403,900	12.4% plus £4,403,900	-0.7% plus £4,584,500	12.4% plus £4,584,500	-0.7% plus £4,772,500	12.4% plus £4,772,500
Blackpool & The Fylde College	-0.8% plus £358,400	12.3% plus £358,400	-0.8% plus £373,100	12.3% plus £373,100	-0.8% plus £388,400	12.3% plus £388,400
Blackpool Airport (post 07/04)	6.7% plus £9,000	19.8% plus £9,000	6.7% plus £13,200	19.8% plus £13,200	6.7% plus £17,500	19.8% plus £17,500

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
Blackpool Borough Council - excluding schools	-0.8% plus £2,667,000	12.3% plus £2,667,000	-0.8% plus £2,926,000	12.3% plus £2,926,000	-0.8% plus £3,190,000	12.3% plus £3,190,000
Blackpool Borough Council – schools	5.0%	18.1%	5.9%	19.0%	6.8%	19.9%
Blackpool Coastal Housing	-1.5%	11.6%	-1.5%	11.6%	-1.5%	11.6%
Blackpool Fylde Wyre Society for the Blind	7.5% plus £97,300*	20.6% plus £97,300*	7.5%	20.6%	7.5%	20.6%
Blackpool MAT (Anchorsholme Academy)	-0.8% plus £27,500	12.3% plus £27,500	-0.8% plus £28,600	12.3% plus £28,600	-0.8% plus £29,800	12.3% plus £29,800
Blackpool MAT (Devonshire Academy)	-0.8% plus £29,600	12.3% plus £29,600	-0.8% plus £30,800	12.3% plus £30,800	-0.8% plus £32,100	12.3% plus £32,100
Blackpool MAT (Park Academy)	-0.8% plus £33,800	12.3% plus £33,800	-0.8% plus £35,200	12.3% plus £35,200	-0.8% plus £36,600	12.3% plus £36,600
Blackpool Sixth Form College	-3.2% plus £4,800	9.9% plus £4,800	-3.2% plus £5,000	9.9% plus £5,000	-3.2% plus £5,200	9.9% plus £5,200
Blackpool Transport Services Ltd	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Blackpool Zoo (Grant Leisure)	5.6%	18.7%	5.6%	18.7%	5.6%	18.7%
Bootstrap Enterprises Ltd	-7.8%	5.3%	-7.8%	5.3%	-7.8%	5.3%
Bowland High Academy Trust	2.8% plus £16,500	15.9% plus £16,500	2.8% plus £22,200	15.9% plus £22,200	2.8% plus £27,900	15.9% plus £27,900
Bulloughs (Our Lady)	4.4%	17.5%	4.4%	17.5%	4.4%	17.5%
Bulloughs (St Augustines)	0.4%	13.5%	0.4%	13.5%	0.4%	13.5%
Bulloughs (St Mary's)	-2.9%	10.2%	-2.9%	10.2%	-2.9%	10.2%

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Bulloughs (Whalley Primary)	2.4%	15.5%	3.0%	16.1%	3.7%	16.8%
Bulloughs Cleaning (Our Lady)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Burnley Borough Council	0.2% plus £1,365,500	13.3% plus £1,365,500	0.2% plus £1,421,500	13.3% plus £1,421,500	0.2% plus £1,479,800	13.3% plus £1,479,800
Burnley College	-0.4% plus £84,900	12.7% plus £84,900	-0.4% plus £111,200	12.7% plus £111,200	-0.4% plus £137,600	12.7% plus £137,600
Burscough Parish Council	TBC	TBC	TBC	TBC	TBC	TBC
Calico Housing Ltd	-0.8% plus £223,600	12.3% plus £223,600	-0.8% plus £232,800	12.3% plus £232,800	-0.8% plus £242,300	12.3% plus £242,300
Capita (transfer from Rossendale B.C)	5.6% plus £2,200	18.7% plus £2,200	5.6% plus £5,300	18.7% plus £5,300	5.6% plus £8,400	18.7% plus £8,400
CAPITA Business Services	5.0% plus £258,500	18.1% plus £258,500	5.0% plus £311,100	18.1% plus £311,100	5.0% plus £364,200	18.1% plus £364,200
Cardinal Newman College	0.0% plus £46,500	13.1% plus £46,500	0.0% plus £48,400	13.1% plus £48,400	0.0% plus £50,400	13.1% plus £50,400
Caritas Care Limited	1.9% plus £67,500	15.0% plus £67,500	1.9% plus £70,300	15.0% plus £70,300	1.9% plus £73,200	15.0% plus £73,200
Caterlink Limited (Pleckgate Catering)	6.6%	19.7%	6.6%	19.7%	6.6%	19.7%
Caterlink Ltd (Ripley St Thomas)	4.9%	18.0%	4.9%	18.0%	4.9%	18.0%
Catterall Parish Council	8.2%	21.3%	8.2%	21.3%	8.2%	21.3%
CG Cleaning (Heysham High)	0.7%	13.8%	0.7%	13.8%	0.7%	13.8%
CG Cleaning (St James the Less)	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
CG Cleaning Ltd (Balladen)	4.9%	18.0%	4.9%	18.0%	4.9%	18.0%
CG Cleaning Ltd (St Patrick's)	3.5%	16.6%	3.5%	16.6%	3.5%	16.6%
Chorley Borough Council	-2.0% plus £709,600	11.1% plus £709,600	-2.0% plus £831,900	11.1% plus £831,900	-2.0% plus £955,600	11.1% plus £955,600
Chorley Community Housing Ltd	1.5%	14.6%	2.0%	15.1%	2.5%	15.6%
Church Road Day Care Unit	12.7% plus £3,100	25.8% plus £3,100	12.7% plus £11,900	25.8% plus £11,900	12.7% plus £20,700	25.8% plus £20,700
Clitheroe Royal Grammar School (Academy)	2.9% plus £43,100	16.0% plus £43,100	2.9% plus £51,500	16.0% plus £51,500	2.9% plus £60,000	16.0% plus £60,000
Community and Business Partnership	-0.3%	12.8%	-0.3%	12.8%	-0.3%	12.8%
Community Council of Lancs	7.7% plus £4,400	20.8% plus £4,400	7.7% plus £9,200	20.8% plus £9,200	7.7% plus £13,900	20.8% plus £13,900
Community Gateway Association Ltd	1.8% plus £16,300	14.9% plus £16,300	1.8% plus £20,600	14.9% plus £20,600	1.8% plus £24,900	14.9% plus £24,900
Consultant Caterers Ltd	4.1%	17.2%	4.1%	17.2%	4.1%	17.2%
Contour Housing Group	-6.5%	6.6%	-6.5%	6.6%	-6.5%	6.6%
Creative Support Ltd	-5.2%	7.9%	-5.2%	7.9%	-5.2%	7.9%
Creative Support Ltd (Midway)	1.1%	14.2%	1.2%	14.3%	1.3%	14.4%
CX Ltd	-1.5%	11.6%	-1.5%	11.6%	-1.5%	11.6%
Darwen Aldridge Community Academy	-1.5%	11.6%	-1.5%	11.6%	-1.5%	11.6%

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
Darwen Town Council	TBC	TBC	TBC	TBC	TBC	TBC
E ON UK PLC	0.0%	13.1%	0.0%	13.1%	0.0%	13.1%
Edge Hill University	-0.7% plus £660,200	12.4% plus £660,200	-0.7% plus £853,900	12.4% plus £853,900	-0.7% plus £1,049,300	12.4% plus £1,049,300
Elite Cleaning and Environment	-0.6%	12.5%	-0.6%	12.5%	-0.6%	12.5%
Enterprise Managed Services	2.8% plus £4,600	15.9% plus £4,600	2.8% plus £4,800	15.9% plus £4,800	2.8% plus £5,000	15.9% plus £5,000
Eric Wright (Highfield HS Catering)	5.6%	18.7%	5.6%	18.7%	5.6%	18.7%
Eric Wright (Highfield HS Site supervisors)	5.6%	18.7%	5.6%	18.7%	5.6%	18.7%
Four Seasons Health Care Group	-2.8%	10.3%	-2.8%	10.3%	-2.8%	10.3%
Fulwood Academy	-1.7%	11.4%	-1.5%	11.6%	-1.3%	11.8%
Fylde Borough Council	-0.6% plus £484,500	12.5% plus £484,500	-0.6% plus £512,900	12.5% plus £512,900	-0.6% plus £542,000	12.5% plus £542,000
Fylde Coast Academy Trust	-8.5%	4.6%	-8.5%	4.6%	-8.5%	4.6%
Fylde Coast Academy Trust MAT (Unity Academy)	-0.8% plus £55,300	12.3% plus £55,300	-0.8% plus £57,600	12.3% plus £57,600	-0.8% plus £60,000	12.3% plus £60,000
Fylde Coast YMCA	-10.1%	3.0%	-10.1%	3.0%	-10.1%	3.0%
Fylde Community Link	1.4% plus £7,400	14.5% plus £7,400	1.4% plus £8,000	14.5% plus £8,000	1.4% plus £8,500	14.5% plus £8,500
Galloways Society for Blind	5.1% plus £10,300	18.2% plus £10,300	5.1% plus £13,400	18.2% plus £13,400	5.1% plus £16,400	18.2% plus £16,400

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Garstang Community Academy	2.7% plus £20,700	15.8% plus £20,700	2.7% plus £25,900	15.8% plus £25,900	2.7% plus £31,100	15.8% plus £31,100
Garstang Town Council	0.9%	14.0%	0.9%	14.0%	0.9%	14.0%
Habergham Eaves Parish Council	TBC	TBC	TBC	TBC	TBC	TBC
Hambleton Primary Academy	-1.7% plus £6,200	11.4% plus £6,200	-1.7% plus £6,500	11.4% plus £6,500	-1.7% plus £6,900	11.4% plus £6,900
Hawes Side Academy	1.7% plus £14,300	14.8% plus £14,300	1.7% plus £15,700	14.8% plus £15,700	1.7% plus £17,100	14.8% plus £17,100
Hodgson Academy	2.8% plus £28,900	15.9% plus £28,900	2.8% plus £36,500	15.9% plus £36,500	2.8% plus £44,100	15.9% plus £44,100
Housing Pendle Ltd	1.3% plus £3,200	14.4% plus £3,200	1.3% plus £8,700	14.4% plus £8,700	1.3% plus £14,200	14.4% plus £14,200
Hyndburn Borough Council	-0.5% plus £816,500	12.6% plus £816,500	-0.5% plus £850,000	12.6% plus £850,000	-0.5% plus £884,900	12.6% plus £884,900
Hyndburn Homes Ltd	1.1%	14.2%	1.3%	14.4%	1.5% plus £800	14.6% plus £800
I Care	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Jewson Ltd (Chorley Homes)	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Kirkham Grammar School	2.5% plus £17,600	15.6% plus £17,600	2.5% plus £22,200	15.6% plus £22,200	2.5% plus £26,900	15.6% plus £26,900
Kirkland Parish Council	9.5%	22.6%	9.5%	22.6%	9.5%	22.6%
Lancashire Care Foundation Trust	TBC	TBC	TBC	TBC	TBC	TBC
Lancashire County Branch Unison	4.4% plus £1,900	17.5% plus £1,900	4.4% plus £2,000	17.5% plus £2,000	4.4% plus £2,100	17.5% plus £2,100

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Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Lancashire County Council - excluding schools	-0.5% plus £15,353,000	12.6% plus £15,353,000	-0.5% plus £15,982,000	12.6% plus £15,982,000	-0.5% plus £16,638,000	12.6% plus £16,638,000
Lancashire County Council – schools	6.9%	20.0%	7.2%	20.3%	7.6%	20.7%
Lancashire Probation Committee	6.0%	19.1%	N/A	N/A	N/A	N/A
Lancaster & Morecambe College	-0.1% plus £129,300	13.0% plus £129,300	-0.1% plus £134,600	13.0% plus £134,600	-0.1% plus £140,100	13.0% plus £140,100
Lancaster City Council	-0.1% plus £1,015,100	13.0% plus £1,015,100	-0.1% plus £1,056,700	13.0% plus £1,056,700	-0.1% plus £1,100,000	13.0% plus £1,100,000
Lancaster Girls Grammar School (Academy)	3.3% plus £32,800	16.4% plus £32,800	3.3% plus £34,100	16.4% plus £34,100	3.3% plus £35,500	16.4% plus £35,500
Lancaster Royal Grammar School (Academy)	3.0% plus £49,200	16.1% plus £49,200	3.0% plus £55,500	16.1% plus £55,500	3.0% plus £61,800	16.1% plus £61,800
Lancaster University	-0.7% plus £561,900	12.4% plus £561,900	-0.7% plus £648,000	12.4% plus £648,000	-0.7% plus £735,200	12.4% plus £735,200
Lancs Fire and Rescue Service	-0.3% plus £229,500	12.8% plus £229,500	-0.3% plus £238,900	12.8% plus £238,900	-0.3% plus £248,700	12.8% plus £248,700
Lancs Sports Partners Ltd	-4.3%	8.8%	-4.3%	8.8%	-4.3%	8.8%
Lancs Workforce Development Partnership	2.5% plus £700	15.6% plus £700	2.5% plus £700	15.6% plus £700	2.5% plus £700	15.6% plus £700
Langdale Free School	-0.8% plus £1,200	12.3% plus £1,200	-0.8% plus £1,200	12.3% plus £1,200	-0.8% plus £1,200	12.3% plus £1,200
Leisure in Hyndburn	-1.3% plus £45,600	11.8% plus £45,600	-1.3% plus £50,000	11.8% plus £50,000	-1.3% plus £54,500	11.8% plus £54,500

