

Lancashire County Council

Pension Fund Committee

Friday, 15th July, 2011 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item	
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|-----|--|-------------------|
| 1. | Apologies | |
| 2. | Disclosure of Personal and Prejudicial Interests
Members are asked to consider any Personal/Prejudicial 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 15 April 2011
To be confirmed, and signed by the chair. | (Pages 1 - 6) |
| 4. | Constitution and Membership | (Pages 7 - 14) |
| 5. | Strategy for the procurement of tax agents | (Pages 15 - 18) |
| 6. | Strategy for the Procurement of Governance and Proxy Voting Services | (Pages 19 - 22) |
| 7. | Strategy for the Procurement of Global Equity Managers | (Pages 23 - 26) |
| 8. | Strategy for the Procurement of a Direct Property Manager and Independent Valuers | (Pages 27 - 30) |
| 9. | Award of the Contract for Actuarial Services | (Pages 31 - 34) |
| 10. | Delivery of Value for Money in the Management of the Fund | (Pages 35 - 38) |
| 11. | Revised Statement of Investment Principles | (Pages 39 - 52) |
| 12. | Annual Report and Accounts of the Fund 2010-11 | (Pages 53 - 114) |
| 13. | Updated Governance Policy Statement | (Pages 115 - 132) |

14. Internal Audit annual report 2010-11 (Pages 133 - 148)

15. Pension Fund External Audit Fees 2011-12 (Pages 149 - 154)

16. Administration Sub-Committee (Pages 155 - 160)

17. 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.

18. Date of Next Meeting

The next meeting of the Committee will be held on 18 November 2011 at 10.00am at County Hall, Preston.

19. 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)

20. Fund Performance Report (Pages 161 - 170)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

21. Report of the Investment Panel

(Pages 171 - 232)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 3

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 15th April, 2011 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	T Pimblett
M Brindle	S Riches
P Evans	G Roper
M France	M Welsh
J Lawrenson	K Young
F De Molfetta	

Co-opted members

P Doyle	(Lancashire Leaders' Group representative)
B Harvey	(Trade Union representative)
P Hyett	(HE/FE Sector Establishments representative)

Independent Advisers - Panel Members:

E Lambert

1. Apologies

Apologies for absence were received from County Councillor M Parkinson and N Mills (Independent Adviser).

2. Disclosure of Personal and Prejudicial Interests

County Councillors P Evans, M France, D Westley and M Brindle disclosed personal, non-prejudicial interests in the agenda as they were members of the Local Government Pension Scheme.

3. Minutes of the Meeting held on 4 February 2011

The minutes of the meeting held on 4 February 2011 were presented.

Resolved: That the minutes of the meeting held on 4 February 2011 be confirmed and signed by the Chair.

4. Audit Commission - Lancashire Pension Fund 2010/11 External Audit Plan

The Committee considered a report on the 2010/11 external audit plan of the Pension Fund.

It was reported that the 2009/10 audit had been completed by the Audit Commission and that a detailed audit plan had now been produced setting out in particular the key audit risks for 2010/11. The plan also identified the work which the Audit Commission proposed to undertake in relation to the audit of financial statements 2010/11 for the Lancashire Pension Fund.

The Committee noted that the audit plan had been considered and noted by the County Council's Audit Committee on 24 January 2011. Clive Portman, District Auditor responded to questions from members of the Committee including an explanation of the basis on which the Audit Commission fee was calculated, confirming that the audit fee for 2011/12 would reduce.

Resolved: That the report be noted.

5. Internal Audit Plan 2011/12

The Committee considered a report on the plan of work to be undertaken by the Council's internal audit service on the Pension Fund in 2011/12. The plan which amounted to a planned resource of 112 audit days was presented at Appendix 'A'.

Resolved: That the internal audit plan for 2011/12, as set out at Appendix 'A', be approved.

6. The Operation of the Investment Panel - Investment Decision Making

The Committee considered a report on the operation of the Investment Panel and its decision making process as a key element of delivering the new investment strategy.