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Lend Lease construction EMEA	-0.5%	12.6%	-0.5%	12.6%	-0.5%	12.6%
Liberata UK Ltd (Chorley)	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Liberata UK Ltd (Pendle)	4.8% plus £51,000	17.9% plus £51,000	4.8% plus £53,100	17.9% plus £53,100	4.8% plus £55,300	17.9% plus £55,300
Lostock Hall Academy Trust	2.6% plus £21,200	15.7% plus £21,200	2.6% plus £25,200	15.7% plus £25,200	2.6% plus £29,400	15.7% plus £29,400
Lowther Pavilions and Gardens	-13.1%	0.0%	-13.1%	0.0%	-13.1%	0.0%
Lytham Schools Foundation	3.4% plus £12,000	16.5% plus £12,000	3.4% plus £12,500	16.5% plus £12,500	3.4% plus £13,000	16.5% plus £13,000
Mack Trading Ltd	3.8%	16.9%	3.8%	16.9%	3.8%	16.9%
Maharishi School (Free School)	3.6%	16.7%	3.6%	16.7%	3.6%	16.7%
Marketing Lancashire Ltd	-0.2% plus £3,300	12.9% plus £3,300	-0.2% plus £5,100	12.9% plus £5,100	-0.2% plus £7,000	12.9% plus £7,000
May Gurney Fleet & Passenger Services Limited	-0.8%	12.3%	-0.8%	12.3%	-0.8%	12.3%
Mellor's (Bishop Rawstorne)	4.5%	17.6%	4.5%	17.6%	4.5%	17.6%
Mellor's (Hambleton Primary)	7.3%	20.4%	8.6%	21.7%	9.8%	22.9%
Mellor's (Worden Sports College)	-1.4%	11.7%	-1.4%	11.7%	-1.4%	11.7%
Mellors Catering (Brinscall St John)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Mellors Catering (Fulwood Academy)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%

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Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Mellors Catering (Parbold)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Mellors Catering (Trinity, St Michaels)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Montgomery High School Academy	-1.7% plus £48,700	11.4% plus £48,700	-1.7% plus £50,700	11.4% plus £50,700	-1.7% plus £52,800	11.4% plus £52,800
Moorside Community PS Academy	-0.5% plus £16,200	12.6% plus £16,200	-0.5% plus £16,900	12.6% plus £16,900	-0.5% plus £17,600	12.6% plus £17,600
Morecambe Town Council	1.7%	14.8%	1.7%	14.8%	1.7%	14.8%
Myerscough College	-1.6% plus £133,400	11.5% plus £133,400	-1.6% plus £167,800	11.5% plus £167,800	-1.6% plus £202,600	11.5% plus £202,600
Nelson and Colne College	-0.6% plus £84,600	12.5% plus £84,600	-0.6% plus £88,100	12.5% plus £88,100	-0.6% plus £91,700	12.5% plus £91,700
New Fylde Housing Ltd	11.3% plus £116,900	24.4% plus £116,900	11.3% plus £121,700	24.4% plus £121,700	11.3% plus £126,700	24.4% plus £126,700
NIC Services Group Ltd	2.6%	15.7%	3.4%	16.5%	4.1%	17.2%
Norbreck Primary Academy	1.8% plus £14,500	14.9% plus £14,500	1.8% plus £16,300	14.9% plus £16,300	1.8% plus £18,200	14.9% plus £18,200
NSL Ltd (Lancaster)	-3.4%	9.7%	-3.4%	9.7%	-3.4%	9.7%
NW Inshore Fisheries	2.6% plus £27,000	15.7% plus £27,000	2.6% plus £28,100	15.7% plus £28,100	2.6% plus £29,300	15.7% plus £29,300
Office of the Police and Crime Commissioner	-1.6% plus £2,900,000	11.5% plus £2,900,000	-1.6% plus £2,900,000	11.5% plus £2,900,000	-1.6% plus £2,900,000	11.5% plus £2,900,000
Old Laund Booth Parish Council	TBC	TBC	TBC	TBC	TBC	TBC
Parbold Douglas C.E. Academy	2.1% plus £5,700	15.2% plus £5,700	2.1% plus £7,500	15.2% plus £7,500	2.1% plus £9,400	15.2% plus £9,400

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Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
Parklands High School Academy	1.8% plus £20,900	14.9% plus £20,900	1.8% plus £21,800	14.9% plus £21,800	1.8% plus £22,700	14.9% plus £22,700
Pendle Borough Council	-0.9% plus £1,247,800	12.2% plus £1,247,800	-0.9% plus £1,299,000	12.2% plus £1,299,000	-0.9% plus £1,352,300	12.2% plus £1,352,300
Pendle Education Trust - Colne Primet	2.3% plus £17,500	15.4% plus £17,500	2.3% plus £18,200	15.4% plus £18,200	2.3% plus £18,900	15.4% plus £18,900
Pendle Education Trust - Walter St	0.8% plus £15,800	13.9% plus £15,800	0.8% plus £16,400	13.9% plus £16,400	0.8% plus £17,100	13.9% plus £17,100
Pendle Leisure Trust Ltd	-1.3% plus £30,400	11.8% plus £30,400	-1.3% plus £31,600	11.8% plus £31,600	-1.3% plus £32,900	11.8% plus £32,900
Penwortham Priory Academy	1.7% plus £18,500	14.8% plus £18,500	1.7% plus £19,300	14.8% plus £19,300	1.7% plus £20,100	14.8% plus £20,100
Penwortham Town Council	-0.3%	12.8%	-0.3%	12.8%	-0.3%	12.8%
Pilling Parish Council	11.2%	24.3%	11.2%	24.3%	11.2%	24.3%
Places for People	2.8%	15.9%	2.8%	15.9%	2.8%	15.9%
Preesall Town Council	TBC	TBC	TBC	TBC	TBC	TBC
Preston Care and Repair	7.7% plus £600	20.8% plus £600	7.7% plus £600	20.8% plus £600	7.7% plus £600	20.8% plus £600
Preston City Council	-0.3% plus £1,233,600	12.8% plus £1,233,600	-0.3% plus £1,385,600	12.8% plus £1,385,600	-0.3% plus £1,540,100	12.8% plus £1,540,100
Preston College	-1.4% plus £304,000	11.7% plus £304,000	-1.4% plus £316,500	11.7% plus £316,500	-1.4% plus £329,500	11.7% plus £329,500
Preston Council for Voluntary Services	11.5%	24.6%	12.0% plus £1,000	25.1% plus £1,000	12.0% plus £2,200	25.1% plus £2,200
Progress Housing Group	2.8% plus £160,300	15.9% plus £160,300	2.8% plus £166,900	15.9% plus £166,900	2.8% plus £173,700	15.9% plus £173,700

Employers	2014/15		2015/16		2016/17	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Progress Recruitments (se) Ltd	-3.2%	9.9%	-3.2%	9.9%	-3.2%	9.9%
Queen Elizabeth's Grammar School	7.1% plus £15,600	20.2% plus £15,600	7.1% plus £23,900	20.2% plus £23,900	7.1% plus £32,300	20.2% plus £32,300
Ribble Valley Borough Council	0.9% plus £195,900	14.0% plus £195,900	0.9% plus £203,900	14.0% plus £203,900	0.9% plus £212,300	14.0% plus £212,300
Ribble Valley Homes Ltd	2.7%	15.8%	2.7%	15.8%	2.7%	15.8%
Ripley St Thomas C.E. (Academy)	2.9% plus £34,200	16.0% plus £34,200	2.9% plus £39,900	16.0% plus £39,900	2.9% plus £45,600	16.0% plus £45,600
Roseacre Primary Academy	0.3% plus £18,500	13.4% plus £18,500	0.3% plus £19,300	13.4% plus £19,300	0.3% plus £20,100	13.4% plus £20,100
Rossendale Borough Council	0.9% plus £955,000	14.0% plus £955,000	0.9% plus £994,200	14.0% plus £994,200	0.9% plus £1,035,000	14.0% plus £1,035,000
Rossendale Leisure Trust	1.4% plus £10,100	14.5% plus £10,100	1.4% plus £10,500	14.5% plus £10,500	1.4% plus £10,900	14.5% plus £10,900
Rossendale Transport Ltd	12.1% plus £74,600	25.2% plus £74,600	12.1% plus £110,100	25.2% plus £110,100	12.1% plus £145,700	25.2% plus £145,700
Runshaw College	-0.3% plus £140,200	12.8% plus £140,200	-0.3% plus £145,900	12.8% plus £145,900	-0.3% plus £151,900	12.8% plus £151,900
School Lettings Solutions	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Service Alliance Ltd (Altham)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
Service Alliance Ltd (RCC)	6.0%	19.1%	6.0%	19.1%	6.0%	19.1%
South Ribble Borough Council	-0.4% plus £1,778,200*	12.7% plus £1,778,200*	-0.4%	12.7%	-0.4%	12.7%
South Ribble Community Leisure	-1.2% plus £73,800	11.9% plus £73,800	-1.2% plus £78,300	11.9% plus £78,300	-1.2% plus £83,000	11.9% plus £83,000

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
South Shore Academy	-0.8% plus £48,800	12.3% plus £48,800	-0.8% plus £50,800	12.3% plus £50,800	-0.8% plus £52,900	12.3% plus £52,900
St Annes on Sea Town Council	0.0%	13.1%	0.0%	13.1%	0.0%	13.1%
St Christopher's C.E. (Academy)	0.6% plus £60,700	13.7% plus £60,700	0.6% plus £67,600	13.7% plus £67,600	0.6% plus £74,600	13.7% plus £74,600
St Michael's C.E. High (Academy)	5.7% plus £10,400	18.8% plus £10,400	5.7% plus £20,700	18.8% plus £20,700	5.7% plus £31,100	18.8% plus £31,100
St Wilfrid's C.E. Academy	0.7% plus £82,200	13.8% plus £82,200	0.7% plus £85,600	13.8% plus £85,600	0.7% plus £89,100	13.8% plus £89,100
Superclean	4.1%	17.2%	4.1%	17.2%	4.1%	17.2%
Sure Start Hyndburn	-0.7% plus £6,200	12.4% plus £6,200	-0.7% plus £13,400	12.4% plus £13,400	-0.7% plus £20,700	12.4% plus £20,700
Tarleton Academy	1.2% plus £22,800	14.3% plus £22,800	1.2% plus £26,700	14.3% plus £26,700	1.2% plus £30,700	14.3% plus £30,700
Tauheedul Free Schools Trust	-5.1%	8.0%	-5.1%	8.0%	-5.1%	8.0%
Tauheedul FST (Olive School Blackburn)	-0.7%	12.4%	-0.7%	12.4%	-0.7%	12.4%
Tauheedul FST (Olive School London)	-0.7%	12.4%	-0.7%	12.4%	-0.7%	12.4%
Tauheedul Islam Boys Free School	-6.5%	6.6%	-6.5%	6.6%	-6.5%	6.6%
Thames Primary Academy	-1.6% plus £25,000	11.5% plus £25,000	-1.6% plus £26,000	11.5% plus £26,000	-1.6% plus £27,100	11.5% plus £27,100

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
The Heights Free School	-0.7% plus £24,800	12.4% plus £24,800	-0.7% plus £25,800	12.4% plus £25,800	-0.7% plus £26,900	12.4% plus £26,900
The Lancashire Colleges Ltd	4.7%	17.8%	4.7%	17.8%	4.7%	17.8%
The Ormerod Home Trust Ltd	6.9% plus £19,100	20.0% plus £19,100	6.9% plus £26,400	20.0% plus £26,400	6.9% plus £33,800	20.0% plus £33,800
Twin Valley Homes Ltd	0.3% plus £157,600	13.4% plus £157,600	0.3% plus £164,100	13.4% plus £164,100	0.3% plus £170,800	13.4% plus £170,800
University of Central Lancashire	-1.0% plus £1,444,400	12.1% plus £1,444,400	-1.0% plus £1,503,600	12.1% plus £1,503,600	-1.0% plus £1,565,200	12.1% plus £1,565,200
University of Cumbria	-1.8% plus £884,000	11.3% plus £884,000	-1.8% plus £914,100	11.3% plus £914,100	-1.8% plus £945,400	11.3% plus £945,400
Vita Lend Lease (BSF ICT)	-0.6%	12.5%	-0.6%	12.5%	-0.6%	12.5%
Vita Lend Lease Ltd	3.3%	16.4%	3.3%	16.4%	3.3%	16.4%
Waterloo Primary Academy	0.5% plus £25,300	13.6% plus £25,300	0.5% plus £26,300	13.6% plus £26,300	0.5% plus £27,400	13.6% plus £27,400
Wensley Fold CE Primary Academy	-0.7% plus £13,500	12.4% plus £13,500	-0.7% plus £14,100	12.4% plus £14,100	-0.7% plus £14,700	12.4% plus £14,700
West Lancashire Borough Council	0.6% plus £841,100	13.7% plus £841,100	0.6% plus £980,500	13.7% plus £980,500	0.6% plus £1,121,700	13.7% plus £1,121,700
West Lancs Community Leisure	-0.7%	12.4%	-0.4%	12.7%	-0.1%	13.0%
Westcliff Primary School (Academy)	1.2% plus £8,500	14.3% plus £8,500	1.2% plus £10,000	14.3% plus £10,000	1.2% plus £11,500	14.3% plus £11,500
Whitworth Town Council	-1.3% plus £1,700	11.8% plus £1,700	-1.3% plus £2,000	11.8% plus £2,000	-1.3% plus £2,400	11.8% plus £2,400

Employers	2014/15 Individual Adjustment %	2014/15 Total Contribution Rate %	2015/16 Individual Adjustment %	2015/16 Total Contribution Rate %	2016/17 Individual Adjustment %	2016/17 Total Contribution Rate %
Wyre Borough Council	0.6% plus £764,900	13.7% plus £764,900	0.6% plus £796,300	13.7% plus £796,300	0.6% plus £828,900	13.7% plus £828,900
Wyre Housing Association	5.2% plus £148,400	18.3% plus £148,400	5.2% plus £198,500	18.3% plus £198,500	5.2% plus £249,000	18.3% plus £249,000

Former Employers	Proportion of Pension Increases to be Recharged %
Blackpool & Fylde Society for the Deaf	100
Burnley & Pendle Development Association	100
Burton Manor Residential College	100
Ex Department of Transport	100
Ex National Health Service	100
Fylde Coast Development Association	100
Lancashire South East Probation Committee	100
Spastics Society	100

Notes:

1. The £ lump sum payments for Blackpool Fylde Wyre Society for the Blind and South Ribble Borough Council are payable in April 2014;
2. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014;

3. The contributions for Liberata UK Ltd (Chorley) assume the contract will terminate in July 2014. If the contract is extended for any reason then the contributions given above will require revision;

4. The contributions for the Office of the Police and Crime Commissioner will need to be reallocated between that employer and the Office of the Chief Constable on its admission to the Fund. The allocation will be determined by the Office of the Police and Crime Commissioner and the Administering Authority acting on actuarial advice;

5. The total contributions payable by each employer each year will be subject to a minimum of zero;

6. In cases where an element of an existing Scheme Employer's deficit is transferred to a new employer on its inception, the Scheme Employer's deficit recovery contributions shown in this certificate may be reallocated between the Scheme Employer and the new employer to reflect this, on advice from the actuary.

7. There are a number of additional employers who no longer had any active members within the Fund as at the valuation date. Any final contribution requirement for these employers will be assessed by the Fund in due course on the basis of actuarial advice.

J.Contacts

http://www.yourpensionservice.org.uk

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George Graham

Director

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K. Glossary

Accounting policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Active management
Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions.

Actuarial strain
This is a charge paid by employers to the pension fund for paying pensions early.

Actuarial Valuation
An actuary formally reviews the assets and liabilities of the pension scheme and produces a report on the scheme's financial position.

Actuary
An independent consultant who advises the scheme and every three years formally reviews the assets and liabilities of the scheme and produces a report on the scheme's financial position, known as the Actuarial Valuation.

Additional voluntary contributions (AVC's)
This is an extra contribution a member can pay to their own pension scheme to increase future pension benefits.

Administering authority
A local authority required to maintain a pension fund under LGPS regulations. Within the geographical boundary of Lancashire this is Lancashire County Council.

Admitted bodies
An organisation which, under Pension Scheme Regulations, is able to apply to the administering authority to join the scheme (e.g. a contractor providing services to the council or another scheduled body). Upon acceptance, an admission agreement is prepared admitting the organisation and allowing its employees to join.

Alternative investments
Investments considered outside of the traditional asset classes of stocks, bonds, cash or property.

Asset allocation
Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return and is a central concept in financial planning and investment management.

Assumed pensionable pay
Where an employee loses pay due to sickness or reduced pay family related leave, the pay actually received is substituted with "assumed pensionable pay" when calculating "career average" benefits and employer contributions. Assumed pensionable pay is the average of pay in the three months prior to the month in which the reduced pay occurs.

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund accounts and issue an opinion on their accuracy.

Auto enrolment
UK employers have to automatically enrol their staff into a workplace pension if they meet the criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark
These are investment performance standards that we expect our investment managers to achieve and against which we measure their investment return.

Bid price
The price a buyer pays for a stock.

Bonds
Certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

Career average revalued earnings (CARE) scheme.
The pension at retirement will relate to your average salary over your career (While paying into the pension scheme). More precisely, it is based on pensionable earnings, increased in line with inflation as measured by the consumer price index (CPI).

Cash and cash equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collateral
An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions.

Conflicts of interest
Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of those conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. Those conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI)
CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and retail price index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and council tax, and includes other items not used in RPI.

Corporate Governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Creditors
Amounts owed by the Pension Fund for work carried out, goods received or services provided, which has not been paid by the date of the net assets statement.

Credit strategies
Credit strategies involve investing in loans or the provision of other credit. At the safest end this this may involve investing in Gilts – debt issued by government, where risk is perceived to be minimal but where returns are very low; at the other end of the spectrum are loans to heavily indebted companies or even companies who have credit difficulties, where there are higher levels of risk but where significantly enhanced returns are available.

Currency forward
An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

Custody /Custodian
Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors
Amounts owed to the Pension Fund which had not been paid by the date of the net assets statement.

Defined benefit
An employer sponsored retirement plan where employee benefits are sorted out based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS are defined benefit.

Emerging markets
Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Equities
Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG (environmental, social and corporate governance)
A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios.

Financial instrument
A contract between two parties that involves a monetary exchange for some type of debt or asset.

Fixed interest securities
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

Funding level
The ratio of a Pension scheme's assets to its liabilities. Used as a measure of the scheme's ability to meet its future liabilities.

Index-linked securities
Investments in stock where the interest payments and the final redemption proceeds are linked to the retail price index. Such stocks provide protection against inflation.

Infrastructure
The public facilities and services needed to support residential development, including highways, bridges, schools and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment management expenses
All expenses relating to managing the Fund's investments.

Investment strategy
Investors long-term distribution of assets among various asset classes taking into consideration, goals of the investor, attitude to risk and timescale.

Liabilities
Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pension benefits and payments that are due to be paid when someone retires.

LPP – Local pensions partnership
The Local Pensions Partnership (LPP) is a collaboration between two successful LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority, with the goals of creating:

- A best-in-class, end-to-end pensions services organisation for public sector funds; LPP currently provide pensions administration services to 13 funds, including LGPS, fire and police schemes.
- An FCA-regulated structure for asset pooling.
- An organisation focused on managing assets and liabilities (risk) together in order to improve long-term fund performance, stabilise contributions and reduce deficits.
- A partnership which is open to other LGPS and public sector funds to join as owner shareholders or as investors only in LPP's pool.

Market value
The price at which an investment can be bought or sold at a given date.

Myners review
Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review published in March 2001, investigated the challenges facing institutional investment decision making.

OTC
A security traded in some context other than on a formal exchange. The phrase "over the counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Pension Boards
The role of each board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

Pension boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.

Pooled investment vehicles
Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private equity
Shares in un-quoted companies.

Property
All buildings and land that the Fund owns, including pooled property funds.

Related party
A person or organisation which has influence over another person or organisation.

Socially responsible investment
Investments which take into consideration social and environmental factors, as well as financial factors.

Statement of investment principles
The SIP sets out details of the investment policy being followed by a pension scheme. Includes certain specific statements such as the kinds of investments held and the balance between them, risk and expected returns, realisations of investments, socially responsible investments and corporate governance policy.

Stock lending
The act of loaning securities to another investor in return for a fee. When a security is loaned the ownership is also transferred to the borrower.

Transfer values
The value of a pension scheme members benefits available to buy benefits in another scheme.

Triennial actuarial valuation
Every three years the actuary formally reviews the assets and liabilities of the Lancashire LGPS scheme and produces a report on the scheme's financial position.

Venture capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected:
(All Divisions);

Statement of Investment Principles
(Appendix 'A' refers)

Contact for further information:
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abigail.leech@lancashire.gov.uk

Executive Summary

Funds within the local government scheme are required by regulation to produce and keep updated a Statement of Investment Principles (SIP). The regulation states that when there has been a material change to the fund the SIP should be updated to reflect the change. Given the changes to the governance and investment arrangements of the fund as a result of the creation of the Local Pensions Partnership it is appropriate to update the SIP. The document at Appendix 'A' sets out the revised statement for approval.

Recommendation

The Committee is recommended to approve the updated Statement of Investment Principles as set out at Appendix 'A'.

Background and Advice

Funds within the local government scheme are required by regulation to produce and keep updated a Statement of Investment Principles (SIP). The regulation states that when there has been a material change to the fund the SIP should be updated to reflect the change.

The revised Statement at Appendix 'A' has been updated to reflect:

- The changes made to the Governance Policy statement as approved by the Committee at its meeting on 10 June 2016.
- The change to investment management with the implementation of the partnership and that selection and appointment of managers is delegated to the Local Pensions Partnership
- The strategic asset allocations as approved by the Investment Panel.

The rest of the document remains unchanged.

Lancashire County Council

The Committee should be aware that once the revised Pension Regulations are finalised and enacted, the SIP with be replaced by an Investment Strategy Statement (ISS). The Committee will therefore be asked to approve the ISS in 2017 which will reflect the regulatory changes and also any changes to be made to the Investment Strategy as a result of the current actuarial review.

Consultations

Local Pensions Partnership.

Implications:

This item has the following implications, as indicated:

Risk management

A clear and transparent set of constitutional arrangements is part of an effective risk management approach.

Legal

The regular review of the SIP and updating it to reflect changes in the governance of the fund ensures compliance with the relevant regulations.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Pension Fund

Statement of Investment Principles

Lancashire County Council
as administering authority of
Lancashire County Pension Fund

www.lancashire.gov.uk

Contents

Lancashire County Pension Fund

Statement of Investment Principles

1. Introduction

Lancashire County Council ("LCC") is the administering authority of the Lancashire County Pension Fund (the "Fund"). This Statement of Investment Principles ("SIP") sets out the principles governing its decisions about investments made by the Fund It has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Fund has produced the SIP following consultation with the Fund's Investment Panel, and a representative of the Fund's Actuary.

2. Responsibility for Investment Management

Lancashire County Council is responsible for administering the Fund under the Pension Scheme regulations 1997 (as amended). It delegates its responsibilities to:

- The Pension Fund Committee;
- The Fund's Investment Panel;
- The Fund's Custodian
- The Local Pensions Partnership Investments Limited ("LPP I")
- The Head of the Fund

The division of responsibility is set out in detail in the Governance Policy Statement, which is available at www.yourpensionservice.org.uk or on request from the Fund, but in summary, responsibilities are allocated as follows:

3. Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and monitoring overall performance. The Committee meets four times a year, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 representatives of scheme members and a representative of the Higher and Further Education Sectors in Lancashire.

4. Investment Panel

The Investment Panel consists of two independent advisors and the head of the Fund (as Chair),

The Panel meets at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks. It formulates recommendations to the Head of the Fund and/or the Pensions Fund Committee through meetings of the full Panel.

The Panel is required to provide advice to the Head of the Fund regarding:

a. review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
b. advise on strategic asset allocations proposed by LPP I
c. Restrict and control the range of asset allocations used by LPP I as set out in the Statement of Investment Principles
d. consider appropriate risk management strategies to include the matching of pension liabilities with suitable investments, possibly involving derivatives, and where necessary make recommendations to the Pension Fund Committee;
e. consider foreign exchange hedging strategies relating to the equity and/or other asset allocations and where necessary make recommendations to the Pension Fund committee;
f. monitor and review the investment activity; and
g. Review and report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.
h. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Head of Fund to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support.
i. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their remit and terms of office;
j. Review of the Statement of Investment Principles and compliance with investment arrangements;

5. Investment Managers

The management of the Fund’s investments is structured so as to provide diversification of management style and produce an acceptable spread of risk across the portfolio whilst maximising returns.

The implementation of all investments and selection of all investment managers is delegated to Local Pensions Partnership Investments Limited (“LPP I”), an FCA authorised company. The partnership was set up by the Lancashire County Pension Fund and the London Pension Fund Authority. The partnership brings the benefit of scale, improved resources, lower costs and a broader opportunity set.

Role of Lancashire County Council in-house staff in respect of the accounts and investments of the Pension Fund

Under the Lancashire County Council Scheme of delegation to Chief Officers, the Head of the Fund is responsible for carrying out, in consultation with the Investment Panel, the County Council's duties under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, with regard to the requirement to review the investments made by the Fund Managers. The Head of the Fund reports to each meeting of the Pension Fund Committee.

Staff within financial resources also support Head of the Fund in respect of their Pension Fund investment and accounting responsibilities and provide the following services:

- Production of the Pension Fund Annual Report;
- Preparation and maintenance of the accounts and balance sheet of the Pension Fund;
- Verification and monitoring of the investment data produced by the Fund managers to independent custodian records;
- Completion of various statistical questionnaires;
- Preparation of agenda, working papers and reports for the Investment Panel meetings, Pension Fund Committee meetings and other miscellaneous investment meetings;
- Maintenance of Pension Fund internal cash account and investment of Pension Fund Cash not held by the investment managers;
- Provision of accounting data for IAS19 calculations;
- Monitoring compliance with policy laid down by the Investment Panel and Pension Fund Committee;
- Maintenance of regular dialogue with LPP I and custodians;
- The provision of data for performance monitoring and interpretation of performance results;
- The conducting of procurement exercises to secure the services of service providers on behalf of the Fund.
- Verification, monitoring and payment of Pension Fund fee invoices;
- Monitoring the receipt of income due to the Fund;
- Representing the Head of fund at the Local Authority Pension Fund Forum meetings and other relevant Pension Fund Investment meetings;
- Interpretation and implementation of the requirements of new legislation relating to Pension Fund accounting and investments;
- Attendance at various seminars covering new developments in respect of Pension Fund Investment issues; and

6. Investment Objectives

The Fund has two objectives in terms of its investment activities:

1. To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
2. To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.

The current funding target assumptions include an assumed investment return (discount rate) of a yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

7. Types of Investment

The Pension Fund Committee ("the Committee") has delegated all implementation activities to Local Pensions Partnership Investments Limited ("LPP I"). LPP I manages eight different investment mandates covering a wide range of asset classes:

- Public Equities
- Private Equities
- Fixed Income
- Alternative Credit
- Property
- Infrastructure
- Total Return
- Liquidity

LPP I will also provide advice to the Committee and the Investment Panel on management of foreign exchange risk and liability hedging strategies.