The Committee noted that the Investment Panel needed to be rigorous, transparent and accountable to the Committee in order to successfully implement the new investment strategy. The process by which the Panel would operate to achieve this was set out in the report and included matters relating to:

- the importance of the due diligence process in relation to investment proposals
- the role of the independent advisors (specifically that agreement from both advisors is necessary for an investment proposal to proceed)
- the role of the Assistant Director of Finance as a check within the system
- the role of the Fund Treasurer
- accountability and reporting arrangements to the Pension Fund Committee
- the constitution, and

- the role of the Chair/Deputy Chair.

The County Treasurer proposed that an additional element be included in the investment decision making process, reflecting concerns previously raised by the Committee, whereby, briefing meetings for Committee Members would be held before each meeting of the Investment Panel, providing Members with an opportunity to express their views on matters being considered by Panel and decisions taken by them.

Resolved: That subject to the inclusion of briefing meetings before each meeting of the Investment Panel as proposed, the arrangements for the operation of the Investment Panel as set out in the Report be agreed.

7. Revised Governance Arrangements

The Committee considered a report on the revised governance arrangements for the Pension Fund Committee. The Committee was informed that the governance documents which were set out at Appendix 'A' to the report had been amended to reflect the changes to the operation of the Investment Panel which had been agreed and the wish to adopt new ways of working to allow the Fund to be managed more dynamically to take advantage of opportunity and avoid risk as required by the new Investment Strategy.

The Committee noted that the governance documents had also been amended to provide greater transparency and accountability, in particular around the management of the Fund's property portfolio, reporting arrangements and the process of preparing and approving pension fund policies, statements, strategies and procedures.

The revised governance documents also took into account the Committee's decision in February 2011 to disestablish the Pension Fund Appointments Sub-Committee and the implementation of a new procurement process more aligned to EU procurement rules.

Resolved:

- i. That the revised governance arrangements for the Pension Fund Committee as set out in the report at Appendix 'A' be accepted;
- ii. That the Full Council be recommended to approve the revised governance arrangements at its annual meeting on 26 May 2011.

8. Pension Fund Treasury Management Policy and Strategy 2011/12

The Committee considered a report which set out the proposed Pension Fund Treasury Management Policy and Strategy for 2011/12 as well as a cash management and investment strategy.

The Committee was informed that from the 1 April 2011, the Pension Fund would be keeping its money in its own bank account separate from that of the County Council. In doing so, it was recommended to the Committee that it would be best

practice for the Pension Fund to have its own Treasury Management and Investment Strategy tailored to its specific needs.

It was confirmed that the credit ratings proposed in the investment matrix within the Report took account of sovereign credit risk and agreed that this be reflected in the matrix.

Resolved: That subject to the inclusion of an appropriate reference to sovereign credit ratings, the Pension Fund Treasury Management Policy and Strategy for 2011/12 be amended and approved.

9. Appointment of Consultancy Bench

The Committee considered a report on the appointment of a Specialist Consultancy Bench, the implementation of which would enable the Investment Panel to more easily secure expert advice as and when required. A full procurement process was run in consultation between the County Council's Procurement Team, Pension Fund staff and an external consultant.

The Committee was informed that all respondents to the tender process had passed the Pension Fund's pre-qualifying criteria. The firms which responded were of a range of different sizes and specialisms and as such were accepted on to the Consultancy Framework. Furthermore, it was proposed that the Consultancy Bench be divided into three sections namely; Asset Allocation, Investment Manager Selection and Liability Asset Management.

The Committee was also informed that when the Fund required the services of an investment consultant it would run a mini-tender process amongst the members of the relevant section of the bench to obtain the best advice, ideas and price, rather than relying on the services of a generalist consultant on a retainer.

Resolved: That the appointment of a Specialist Consultancy Bench as set out in the report be approved.

10. Report of the Independent Public Service Pensions Commission

A report was presented containing a summary of the proposals from the final report of the Independent Public Service Pensions Commission chaired by Lord Hutton published on the 10 March 2011.

The final report recommended significant changes to the Local Government Pension Scheme whilst maintaining it as the only major public service scheme that was funded. Some of the significant changes and proposals included:

- A new pensions "deal" – intended to provide greater clarity for scheme beneficiaries, employers and taxpayers on what they could expect from the public service pension scheme;
- A career average revalued earnings (CARE) scheme – which would mean that benefits would be calculated on average earnings over the period of scheme membership adjusted in line with average earnings;

- A single basic scheme design across the public sector – a common framework for public service pensions
- Encouraging the development of increased collaboration and sharing of services between Local Government Pension Scheme Funds.