8. Balance between Different Types of Investment

The investment strategy sets out a balance between different asset classes as follows. The strategic asset allocation (SAA) was approved by the Investment Panel.

Asset Class	Strategic Asset Allocation %	Tolerance range top limit
Global Equities	42.5%	50.0%
Fixed Income	2.5%	5.0%
Private Equity	7.5%	10.0%
Infrastructure	12.5%	15.0%
Alternative Credit	20.0%	25.0%
Property	15.0%	20.0%
Total Return	0.0%	5.0%
Liquidity	0.0%	5.0%
Total	**100.0%**	

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

Fixed Income
LCPF will seek to outperform the Barclays Global Aggregate Bond Index GBP Hedged. The LPP I Pool will pursue this aim by investing in underlying funds which may be managed by LPP I ("Internal Mandates"), or by external third parties ("External Mandates") which are consistent with the FI Pool's investment objectives and restrictions.

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

Infrastructure
The objective is to gain cost effective, diversified exposure to global infrastructure assets located predominantly in OECD nations. These investments need to meet LCPF's aims including: to generate a satisfactory risk adjusted return; improve diversification; provide predictable cash flows; and indirectly hedge against inflation.

Alternative Credit
The credit allocation will seek to gain cost effective exposure to diverse sources of return linked to global credit markets and credit instruments. The LPP I investment pool will pursue this aim primarily by allocating capital to investment vehicles, mandates or pooled funds managed by external third parties ("External Mandates").

Property
LCPF will seek to gain cost effective, diversified exposure to UK and international property assets that meet its investment objectives: to generate a return in excess of the benchmark; earn predictable cash flows; and provide a partial hedge against

inflation. The largest exposure of the portfolio will be to traditional sectors of the UK commercial real estate market. A smaller allocation will be made to value-added and opportunistic investments.

Total Return

The LPP I total return pool seeks to gain cost effective exposure to diversifying sources of return distinct from global equity beta and bond duration. The LPP I pool will pursue this aim primarily by allocating capital to investment strategies managed by external third parties ("External Mandates").

Cash/ Liquidity

The LPP I Liquidity pool will manage in a cost effective manner any cash balances by allocating capital to securities or funds directly in appropriate markets and in relevant currencies or hedged back to relevant currencies. The benchmark for the Liquidity pool is 1 month GBP LIBOR.

Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund's) Regulations 2009

The 2009 regulations laid down the limits shown in Column 1 and Column 2 below, having consolidated the previous 1998, 2003, and 2005 Regulations. The limits in Column 2 may be used by Local Authority Pension Funds if, following proper advice, they have sought approval by their Pension Fund Committees for the increases and the reasons for adopting the increases are detailed in the Statement of Investment Principles.

The Fund's Investment Panel and Pension Fund Committee have previously reviewed the 2009 Regulations limits and have adopted the increased limits for **any single insurance contract** and also for **all contributions to partnerships**.

The 2013 amendment to the 2009 Regulations increased the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%.

	Column (1) **Limits under regulation 14 (2)**	**Column (2)** **Limits under regulation 14 (3)**
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	30%
4. with the sum of - (a) all loans; and (b) and deposits with - (i) any local authority, or (ii) any body with power to issue a precept of requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and	10 %	-

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
all loans.		
5. All investments in unlisted securities of companies.	10 %	15%
6. Any single holding.	10 %	-
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10 %	-
8. All sub-underwriting contracts.	15 %	-
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25 %	35%
9a. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	25 %	35%
9b. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25 %	35%
10. Any single insurance contract.	25 %	35%
11. All securities transferred under stock lending arrangements.	25 %	35%

Stock Lending

Stock lending is undertaken up to the 35% limit above. The programme is run by the Fund's Custodian, which monitors performance, limit and counterparty credit adherence, and voting requirements.

9. Policy on Risk

The consideration of investment risk forms part of the Pension Fund's overall risk register, which is presented to Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

The first line of defence is diversification. As described in the section on Asset Allocation, the scheme will seek to maintain a diversified exposure to several different asset classes, geographies, and currencies. The Pension Fund Committee expect this to provide (at least) two levels of protection: first, in periods of market turmoil some assets will preserve capital better than others, allowing the portfolio to better withstand a shock. Second, in periods of rising markets, some assets will do better than others, and since we don't know with absolute certainty which ones will do best, it is better to diversify.

The second line of defence at the scheme level is to examine how the portfolio would perform under different scenarios including stress scenarios. The objective is to ensure that the losses that the portfolio endures will not cause future contributions to increase.

The asset class pools described in section 7 are also subject to a number of constraints to allow for intra-asset class diversification, including sector, country, manager, and maximum exposure to a single asset. When appropriate, the pools will use value at risk or volatility measures to monitor specific investments.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian.

The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

10. The expected return on investments

Each LPP I asset class pool is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each LPP I pool the Investment Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a full market cycle of seven years. The targets and benchmarks in place are as follows:

Asset Class	Benchmark	Target Return
Global Equities	MSCI All Country World, net dividends reinvested, in GBP Index	Benchmark + 2% p.a. net
Fixed Income	Barclays Global Aggregate Bond Index GBP Hedged	Benchmark + 50bps p.a. net
Private Equity	MSCI All Country World, net dividends reinvested, in GBP Index	Benchmark + 2-4% p.a. net
Infrastructure	UK CPI + 4% - 6% p.a. net	UK CPI + 4-6% p.a. net
Alternative Credit	1 Month GBP LIBOR	1 Month GBP LIBOR + 3-5% p.a. net
Property	UK CPI + 4% - 6% p.a. net	UK CPI + 4-6% p.a. net
Total Return	1 Month GBP LIBOR	1 Month GBP LIBOR + 4% p.a. net
Cash	1 Month GBP LIBOR	1 Month GBP LIBOR

11. Monitoring and Review

The investment activities of LPP I are reviewed at each Investment Panel meeting and reported on to the Pension Fund Committee. At these meetings, asset allocation and investment performance of LPP I is reviewed.

The Fund's Actuary carries out a triennial review of the Fund and sets the employers' contribution rates for each three year period. Details of investment strategy and activity are an important element of the actuarial review.

The Annual Report is produced by the S151 Officer for all employing bodies within the Fund, and this report, together with various information bulletins produced in respect of the Pension Scheme, provides details of Investment Policy and performance relating to the Investment Managers. Extracts from the Report are circulated to all members with the Fund's newsletter and are posted on the Fund's web site (www.yourpensionservice.org.uk).

12. Policy on Realisation of Investments

As the Fund is cash flow positive after including investment income, there is no need to realise investments in order to pay for benefits.

LPP I will decide when to realise investments as and when they consider appropriate in accordance with their management discretion.

13. Corporate Governance and Responsible Investment

Corporate Governance

As a long term investor, the Fund recognises the importance of good corporate governance practices in the companies in which it invests. The Fund believes that good corporate governance contributes to business prosperity by encouraging well run companies and an alignment of interests between boards, shareholders, customers, employees and wider society.

The Fund's approach to Corporate Governance

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests and seeks to actively exercise ownership rights as a route for protecting the long-term investment interests of Fund's beneficiaries. Ownership activities will vary by asset class but include representation on company boards and advisory panels, shareholder voting, engagement with companies and regulatory or representative bodies and membership of investor organisations such as the Local Authority Pensions Fund Forum and the Pensions and Lifetime Savings Association. The implementation of the Fund's ownership activities is delegated to LPP I and is focussed on protecting ownership rights, minimising risk to companies from corporate governance failure, enhancing long-term value and encouraging corporate social responsibility.

Responsible Investment

Responsible Investment is an investment approach in which investors recognise the importance of the long-term health and stability of the market as a whole; seeking to incorporate material extra-financial factors alongside other financial performance and strategic assessments within investment decisions; and utilise ownership rights and responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement. The objective of responsible investment is decreasing investor risk and improving risk-adjusted returns.

Examples of potentially material risks to be considered as part of the Fund's voting and engagement activity are set out below:

Governance risks:

- Board independence – Non-Executive Directors play a vital role in overseeing the executive management and safeguarding the interests of shareholders;
- Succession planning – An ineffective policy can have implications for a company's performance, including uncertainty over its sustainability;
- Board diversity – Research suggests that shareholders, companies and boards are not best served by an overly homogenous board prone to group think;
- Auditors – The independence of auditors plays a crucial role in protecting shareholders.

Environmental risks:

- High intensity industries will incur additional financial costs from carbon regulations in different jurisdictions. Changes in climate will affect company supply chains and fixed assets;
- Energy use – Through effective management of energy use, companies are able to reduce energy costs as well as build security of supply;
- Natural resources – Demand for raw materials is ever increasing, this has implications including increasing regulation around sourcing and use of resources;
- Water – A growing global population is leading to rising consumption – this in turn increases costs and creates tensions or conflicts.

Social risks:

- Human rights – Companies operating in companies with poor human rights records may face significant challenges, such as legal challenges or reputational damage;
- Employment – Research indicates that well managed employee relations improve worker productivity and effectiveness in turn benefitting shareholders;
- Health and safety – Companies with poor health and safety records may face prosecutions, fines and in extreme cases, the withdrawal of licences to operate;
- Supply chain – Companies are increasingly reliant on a large, global workforce, exposing them to increased risks of disruptions.

Implementing a responsible investment policy helps a pension fund to adhere to the UK Stewardship Code. The Fund's current position relating to the UK Stewardship Code can be found in a separate statement on its website.

Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

The Fund's approach to responsible investment

The Fund is a signatory to the UN-supported Principles of Responsible Investment and is committed to developing an approach aligned with fulfilling the six principles. The Fund's approach to responsible investment divides into three areas of focus.

a) Voting Globally

The first approach, voting, is certainly not a 'boxticking' exercise, as the Fund regularly votes against resolutions. The Fund, through a proactive voting policy, in partnership with proxy voting consultants, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

Votes are cast in accordance with the proxy voting consultant's guidelines unless an Investment Manager requests a different vote for investment management reasons.

b) Engagement through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- Local Authority Pension Fund Forum (LAPFF);
- Voting on shareholder resolutions;
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with two US law firms and other shareholders, submits class actions globally where possible and where appropriate.

14. Principles of Investment Practice

The Fund's compliance with the six principles of investment practice laid out in Local Government **Pension** Scheme (Management and Investment of funds) regulations 2009 is described below:

Principle 1: Effective Decision Making

Fully compliant: The decision making process is fully outlined in the Governance Policy Statement, Governance Compliance Statement and Statement of Investment Principles.

Principle 2: Clear Objectives

Fully compliant: The overall objective for the Fund is outlined in the Statement of Investment Principles. The Investment Panel sets benchmarks for measuring the performance of each investment and an overall benchmark for the Fund as a whole in order to monitor the attainment of the objectives.

Principle 3: Risk and liabilities

Fully compliant: The Investment Panel and Pension Fund Committee have considered the appropriate assets for the Fund following Asset/ Liability studies and decided upon an investment strategy involving a diversification of investments amongst equities, property and investments offering the prospect of acceptable returns with lower volatility.

Principle 4: Performance assessment

Fully compliant: Investment performance reports are produced by the Custodian monthly for consideration by the Investment Panel and the Pension Fund Committee..

Principle 5: Responsible ownership

Fully compliant: PIRC has been appointed the Fund's proxy to vote the Fund's shares at shareholder meetings. PIRC votes in accordance with its voting guidelines unless an Investment Manager requests differently, in which case the Treasurer to the Fund would decide how the vote should be cast in the best interests of the Fund. The Fund is a member of the Local Authority Pension Fund Forum, which is primarily concerned with Corporate Governance issues and shareholder activism. Voting action is monitored on a quarterly basis.

Principle 6: Transparency and reporting

Fully compliant: The Statement of Investment Principles outlines who is responsible for strategic and asset allocation decisions for the Fund and the reasons behind this Structure. It contains the current investment objective and details of the operational aspects of the Fund’s investments.

The Fund provides all of its Members with regular information bulletins. The Annual Report and the Fund's statutory statements are made available to all the Fund's employers and members through the web site www.yourpensionservice.org.uk.

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected: (All Divisions);

Responsible Investment
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

The report at Appendix 'A' provides the Pension Fund Committee with its regular update on Responsible Investment matters.

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

Recommendation

The Committee is asked to:

(i) Note the report;
(ii) Authorise the Chair of the Pension Fund Committee, in consultation with the Head of Fund, to approve a revised Statement of Compliance with the Stewardship Code.

Background and Advice

The Pension Fund Committee receives a quarterly report on Responsible Investment (RI) related matters which provides an update on activities falling within the scope of the approach to RI set out within the Fund's Statement of Investment Principles.

The implementation of RI in line with the approach described in the SIP falls to the Local Pensions Partnership (LPP) as the Lancashire County Pension Fund's (LCPF's) external provider of pension services.

The report at Appendix 'A' has been prepared by the Responsible Investment Officer at LPP Investments Ltd and provides information on how the Fund's commitment to long term responsible asset ownership is being fulfilled in practice.

The report describes an initiative by the Financial Report Council to introduce public tiering of signatories to the UK Stewardship Code under which it will assess the

Lancashire County Council

quality and completeness of each signatory's reporting against the Code and make public the assessment of sufficiency. Signatories have a limited window of opportunity to review their current statement and to update this to achieve Tier 1 status (fully meeting reporting expectations in relation to stewardship activities). Given the limited timeframe for the review exercise required, the Committee is requested to authorise the Chair of the Pension Fund Committee, in consultation with the Head of Fund, to approve a redrafted statement of compliance with the Stewardship Code. Committee members will receive full details and the Fund's redrafted statement at the next meeting of the Committee in December 2016.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

Responsible investment practices underpin effective fulfilment of the Administering Authority's fiduciary responsibilities.

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

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

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

Lancashire County Pension Fund

Pension Fund Committee
Responsible Investment Report

15 September 2016
Appendix A

Title of Paper	Quarterly Report on Responsible Investment
Lead Officer:	Frances Deakin Responsible Investment Officer Local Pensions Partnership Investments Ltd
Appendices	**Appendix 1: LAPFF Quarter 2 Engagement Report** **Appendix 2: Q2 2016 Litigation Monitoring Report BR&B**

1. Executive Summary

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

2. Introduction

The Fund's approach to RI is set out within its Statement of Investment Principles (SIP) which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code.

The Fund's approach to RI encompasses four main areas of activity:

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

Responsibility for the practical implementation of the Fund's approach to RI is devolved to LPP I as LCPF's provider of investment management services. The report which follows provides an update on RI activity in the period from 1st April to 30th June 2016.

3. Voting Globally

LCPF owns shares in listed companies across the globe. The Fund works with an external provider of proxy voting and governance services to ensure effective and consistent use of the voting rights attached to these assets. Pensions and Investment Research Consultants Ltd (PIRC) analyse and apply voting guidelines to the resolutions at every shareholder meeting the Fund is entitled to attend and oversee the process of vote execution.

PIRC provide quarterly reports which include a summary of votes cast in the period and the outcome of voting (where known). A copy of the most recent report covering the period from 1st April to 30th June 2016 has been placed within the Members Retiring Room for reference.

During the second quarter of 2016 the Fund's interests spanned 233 shareholder meetings (10 AGM, 223 EGM) incorporating 3,360 separate resolutions. This large number reflects that Q2 spans "voting season" in which the majority of companies hold AGMs. The tables below summarise the spread of voting within Q2:

Location	Meetings Voted	
UK & BRITISH OVERSEAS	12	5%
EUROPE & GLOBAL EU	52	22%
USA & CANADA	125	54%
ASIA	13	6%
JAPAN	21	9%
AUSTRALIA & NEW ZEALAND	4	2%
SOUTH AMERICA	3	1%
REST OF THE WORLD	3	1%
TOTAL	233	100%

Vote Categories	No. of Resolutions	
For	2,029	60%
Abstain	126	4%
Oppose	941	28%
Non-Voting	92	3%
Not Supported	9	0%
Withhold	162	5%
US Frequency Vote on Pay	1	0%
TOTAL	3,360	100%

13 meetings (92 resolutions) are reported as non-voting. In each case this reflected that the Fund either held a class of shares giving no voting entitlement or acquired its holding after the applicable record date for the AGM. There were also cases where the sale of a holding shortly before the meeting cut-off date removed the entitlement to participate. There were no cases where the Fund was entitled to vote but did not submit a ballot.

On LCPF's behalf, PIRC apply a voting policy which reflects Corporate Governance best practice and oppose or abstain where resolutions are judged not to be in the long term best interests of shareholders. The Fund supported more than half (60%) of the resolutions tabled in the quarter; opposition voting concentrated upon the following matters:

- CEO and Chairman of the Board responsibilities being combined in a single role;
- the appointment of NEDs known to be fulfilling multiple other directorships;
- Non-Executive Director (NED) nominees lacking independence through their length of tenure or other conflicts of interest;
- executive remuneration arrangements lacking adequate checks on excessive pay levels or performance measures clearly aligned with shareholder interests;
- the re-appointment of auditors where long standing relationships or non-audit fee levels potentially compromise objectivity;

There were comparable Shareholder Resolutions on gender pay equality at 4 company AGMs within Quarter 2. In each case the proponents requested the Company produce a report on their policies and goals to reduce the gender pay gap defined as the difference between male and female earnings. PIRC reviewed each resolution as an individual case and considered the performance of the company Board on gender pay issues, their formal response to the shareholder resolution and the reasonableness of the deadline given for producing the requested report. Voting on behalf of LCPF was as follows:

Company AGM	PIRC Voting Rationale Shareholder Resolutions on Gender Pay Equality	Vote
CITIGROUP INC	The Proponent's request is reasonable and would support and underpin the Company's efforts in fostering diversity, thereby enhancing its reputation	For
eBAY INC.	The Proponent's request is reasonable as, while the Company does have information on the ratio of male to female workers, it does not include anything about the gender pay ratio at the Company. However, the Proponent specifies that the report should be readily available by September 2016, which is considered too short notice for the Company to properly implement.	Oppose
ALPHABET INC (Google)	The Board has not demonstrated that the existing disclosure addresses the information requested by the Proponent, or that the information requested is not in the best interests of shareholders.	For
FACEBOOK, INC	The Board has demonstrated that the existing disclosure regarding pay parity at the Company and its ongoing efforts in this regard adequately address the concerns identified by the Proponent.	Oppose

Shareholder voting forms part of a wider continuum of active ownership through which LPP I (on behalf of LCPF) seeks to have a positive influence in favour of well-run companies whose business conduct and interests align with generating long term value for shareholders. The Fund recognises the value of engagement activities which raise specific issues of concern and reinforce the lines taken within shareholder voting.

4. Engagement through Partnerships

The Fund's approach to engagement activity reflects recognition that partnerships and collaborations offer greater potential reach and impact than acting alone. LPP I participates in a number of collaborations representing the collective interests of institutional investors which seek to make progress on issues which impact shareholder value. Key groups include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) and the Institutional Investor Group on Climate Change (IIGCC).

LCPF's principal engagement partner in the RI space is LAPFF which exists to represent the specific investment interests of local authority pension funds as asset owners. 70 of the 89 LGPS funds are now LAPFF members.

On a quarterly basis LAPFF provides member funds with a summary of the engagement activities undertaken on their behalf. A copy of LAPFF's Q2 2016 engagement report is attached at Appendix 1. Highlights from the report which covers the period from 1 April to 30 June 2016 include the following:

- **Launch of All Party Parliamentary Group (APPG) on Local Authority Pension Funds**
  LAPFF's ambition to support the formation of an APPG as a forum for discussing *"the issues and concerns of local authority pension funds and the work of the Local Authority Pension Fund Forum"* came to fruition with an inaugural meeting on 18th May 2016 which was chaired by Clive Betts MP and attended by a range of interested parties. The meeting discussed the formation and objectives of the APPG and the development of a future programme. Details on the work of the APPG will feature within quarterly LAPFF business meeting papers going forward.

- **LAPFF seminar on responsible investment and shareholder rights under pooling (7th June 2016)**
  This event considered the specific stewardship challenges associated with pooling investments and moving to shared ownership models including arrangements for shareholder voting and litigation. The seminar was attended by the Chair of LCPF's Pension Fund Committee.

- **Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American**
  Following successful resolutions at Shell and BP, LAPF has supported further strategic resilience resolutions as part of the "Aiming for A" coalition. Resolutions call for a commitment to routine annual reporting on
  - ongoing operational emissions management;
  - asset portfolio resilience;
  - low-carbon energy research and development;
  - strategic key performance indictors;
  - relevant public policy positions.

  The resilience resolutions were strongly supported by shareholders with results reflecting a 99.1% vote in favour at Rio Tinto, 96% at Anglo American and 98% at Glencore.

LCPF has no direct holdings in any of the three companies at which resilience resolutions were filed but gave support (in its capacity as a LAPFF member) to the initiative which aims to increase ongoing focus on financial risks posed by climate change.

The LAPFF Engagement Report at Appendix 1 includes detailed information on engagement activity within the quarter which included attendance at 13 AGMs to raise issues ranging from remuneration to supply chain management. Quantification of engagements across thematic topics shows that climate change and human rights were the most frequently raised issues:

Engagement Topic	**Number of Engagements by LAPFF**	
Climate change	18	30%
Human rights	10	17%
Employment standards	8	13%
Board composition	6	10%
Environmental risk	5	8%
Remuneration	5	8%
Campaign (general)	2	3%
Governance (general)	2	3%
Incentivising executives	2	3%
Supply chain management	2	3%
	60	100%

As its provider of investment management services, LPP I supports and represents the interests of LCPF as a member of LAPFF by attending Forum business meetings, exercising voting rights, drafting responses and feedback and identifying opportunities for participation.

In the last quarter the Fund has responded to a LAPFF questionnaire on membership requirements and proposed future services. LCPF's response stressed the importance of LAPFF evolving to support the needs of Funds both as individual administering authorities and parties within new pooling arrangements. LAPFF has subsequently contacted member funds to explain new arrangements which enable emergent pools to nominate representatives to attend LAPFF meetings in their own right as observers. LPP has responded explaining that LPP I's RI Officer will continue to routinely represent its clients at LAPFF meetings and will need to retain the ability to participate, respond, and exercise voting rights on their behalf – something which is not envisaged of the new category of pool representatives who will hold observer-only status. The LAPFF Executive will be considering the matter at their next meeting.

LAPFF's most recent quarterly Business Meeting took place on 28th June 2016. Headlines from the meeting include the following matters:

- **All Party Parliamentary Group on Local Authority Pension Funds**

  The minutes of the LAPFF Executive meeting on 8 June 2016 confirm that the inaugural meeting of the APPG was well received, with civil servant attendance indicating that it was being taken seriously. Clive Betts MP was appointed chair with an SNP MP appointed as vice chair and a proposal for a Conservative representative as a second vice-chair.

  A wide range of interested parties were in attendance including Lord Bob Kerslake and Michael Johnson along with Jeff Houston and representatives from the CBI, Investment Association and PLSA. The LAPFF Executive agreed that it was important to ensure RI issues feature strongly on the APPG agenda.

  The APPG website at www.appglocalpensionfunds.org contains limited information at present but lists the 20 MPs who are members and confirms that the main focuses of the Group will be:
  - The use of pension fund money for infrastructure, local growth and housing
  - The role of pension funds in corporate governance and shareholder activism
  - Reforms to the LGPS (new investment guidelines and government plans for pooling of funds)

  APPG meetings will take the format of an informal round table and offer an opportunity to place issues in front of MPs from the local perspective.

- **LAPFF Guide to 'Co-filing' Shareholder Resolutions**
  A new LAPFF guide has been published which explains in detail the process, requirements and timeframes involved with co-filing shareholder resolutions as an extension of existing voting and engagement activity. The question of how pooling arrangements and shared ownership may impact the ability of funds to co-file shareholder resolutions is under ongoing consideration within the LAPFF work plan.

- **Campaign on Reliable Accounts**
  LAPFF has continued to engage with FTSE 350 companies, regulators and accounting standards boards on weaknesses within Financial Reporting Standards

and the guidance on these from the Financial Reporting Council (FRC). The specific matter at issue is the disclosure of distributable and non distributable reserves. LAPFF argue that a lack of adequate disclosure is hampering the ability of investors to judge the underlying financial health of companies and is a failure to comply with the Companies Act 2006 requirement for accounts which provide a true and fair view of the assets, liabilities, financial position and profit or loss as the basis for making lawful distributions including dividends.

5. Shareholder Litigation

Litigation offers a route for recovering financial losses where asset values have been diminished as a result of financial misconduct.

On LCPF's behalf, LPP I maintains an up to date understanding of prospective shareholder litigations in which the Fund potentially has an interest. Monitoring services are provided at no cost by two US law firms - Barrack, Rodos and Bacine (BR&B) and Robbins Geller Rudman and Dowd (RGRD) which ensure prospective actions are known about, the fund's interest (level of loss) is quantified and information is available as a basis for making a decision on the most appropriate course of action given the risks, costs, benefits and deadlines involved in each case.

LPP I monitors developing litigation cases to ensure the Fund is made aware of those where it has sustained losses and is appraised about opt-in, opt-out or independent legal action where this might offer a premium recovery compared with the default approach of participating collectively in class actions.

A summary from BR&B of litigation monitoring during Q2 2016 is provided at Appendix 2. The report confirms a quiet quarter in which the Fund had losses in only 2 of 54 new cases filed with Federal or State Courts in the US. Neither case warranted an active role by institutional investors meaning the Fund's interests will be best represented by monitoring the progress of each case and filing within the claims filing deadline. There were no new non-US cases in which the Fund had interests in the period and no distributions were received in respect of settled cases.

6. Active Investing

LCPF's commitment to active investing involves recognising the wider characteristics of prospective investment opportunities and ensuring both positive social characteristics and negative impacts are assessed and taken into account as part of decision-making. The commitment is fulfilled in practice by LPP I, through the consideration of relevant Environmental, Social and Governance (ESG) factors as part of investment due diligence and through continually seeking insight to enrich and evolve current knowledge on the risks and opportunities emerging from different sectors and scenarios.