However, it was reported that significant details surrounding some of the proposed changes remained to be negotiated and that the implementation of which would also require primary legislation. It was suggested that the proposed changes would be implemented from the year 2015.

In particular it was noted that there was no suggestion that there would be any interference with the accrued rights of Scheme Members, protecting existing staff from the full impact of a change from a final salary scheme.

Resolved: That the report be noted.

11. Transaction of Urgent Business

The Committee received details of an item dealt with under the procedure for dealing with matters of urgent business.

Resolved: That the report be noted.

12. Date of Next Meeting

It was noted that the next meeting of the Lancashire Pension Fund Committee would be held on Friday 15 July 2011 at 10.00am at County Hall, Preston.

13. Exclusion of Press and Public

Resolved: That the press and members of the 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 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.

14. Global Custody

(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 on the outcome of a procurement exercise to appoint a new Global Custodian of the Pension Fund.

Resolved:

The Committee agreed:

- i. That the existing custodian contract be terminated.
- ii. That, subject to contract negotiations and to the receipt of appropriate references, Northern Trust be appointed as new global custodians of the Pension Fund.
- iii. That stock lending with the custodian be reinstated.

15. Report of the Investment Panel

(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 on matters considered by the Pension Fund Investment Panel on 28 January 2011 and 30 March 2011.

It was reported that the Panel had discussed a broad range of issues relating to the investment context in which the Fund was operating, the current position of the Fund including specific manager performance, future strategy and other business plan issues.

Resolved: That the report be noted.

16. Review of Hedge Fund of Fund Managers

(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 on the performance of the Hedge Fund of Funds portfolio.

Resolved: That the recommended course of action set out in the report be approved.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Pension Fund Committee and Administration Sub-Committee

Constitution: Chair and Deputy Chair; Membership; Terms of Reference
(Appendix 'A' refers)

Contact for further information:

Chris Mather, 01772 533559, Office of the Chief Executive

Executive Summary and Recommendation

The Committee is asked: to note:

- i. the appointment of County Councillor D Westley and County Councillor M Welsh as Chair and Deputy Chair of the Pension Fund Committee for the remainder of the 2011/12 municipal year;
- ii. the appointment of County Councillor M Welsh and County Councillor G Roper as Chair and Deputy Chair of the Pension Fund Administration Sub-Committee for the remainder of the 2011/12 municipal year;
- iii. the membership of the Pension Fund Committee and the Pension Fund Administration Sub-Committee following the County Council's annual meeting; and
- iv. the Terms of Reference of the Pension Fund Committee and the Pension Fund Administration Sub-Committee.

Background and Advice

The County Council at its annual meeting on 26 May 2011 agreed that the Pension Fund Committee shall comprise 14 County Councillors (on the basis of 8 Conservative members, 3 Labour members, 2 Liberal Democrat members and 1 Green member) and 7 voting co-opted members. It was also agreed that nominations of County Councillors to serve on the Pension Fund Committee should be submitted to the County Secretary and Solicitor by the respective political groups.

The following Councillors have subsequently been nominated to serve on the Pension Fund Committee for the following year:

County Councillors (14):

T Aldridge	M Parkinson
M Brindle	T Pimblett
F De Molfetta	S Riches
M Devaney	G Roper
P Evans	M Welsh
M France	D Westley
J Lawrenson	K Young

The following voting co-optees have been nominated to serve on the Pension Fund Committee:

Voting Co-opted members (7):

Lancashire Unitary Authorities

Councillor M Smith (Blackpool Council)

Councillor R O'Keeffe (Blackburn with Darwen Borough Council)

Lancashire District Councils

Councillor P Doyle (Burnley Borough Council)

Councillor P Goldsworthy (Chorley Borough Council)

Trade Union representatives

Mr B Harvey

Mr R Whittle

Higher Education/Further Education establishments

Mr P Hyett

The Full Council appointed County Councillor D Westley and County Councillor M Welsh as Chair and Deputy Chair of the Pension Fund Committee for the remainder of the 2011/12 municipal year.