As part of its commitment to the integration of ESG into investment decision-making and ongoing ownership activities, LCPF is one of several founding authorities for a new LGPS national procurement framework for Stewardship and ESG Services. The new framework which will shortly come into operation will be a means for LGPS funds to access specialist services that will support the fulfilment of fiduciary duty and help to extend stewardship and RI capabilities. Both individual funds and collective pools are eligible to use the framework to call-off services from successful suppliers.

Participation in the formulation of the new procurement framework has been ongoing for a number of months. The LPP I RI Officer has worked collaboratively with representatives from the other Founding Authorities and with officers from the National

LGPS Framework to decide the service specification and the lots, to design tender documents and participate in supplier days explaining the ethos and ambitions of the framework to prospective bidders. The latest and most detailed stages have encompassed scoring and moderating the supplier submissions received and participating in clarification interviews with suppliers to inform the final evaluation and conclude the tender process.

The insight gained from involvement in this detailed process will contribute to the ongoing development of LPP I's approach to RI and the overview it has provided of services available from the supplier marketplace will be followed up as part of the identification of information sources which may help to facilitate active investing and oversight going forward.

Further efforts within the quarter to fulfil the RI commitments of LCPF under the Stewardship Code and as a signatory to the UN –backed PRI have included:

- **Meeting with the FRC in relation to public assessment of signatory reporting against the UK Stewardship Code**

  From Autumn 2016 the FRC is to introduce public assessment of the quality of signatory reporting against the UK Stewardship Code. Signatory statements will be assessed as being Tier 1 (meeting reporting expectations in relation to stewardship activities) or Tier 2 (not meeting reporting expectations).
  The initiative provides a whole market incentive to improve current standards of stewardship disclosure and applies to both asset owner and asset manager signatories to the Code.

  Following an initial indication that LCPF's current statement is likely to be assessed as Tier 2 the LPP I RI Officer has met with the FRC to identify areas for development. Discussion indicated that the focus should be on expanding the level of disclosure on activities being undertaken by the Fund in order to provide more practical insight. A revised statement reflecting the insight gained from the FRC will be drafted for approval by the Fund. The deadline for submitting revised statements to the FRC is Friday 23rd September 2016.

- **Strengthening existing connections with the Pensions and Lifetime Savings Association (PLSA) on stewardship matters**

  LPP I's Responsible Investment Officer has become a member of the PLSA Defined Benefit Scheme Stewardship Advisory Group (SAG). The Group comprises 13 representatives from UK asset managers and DB pension schemes on a 50/50 basis and meets quarterly to provide guidance and feedback on the Association's work on corporate governance and stewardship. The LGPS forms a significant sector within the UK DB pensions landscape and the new appointment has increased the LGPS presence on the SAG to 2 members which is welcomed by the PLSA.

- **Stewardship-focussed discussion as part of the LGPS Cross Pool Collaboration Group (CPPG) Responsible Investment Sub-Group**

  The establishment of a specific RI Sub Group to the CPCG was detailed within the Committee's previous quarterly report on RI (10th June 2016).
  The RI Sub Group has met twice in the quarter (13 May 2016, 7th June 2016) with attendance from the LPP I RI Officer. Working collaboratively as RI practitioners, representatives have seized the opportunity to provide collective feedback to the

DCLG on requirements for reflecting stewardship and RI within the revised LGPS Investment Regulations and the guidance which will accompany them. The group will continue to provide a forum for encouraging consistent approaches and providing cross pool support for the practical, procedural and policy-based stewardship challenges that arise out of LGPS pooling.

Local Authority
Pension Fund
Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 70 public sector pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2016

Attending the LGPS seminar *(clockwise from top left) Patrick Daniels; Cllr Mukesh Malhotra; a group of delegates; Natasha Landell Mills, David Sheasby, Jeanette Andrews and Cllr Keiran Quinn.*

Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling

Launch of the All Party Parliamentary Group on Local Authority Pension Funds

Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Engagement with Total leads to carbon risk reporting and further meetings with the Company

LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

LAPFF attends 13 AGMs during the quarter

Achievements

Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling

LAPFF Vice Chair, Ian Greenwood

On 7 June 2016, LAPFF hosted a successful seminar, sponsored by PIRC, entitled 'Responsible Investment, Shareholder Rights and Pooling' at Martin Currie Investment Management. The seminar highlighted the remaining uncertainties linked to the mandatory pooling of local government pension funds in the UK and Wales, especially in relation to implementing responsible investment (RI) through funds. The seminar presentations are available to LAPFF members here.

The day began with David Sheasby of Martin Currie, Natasha Landell Mills of Sarasin & Partners, and Jeanette Andrews of Legal & General Investment Management, speaking about fund managers' approaches to environmental, social and governance (ESG) issues and ESG integration into their work products. All three speakers emphasised the importance of ESG analysis to capital protection and long-term corporate growth. Their questions about the pooling process related primarily to the devolution of power and accountability away from funds to asset managers, including the transfer of responsibility for RI and reduced active management of investments.

Patrick Daniels of Robbins Geller Rudman & Dowd then spoke about legal accountability of companies to shareholders, specifically the way shareholder litigation will work given the new pooling arrangements. He stressed that pooling would not affect the likelihood of claims arising, but that effective data retention and monitoring would be key to the success of shareholder claims.

In a pooling situation, this retention could be difficult if custodians employed by individual funds are different from those used by the pools, which may become the claimants in this litigation. Mr Daniels' recommendation was that the cleanest solution is for pension funds to assign legacy claims to their pools and ensure that the pools have rigorous data protection processes and data control, which are contracted-in to the pools' constitutions, to increase the prospect of successful litigation in the future.

Alan MacDougall of PIRC continued the accountability theme by suggesting that if funds do not maintain ownership line-of-sight for their investments, RI will not be within their control; it will effectively be delegated to pools, notwithstanding the regulatory position that the individual funds are supposed to maintain ultimate responsibility for responsible investment. Therefore, collaboration on RI will be key, including the provision of guidance on how to work with asset managers in this area, particularly with regard to proxy voting policy, director nominations and co-filing shareholder resolutions.

Representatives of LAPFF members across four pools – Faith Ward, Cllr Mary Barnett, Cllr Rishi Madlani and Rodney Barton – concluded by setting out the expectations of pools in relation to RI. The London Collective Investment Vehicle (CIV) was used throughout the day as a source of learnings on developing pools as the CIV has already been up and running for some time.

Despite the uncertainties that pooling continues to present, delegates agreed that it should be seen as an opportunity to maximise, not dilute, the active role that funds have in responsible investment.

LAPFF facilitates launch of All Party Parliamentary Group

In May, LAPFF facilitated the launch of an All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Clive Betts MP *(below left)* was elected Chair and Ian Blackford MP *(below right)* was elected vice-Chair. The aim of the APPG is to consider a range of issues affecting local authority pension funds, particularly: the use of pension fund money for infrastructure; corporate governance and shareholder activism; and LGPS reforms. LAPFF Chair, Cllr Kieran Quinn, led the session, along with contributions from Unison, LAPFF member funds, and others.

Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Over the last twelve months, LAPFF has been heavily involved in engagement with, and filing shareholder resolutions at, **Rio Tinto**, **Anglo American** and **Glencore**. This spring, all three resolutions were voted in with overwhelming shareholder support, showing the strength of belief amongst the investor community that companies must be transparent about how they are preparing for the transition to a low carbon economy.

LAPFF leads on enagement with Rio Tinto and, in April, the resolution obtained a 99.1% vote in favour, the highest level of support for a shareholder resolution yet in the UK. Later that month, the Anglo American resolution obtained a 96% 'for' vote and, in May, 98% of voting shareholders supported the resolution 'asks' at Glencore. All three resolutions were publicly supported by the companies' boards and members of the LAPFF executive attended each AGM to speak to the resolutions.

These successes follow those of last year, when similar strategic resilience resolutions were co-filed at BP and Shell. A year on, LAPFF is now reviewing how well these companies have implemented the resolution 'asks' in their reporting, amidst continuing engagement with both companies.

Engagement with Total leads to carbon risk reporting

LAPFF is also pleased to have been part of an investor coalition which has successfully engaged with **Total** on strategic resilience. As a result of this engagement, the Company committed to reporting in line with the requests of the strategic resilience resolutions that have already been filed at oil, gas and mining companies in the UK. This includes reporting on emissions, the International Energy Agency's post-2015 scenarios, research and development, key performance indicators, and public policy positions.

Following this, Total released its dedicated report on this issue 'Integrating Climate into our Strategy' at its AGM in May. LAPFF signed-on to a joint investor statement presented at that AGM, which was attended by Cllr Simon, supporting Total's commitment. LAPFF's question at the AGM was to ask the Chair if Total would consider reporting its energy reserves in kilojoules rather than barrels of oil. As the former is 'resource-neutral' this would be a means to help the Company and the market account for and place value on a range of renewable energy resources beyond oil and gas. The Chair's response was that whilst Total would continue to publish its reserves in barrels of oil, this proposal would be considered. Cllr Simon subsequently attended a group investor meeting with the Chair and Chief Executive in June, to discuss the new report in detail, and Denise Le Gal attended an event with Total's Vice President on Climate the following day, to discuss that report further.

LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

Following Ian Greenwood's participation at the BP AGM in April to ask the Board about its plans for 2016/17 to make carbon pricing effective, he was then interviewed by the BBC about LAPFF's views on executive pay at the Company, following a 20% increase in remuneration to the CEO on last year. Mr Greenwood stated, in clips that were shown in primetime BBC news slots, that the CEO's pay 'sent entirely the wrong message' to shareholders and employees, following significant job cuts and the biggest operating loss that BP has ever reported. Over 59% of investors opposed the Remuneration Report at the AGM, which was one of the largest rejections of such a report in the UK to date. LAPFF has now asked BP for a meeting to discuss the Company's approaches to remuneration, ahead of the vote on remuneration policy in 2017.

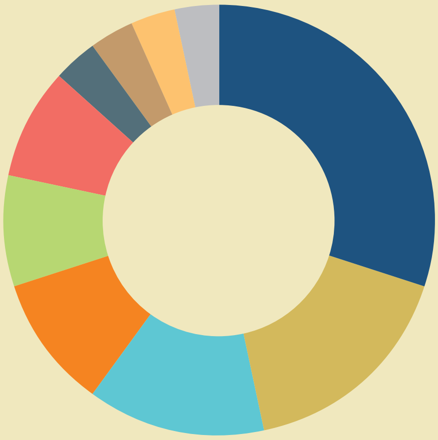
LAPFF Vice Chair, Ian Greenwood, being interviewed by the BBC on BP remuneration

LAPFF attends 13 AGMs during the quarter

It has been a busy and successful quarter for LAPFF, having attended 13 AGMs between April and June, raising issues ranging from remuneration, to climate risk, to supply chain management. A number of these AGMs have brought about opportunities for further engagements with the companies on issues of concern to LAPFF's members.

Company Engagement

ENGAGEMENT TOPICS



Climate change	18
Human rights	10
Employment standards	8
Board composition	6
Environmental risk	5
Remuneration	5
Campaign (general)	2
Governance (general)	2
Incentivising executives	2
Supply chain management	2

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

Over the last year, LAPFF has been engaging with companies on their approach to diversity. At the **Tullow Oil** AGM, Cllr Mukesh Malhotra asked the Chair how Board diversity, and diversity more broadly, would be strengthened at the Company, particularly through linking pay to key performance indicators. The Chair's response was encouraging and showed a willingness to continue to develop the Company's approach, particularly by considering the need for ethnic diversity, as well as gender diversity, and giving consideration to the fact that Tullow is an African-based business.

Through the 30% Club, LAPFF also met with the Chair of **GKN**. The Company currently only has one woman on the Board, and the meeting explored the challenges the Board faced in addressing gender diversity.

Following on from previous AGM attendance, a LAPFF representative attended the **Carillion** AGM in May to ask about the Company's efforts to implement the reporting requirements of the Modern Slavery Act and transparency in its supply chain in Qatar. LAPFF was then invited to join the launch of Carillion's Sustainability Report that afternoon at which the Chair spoke animatedly about the Company's approach towards sustainability.

In April, LAPFF Executive Committee member Jane Firth met with representatives of **Hays**, to consider a range of issues, including the Company's business model, use of zero hour contracts, remuneration and share buybacks. One concern has been the extent of structural pressure that appears to push the Company towards using workers on temporary contracts.

At the **Next** AGM, Ms Firth asked about supplier audits and a particular case of human trafficking. The Chair responded in some detail. Ms Firth also asked how Next intends to report on water use, and whether it has signed on to the Better Cotton Initiative. Again, further information was provided including on how Next is working to minimise water usage in the UK.

LAPFF also continued its engagement with **Singapore Technologies**, following the Company's announcement last year that it would cease to design, produce and sell anti-personnel mines and cluster munitions. LAPFF welcomed the Company's request for a meeting on this issue, and gained a better understanding of how the Board was able to take the decision to stop the manufacturing and sales of these munitions.

The **National Express** AGM was, again, highly contentious this year. The Teamsters had proposed a shareholder resolution calling for an independent review of North American school bus operations that was not included on the AGM ballot. At the AGM, the Company advanced various arguments as to why this shareholder resolution had not been included in the AGM agenda. The LAPFF Chair, Cllr Kieran Quinn, asked for clarity from the Company on the particular reasons for failing to accept the resolution this year. This has raised a significant issue about the requirements for co-filing, which LAPFF will follow closely.

LAPFF picked up on executive remuneration at the **Standard Life** AGM this year, with Cllr Barney Crockett querying the bonus payments made to the former Chief Executive whilst on gardening leave. The Chairman, Sir Gerry Grimstone, confirmed that his payments were in line with the terms of his contract. Concerns over the incoming Chief Executive's pay, despite the fact that he voluntarily reduced the ceiling on his long-term incentive payments from 500% to 400%, contributed to a vote of 22.3% against the remuneration report. In addition, LAPFF issued a voting alert against the remuneration report at WPP, which was followed by a press release. LAPFF's position was reported extensively in national press, as set out in the 'Media Coverage' section of this report. Remuneration was also raised by Cllr Rose at the **RBS** AGM, in asking to what extent particular issues of concern had been taken into account in devising the CEO's pay package. The Company's response was, in part, that shareholders had overwhelmingly supported the pay policy in 2014. At the **G4S** AGM, Cllr Mukesh Malhotra queried the link between remuneration and poor contract performance. The Chair stated that a range of financial and non-financial factors are taken into account when calculating pay, and that the Company's current pay levels are considered necessary in order to attract high quality candidates.

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RELIABLE ACCOUNTS

LAPFF has continued to apply pressure at an EU level to ensure that IFRS 9 is not endorsed until it appropriately reflects the correct legal position on the 'target' of the the true and fair view test (i.e. assets, liabilities, financial position and profit or loss), and the 'purpose' of the accounts (creditor and shareholder protection).

In May, the Economic and Monetary Affairs Committee (ECON) of the European Parliament correctly flagged all of the problems that LAPFF has been highlighting with the criteria that the European Financial Reporting Advisory Group (EFRAG) has applied in endorsing IFRS. It is LAPFF's view that whilst EFRAG's amended endorsement advice (issued in November 2015) now superficially refers to the appropriate targets of the true and fair view, it fails to take these targets into account more systemically and continues to entirely overlook the appropriate purpose of the accounts. ECON's report will go forward as a resolution to the European Parliament for an affirmatory vote.

LAPFF has also been in dialogue with Lord Hill, EU Commissioner, challenging the position adopted by EFRAG in endorsing IFRS 9. Lord Hill has agreed that the IFRS endorsement criteria does need to cover the purpose of shareholder and creditor protection, and that the relevant legal test is the 'true and fair view of the assets, liabilities, financial position and profit or loss'. However, he continues to hold that EFRAG has appropriately applied the criteria in its endorsement advice on IFRS 9. LAPFF has sent a follow up letter to Lord Hill challenging this position.

HOLDINGS-BASED ENGAGEMENT

This year, LAPFF attended the **Unilever** AGM to find out more about the company's implementation of the 'Unilever Sustainable Living Plan', which it introduced in 2010. Unilever's efforts to integrate sustainability throughout its business model are very rare in the UK, and have attracted a lot of positive intention.

PROMOTING GOOD GOVERNANCE

A meeting with Global Witness, a non-governmental organisation based in London, gave a better understanding of their research on corruption and corporate transparency. In particular, these discussions related to national investigations into how Shell obtained rights to 'OPL 245', an oil field in Nigeria.

At a recent Shell SRI event, LAPFF asked the Managing Director of The Shell Petroleum Development Company of Nigeria (SPDC), Osagie Okunbor, whether the Company was concerned that the Nigerian government might revoke its OPL 245 licence, following these allegations. Mr Okunbor said there was no evidence to suggest this was the case. LAPFF has sent a letter to Mr Okunbor on this issue, asking for an engagement meeting.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

LAPFF continued its focussed engagement on carbon risk this quarter. Mr Greenwood attended the BP AGM and Shell UK shareholder meeting to follow-up on implementation of last year's shareholder resolutions. In response to the question on what BP could do to make carbon pricing more effective, the BP Chair reaffirmed a commitment to a carbon price and its membership of the World Bank Leadership Coalition as evidence of this. Meanwhile, at Shell the response to Mr Greenwood's question on carbon pricing was that the Company has been advocating for a carbon price for 15 years and will continue to advocate on this with governments, including in the UK. The CEO made it clear that the Company will only invest in carbon, capture and storage (CCS) if there is a clear carbon price.

Attending the **Rio Tinto** AGM, Mr Barton proposed the strategic resilience resolution and asked if certain reporting elements could be addressed even more directly in the Company's presentation of its business strategy. Jan du Plessis, the Chair, noted that it was not just about risks but also opportunities for the business and gave several examples. For example, energy comprises about 30% of the costs for aluminium, and with an 80% hydro-elecric supply, this gives a competitive advantage.

Cllr Simon attended the AGMs of **Glencore** and **Anglo American**, to support the shareholder resolutions co-filed this year. At Glencore, the strategic resilience resolution took centre stage, with the Board welcoming it, and responding to questions on operational emissions, carbon pricing, stress-testing the portfolio and thermal coal. As a follow-up to this engagement, LAPFF also attended Glencore's SRI day in London, in June. At Anglo American, LAPFF asked how the Company planned to incentivise carbon reductions through pay policies and practices. Positively, the Board offered an engagement meeting to discuss these issues in the run up to the vote on remuneration policy in 2017.

The Shell SRI day in May provided an opportunity to hear from the Company in more detail on how it is preparing for the low carbon transition. Several Shell representatives commented on the significant change over the past year, fuelled by COP 21 and the shareholder resolutions, in approaches to carbon risk and how more companies in the industry are now recognising the need to respond to this. The Company emphasised again its strong belief that carbon pricing needs to be introduced in order to effectively curb carbon emissions, and also stressed its own switch towards natural gas, a 'cleaner' fuel. To continue its engagement with the Company on these issues, LAPFF was one of the signatories to an investor statement that was presented at the Shell AGM in May. This statement commended the Company on its efforts to date, but urged it to continue to push itself further in a commitment to annual reporting on the resilience of the Company's business model to climate change.

LAPFF also signed a letter sent to **ENI**, in May, on strategic resilience, asking the ENI Chair and CEO directly for a public commitment to reporting against the five main 'asks' of the resolutions filed at oil, gas and mining companies over the last two years. This letter takes the same approach as that sent to Total in March, which also received a highly positive response. Following the letter, the Company released its Sustainability Report with an enhanced section on climate change.

In addition, LAPFF has actively encouraged member funds to make public declarations of support for strategic resilience resolutions at **Exxon** and **Chevron** this quarter. At both AGMs, shareholder resolutions called on the Companies to publish annual assessments of long-term portfolio impacts of public climate change policies. These resolutions gained record support, with 38% of voting shareholders supporting at Exxon and 41% at Chevron. In addition, LAPFF encouraged support for another shareholder resolution at Chevron, which asked the Company to increase the total amount of capital distributions, given the climate change related risk of stranded carbon assets.

LAPFF has also continued to engage with the Financial Reporting Council (FRC) on how to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports. Led by Sarasin & Partners and supported by ClientEarth, this engagement aims to set out a pathway to encourage the FRC to be proactive in this area.

Aligned to this, LAPFF supported a position paper on climate risk reporting which calls on companies to assess and report their climate-related risks within their annual report in the interests of prudent and long-term capital stewardship. In many jurisdictions, to do so is already a requirement for listed companies and the paper sets out why companies and regulators need to do more to ensure that such requirements are properly implemented.

In May this year, LAPFF also submitted a consultation response to the Task Force on Climate Disclosure's Phase I Report. LAPFF's response set out its view that there should be a forward-looking focus on detailed quantitative and qualitative reporting, supported by additional narrative where necessary, across five elements: operational emissions; strategic resilience; research and development; the governance of company policy implementation on climate change and key performance indicators on incorporating the carbon transition into the business model; and public policy. Members can view LAPFF's response here.

NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

LAPFF meets with ShareAction: The LAPFF Chair, Cllr Kieran Quinn, had a positive meeting with representatives from ShareAction to discuss issues that both organisations are interested in, and to better understand each other's work.

Two Degrees of Change: This event explored ways of working collaboratively and practically to manage the investment implications of global warming beyond the energy sector.

'Business and human rights - A five step guide for company boards': The launch of a new report commissioned by the Equality and Human Rights Commission and authored by Shift, which seeks to assist companies in complying with the UN Guiding Principles on Business and Human Rights.

'Strategic Litigation on Modern Slavery in Global Value Chains': A discussion hosted by the University of Notre Dame Law School, on how modern slavery in supply chains can be curbed.

Living Wages in the Supply Chain: This event showed that there has been limited progress in dealing with living wages in the supply chain. Living wages need to be seen and understood in the broader context of human resources management to make headway, which aligns with LAPFF's Human Capital Policy.

Share Action Tax Event: This event illustrated that tax is becoming a huge issue for investors, and that simple legal compliance is no longer deemed sufficient.

PRI Fiduciary Duty Event: A three year project on fiduciary duty is being launched this year. Its aim is to publish a roadmap for full integration of ESG into fiduciary duty and to work with investors and governments to clarify the content of fiduciary duty.

Cyber Security and Scope: Protecting and unlocking the value of company data: An event organised by UKSIF to explore the risks and opportunities that data presents to business.

MEDIA COVERAGE

Accounting standards

Investment & Pensions Europe: LAPFF welcomes EC concession on bank accounting concerns (20 May 2016)

Financial Times (Letters): Accounting rules that put capital protection in peril (18 May 2016)

Investment & Pensions Europe: Pressure mounts on IFRS foundation, international standards (9 May 2016)

Remuneration

City A.M.: More pressure on Martin Sorrell over £70.4m pay package ahead of WPP's AGM (7 June 2016)

Herald Scotland: Shareholder revolt over WPP chief's £70m pay package grows (7 June 2016)

Pensions Age: LAPFF tells members to vote down pay packet for WPP's Sir Martin Sorrell (7 June 2016)

Reuters: UK pension fund group asks members to reject Sorrell's pay (7 June 2016)

Guardian: Vote against Sorrell pay award, urge pension fund advisers (6 June 2016)

Independent: WPP boss Martin Sorrell to face pay package opposition from a pension fund group (6 June 2016)

Times: Sorrell runs into a storm of anger over £70m pay package (6 June 2016)

BBC News: BP shareholders reject chief Bob Dudley's £14m pay deal (14 April 2016)

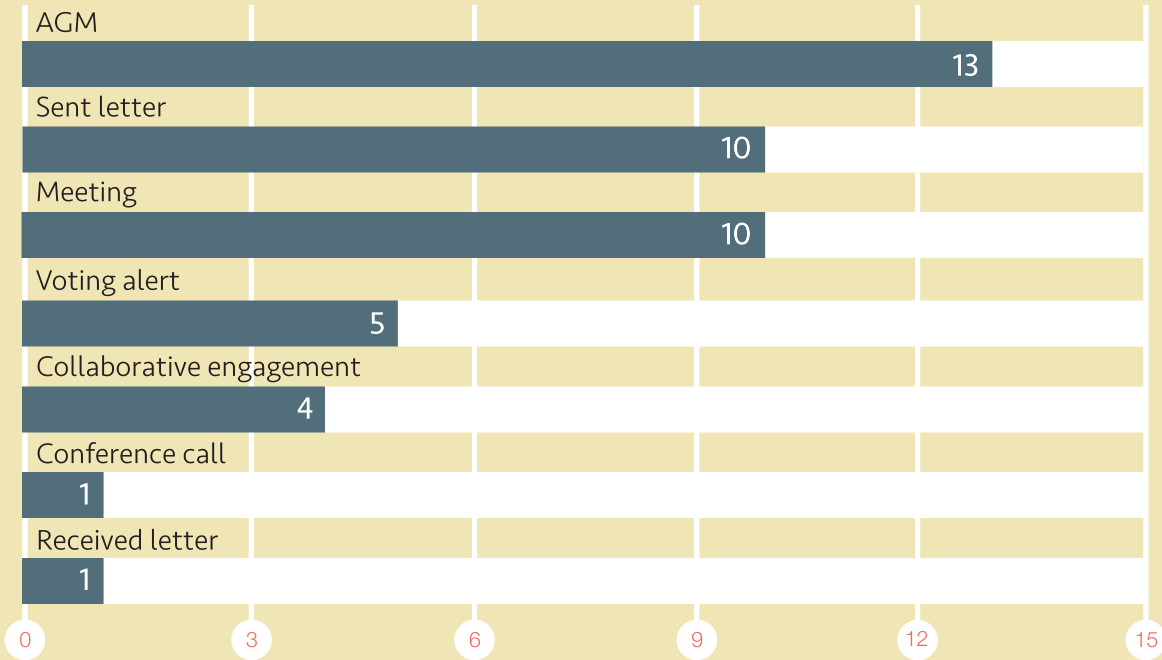
BBC News: Dudley's pay sends 'wrong message' investor says (14 April 2016)

Q2 2016 ENGAGEMENT DATA

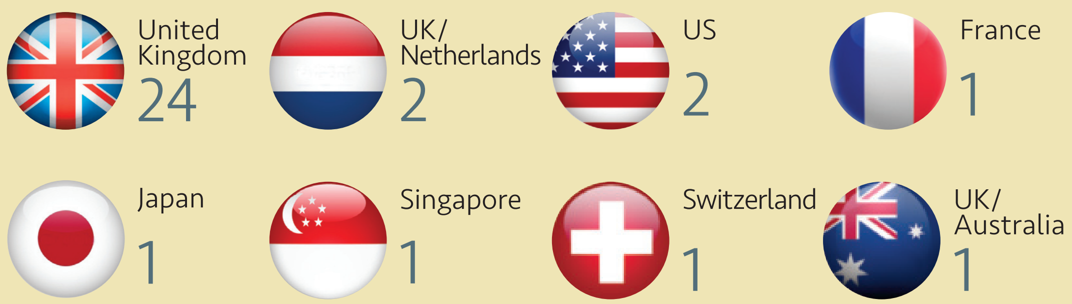
	Company	Topics	Activity/Outcome	Domicile
1	**Hays**	Governance (General)/ Employment	Meeting/Dialogue	United Kingdom
2	**Centrica**	Climate Change	Meeting/Dialogue	United Kingdom
3	**BP**	Climate Change/ Human Rights	Meeting/Dialogue	United Kingdom
4	**Rio Tinto**	Climate Change	Conference Call/Dialogue	United Kingdom
5	**Total**	Climate Change	Sent Letter/Dialogue	France
6	**Singapore Technologies**	Human Rights	Meeting/Dialogue	Singapore
7	**BP**	Climate Change/ Incentivising Execs	Attended AGM/ Small Improvement	United Kingdom
8	**Rio Tinto**	Climate Change	Attended AGM/Dialogue	UK/Australia
9	**Unilever**	Human Rights/Supply Chain Management	Attended AGM/Dialogue	UK/Netherlands
10	**Anglo American**	Climate Change	Attended AGM/Dialogue	United Kingdom
11	**Anglo American**	Climate Change	Alert Issued/Substantial Improvement	United Kingdom
12	**Tullow Oil**	Board Composition/ Governance	Sent Letter/Dialogue	United Kingdom
13	**Tullow Oil**	Board Composition	Received Letter/Dialogue	United Kingdom
14	**Shell**	Remuneration	Meeting/Dialogue	UK/Netherlands
15	**GKN**	Board Composition	Collaborative Engagement	United Kingdom
16	**ExxonMobil**	Climate Change	Alert Issued/Dialogue	United States
17	**Tullow Oil**	Board Composition	Attended AGM/Dialogue	United Kingdom
18	**Ricoh**	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	Japan
19	**Burberry**	Employment Standards/ Human Rights	Sent Letter/Awaiting Response	United Kingdom
20	**Unilever**	Employment Standards/ Human Rights	Sent Letter/Awaiting Responce	UK/Netherlands
21	**Carillion**	Employment Standards/ Supply Chain Management	Attended AGM/Dialogue	United Kingdom

	Company	Topics	Activity/Outcome	Domicile
22	**RBS**	Remuneration	Attended AGM/Dialogue	United Kingdom
23	**Glencore**	Climate Change	Alert Issued/Substantial Improvement	Switzerland
24	**Chevron**	Climate Change	Alert Issued/Dialogue	United States
25	**National Express**	Employment Standards/ Human Rights	Attended AGM/Dialogue	UK
26	**Royal Dutch Shell**	Climate Change/Campaign	Collaborative Engagement	UK/Netherlands
27	**Telecom Plus**	Board Composition	Sent Letter/Dialogue	UK
28	**ENI**	Climate Change	Collaborative Engagement	Italy
29	**Glencore**	Climate Change	Attended AGM/Substantial	Switzerland
30	**Next**	Employment Standards/ Climate Change	Attended AGM/Dialogue	UK
31	**Royal Dutch Shell**	Climate Change	Collaborative Engagement	UK/Netherlands
32	**Royal Dutch Shell**	Climate Change	Attended AGM/Satisfactory	UK/Netherlands
33	**Standard Life**	Incentivising Execs	Attended AGM/Dialogue	UK
34	**National Express**	Employment Standards/ Human Rights	Sent Letter/Dialogue	UK
35	**Total**	Climate Change	Attended AGM/Dialogue	France
36	**G4S**	Remuneration	Sent Letter/Dialogue	UK
37	**WPP**	Remuneration	Alert Issued/Dialogue	UK
38	**Royal Dutch Shell**	Campaign (General)/ Human Rights	Sent Letter/Dialogue	UK/Netherlands
39	**Tullow Oil**	Board Composition	Meeting/Dialogue	UK
40	**BP**	Remuneration	Sent Letter/Awaiting Resp	UK
41	**BP**	Environmental Risk	Meeting/Dialogue	UK
42	**Glencore**	Environmental Risk	Meeting/Dialogue	Switzerland
43	**Rio Tinto**	Environmental Risk	Meeting/Dialogue	UK/Australia
44	**Total**	Environmental Risk	Meeting/Dialogue	France

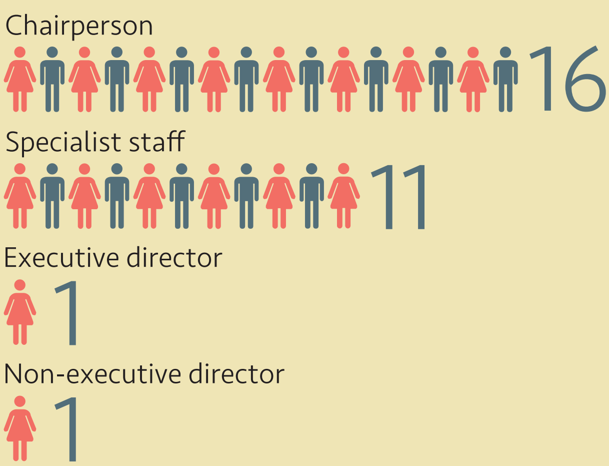
COMPANY ENGAGEMENT ACTIVITIES



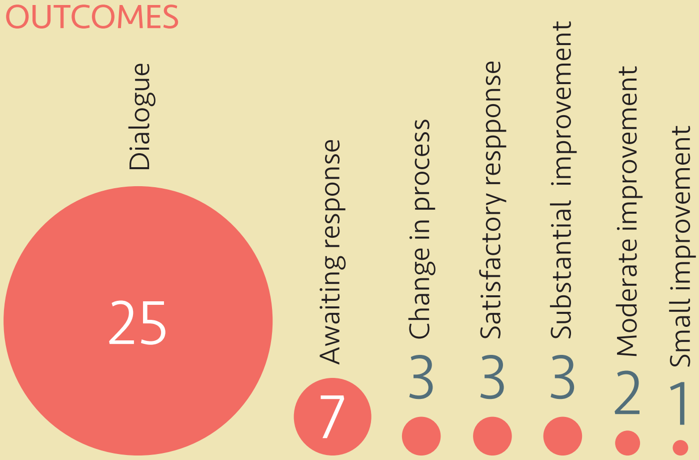
COMPANY DOMICILES



POSITION ENGAGED



OUTCOMES



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

Second Quarter 2016 Securities Litigation Review Prepared for the Lancashire County Council

Barrack, Rodos & Bacine, as securities monitoring counsel for the Lancashire County Council ("Lancashire"), provides the following securities litigation review for the second quarter of 2016 as reflected in Barrack's Evaluation And Monitoring System, or BEAMS®:

U.S. Securities Class Action Filings

From April 1 through June 30, 2016, there were 54 securities class actions filed by investors:

- 52 cases were filed in federal court and two cases were filed in state court.[1]
- One of the 54 cases was voluntarily dismissed by the end of the quarter. Securities cases are typically dismissed voluntarily when the investor leading the case, after conducting an investigation into the allegations, determines that there will likely be insufficient evidence to support for the allegations of wrongdoing.
- BR&B analyzed every securities class action filed and concluded that 16 cases contained allegations that appeared to be of sufficient merit that we would recommend that our institutional investor clients with a substantial financial interest in the case consider an active role.
- Lancashire did not suffered losses on class period investments in the securities that were the subject of institutional quality cases filed during the second quarter of 2016, but did suffer losses on its class period investments in securities that were the subject of two non-institutional quality cases filed in the quarter. Because we had determined that these cases were not institutional quality cases, we did not recommend that the fund seek appointment as a lead plaintiff in those cases.

[1] The state court cases are listed at the end of the U.S. Securities Class Actions Report (All U.S. Cases) without a lead motion due date. Securities class actions alleging violations of federal law in connection with public offerings of securities may be filed in state court, outside the scope of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). Because the PSLRA's lead plaintiff procedures do not apply, the Lead Motion Due Date has been left blank.

Settled Cases – Claim Filings

- There were 36 settled securities class actions with claim filing deadlines in the second quarter of 2016.
- Every month we notified Northern Trust, Lancashire's custodian, of upcoming claim filing deadlines and our analysis of the fund's financial interest in each settlement based on the terms of the settlement.
- According to the custodial data available to us, Lancashire invested in the securities covered by one settlement with a claim filing deadline in the quarter and Northern Trust filed a claim on the Fund's behalf in that case.[2]

Settled Cases – Recoveries

- Lancashire did not receive distributions from settlement funds in the second quarter of 2016.

Global Group Actions

- We identified nine group actions that were contemplated or brought outside of the United States with participation deadline dates in the second quarter of 2016.
- Lancashire did not have a substantial financial interest in any of the global group actions that had participation deadlines in the second quarter of 2016.[3]

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[2] According to the custodial data available to us, Northern Trust filed a claim on Lancashire's behalf in the J.P. Morgan settlement, where the fund did not purchase the securities that are the subject of that settlement during the relevant period. This may have occurred because the fund held the relevant securities at the beginning and end of the relevant period, which information is requested in the claim form for that settlement.

[3] Should the fund appear to have a substantial financial stake in a non-U.S. case, we will provide an analysis that includes a discussion of the feasibility of asserting claims in a non-U.S. jurisdiction.

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected:
(All Divisions);

Feedback from Committee Members on External Pension Fund Training Events and Conferences

Contact for further information:
Dave Gorman, (01772) 534261, Legal and Democratic Services
dave.gorman@lancashire.gov.uk

Executive Summary

This reports provides Members of the Committee with the opportunity to provide feedback on external Pension Fund training events and conferences attended by Members since the last meeting of the Committee.

Recommendation

The Committee is asked to note the report and the feedback presented.

Background and Advice

The Pension Fund Committee at its meeting on 29 January 2016 approved a refreshed training plan for members of the Committee. As was the case with the previous plan, the purpose of the refreshed plan is to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- Local Government Pension Scheme (LGPS) Governance Compliance Statement.

The training plan requires Committee Members to provide verbal feedback at the subsequent Committee meeting to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

Lancashire County Council

The following external training events/conferences have been attended by Committee Members since the last meeting of the Committee:

- LGA 13th Annual LGPS Trustees Conference, 23 - 24 June 2016, Manchester
  The event was attended by County Councillors Lorraine Beavers and Mike Otter;
- LGC Investment Summit - "Adapting to changing times", 8 - 9 September 2016
  The event was attended by County Councillor Kevin Ellard accompanied by Abbi Leach, Head of Fund.

Feedback on these external training events/conferences will be provided at the meeting by those Committee Members who attended.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

Financial

The cost of attendance, together with travel and subsistence costs were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance at Conferences and Events approved under the Scheme of Delegation to Heads of Service	2016	Dave Gorman/(01772) 534261

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee
Meeting to be held on 15 September 2016

Electoral Division affected:
(All Divisions);

Report of Decisions taken under the Urgent Business Procedure

Contact for further information:
Dave Gorman, (01772) 534261, Legal and Democratic Services,
dave.gorman@lancashire.gov.uk

Executive Summary

This report sets out details of items that have been dealt with by the Director of Governance, Finance and Public Services under the procedure for dealing with matters of Urgent Business.

In accordance with Standing Order 21(1), copies of the items have been sent to the appropriate Group spokespersons.

Recommendation

The Committee is asked to note the report.

Background and Advice

i) Local Government Pension Scheme - Criteria for Pooling of Assets - Final Submission to Government

This decision was taken on 14 July 2016.

By 15 July 2016, funds within the Local Government Pension Scheme were required to make final submissions which fully addressed the criteria for the pooling of assets, with enough information for the proposal to be evaluated by government. Each pool was required to make a submission which covered the joint proposals and described the proposed governance, structure and implementation plan.

A submission was prepared by the Local Pensions Partnership Ltd (LPPL) on the basis of 3 funds pooling, Lancashire, London Pensions Fund Authority and Berkshire. The response detailed how the partnership intended to expand the pool to meet the £25bn criteria. The response also provided further details on governance and decision making, reduced costs and value for money and an improved capacity to invest in infrastructure.

Lancashire County Council

Following consultation with the Chair and Deputy Chair of the Committee, the Director of Governance, Finance and Public Services approved the submission, on behalf of the Pension Fund Committee, as the submission of the Local Pensions Partnership to Government.

ii) Provision for Independent Property Valuation Services for the Lancashire County Pension Fund

This decision was taken on 12 August 2016.

Each year, there is a requirement for the Lancashire County Pension Fund property portfolio to be independently valued for accounting purposes. It was proposed to undertake a full OJEU tendering exercise to appoint an independent property valuer, to undertake valuations from the financial year 2016/17.

Following consultation with the Chair and Deputy Chair of the Committee, the Director of Governance, Finance and Public Services:

1. Requested that the County Council's Procurement Service undertakes a full OJEU Open Procedure tender for independent property valuation services for the Lancashire County Pension Fund;
2. Subject to 1 above, authorised the Head of Fund to approve the appointment of the winning bidder.

Consultations

The Chair and Deputy Chair of the Pension Fund Committee were consulted and supported the proposed actions set out in i) and ii) above.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A