The following Councillors and voting co-optees have been nominated to serve on the Pension Fund Administration Sub-Committee for the remainder of the 2011/12 municipal year:

County Councillors (5)

M Brindle
F De Molfetta
G Roper
M Welsh
K Young

Voting Co-opteds (2)

Councillor M Smith (Blackpool Council)

Mr B Harvey (Trade Union representative)

The Full Council appointed County Councillors M Welsh and G Roper as Chair and Deputy Chair of the Pension Fund Administration Sub-Committee for the remainder of the 2011/12 municipal year.

The Terms of Reference of the Pension Fund Committee and the Pension Fund Administration Sub-Committee are attached at Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no risk management implications arising from this item.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee

Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:
 - a. One co-optee representing the Further and Higher Education sector in Lancashire;
 - b. One co-optee from Blackburn with Darwen Council;
 - c. One co-optee from Blackpool Council;
 - d. Two co-optees representing Trade Unions; and
 - e. Two co-optees representing the Lancashire borough and city councils.
2. The role of the Committee is to:
 - a. exercise responsibility for the administration of the Lancashire County Pension Fund ("the Fund");
 - b. establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future investment policy for the Fund;
 - c. monitor and review investment activity and the performance of the Fund; and
 - d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.
3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

Terms of Reference

1. To exercise Lancashire County Council's responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.
2. To have overall responsibility for investment policy and monitor overall performance.
3. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.
4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.

5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
6. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
7. To approve the policies and procedures for any internally managed Fund investments.
8. To establish a Pension Fund Administration Sub-Committee and agree its composition, role and terms of reference.
9. To receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
10. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:
 - a. external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
 - b. external property agents and advisors;
 - c. an external corporate governance adviser;
 - d. an external Fund custodian;
 - e. external performance measurement advisers;
 - f. the Fund Actuary; and
 - g. the Fund's AVC Provider.
11. To approve an Annual Business Plan, Statement of Investment Principles, Governance Policy Statement , Treasury Management Strategy and Policy and Governance Compliance Statement.
12. To approve the Pension Fund Annual Report.
13. To approve a Funding Strategy statement to include the Fund's policy in respect of:
 - a. the Funding Target;
 - b. the collection of employee contributions;
 - c. the collection of employer contributions;
 - d. the collection of additional employer contributions; and
 - e. Admissions and Terminations.
14. To determine which pension related functions and responsibilities should be exercised under the Council's Scheme of Delegation to Chief Officers.

15. To approve the overall appropriate and necessary training requirements for members of the Committee.

Pension Fund Administration Sub-Committee

Composition and role

1. The role of the Pension Fund Administration Sub-Committee ("the Sub-Committee") is to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
2. The Sub-Committee shall meet at least twice a year or otherwise as necessary.
3. The membership of the Sub-Committee shall be determined by the Pension Fund Committee ("the Committee"). The current membership is five County Councillors, one Trade Union representative and one representative from either the Lancashire borough and city councils or the Lancashire Unitary Authorities. All members have voting rights.

Terms of Reference

1. To ensure that the Committee's functions as Administering Authority are discharged and approve an Annual Administration Report.
2. To agree the terms of a Service Level Agreement in relation to the provision of administration services and support.
3. To submit reports and make recommendations to the Committee relating to the administration of the Lancashire County Pension Fund.
4. To respond to any Government consultations relating to the administration and benefits of the Local Government Pension Scheme.
5. To approve the following:
 - a. Pensions Administration strategy statement;
 - b. Communication Policy statement;
 - c. Internal Dispute Resolution procedure;
 - d. Death Grant procedure;
 - e. Bulk Transfer Payment policy;
 - f. Commutation policy (small pensions);
 - g. Transfer policy; and
 - h. Abatement policy.

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Strategy for the Procurement of Tax Agents

(Appendix 'A' refers)

Contact for further information:

George Graham, (01772) 538012, County Treasurers Department,

george.graham@lancashire.gov.uk

Executive Summary

The revised investment strategy approved by the Committee in December 2010 will increase the Pension Fund's exposure to overseas investments which have potential tax implications for the Pension Fund.

It is good governance to appoint tax advisors to the fund who will provide ad hoc advice on the tax structure of new investments and any overseas tax filing obligations as well as acting as tax agents in territories where there is a local law requirement.

Recommendation

The Committee is asked to agree to a mini competition procurement exercise to appoint tax advisors to the Fund.

Background and Advice

The Pension Fund has previously used the assistance of KPMG to submit specific tax claims to the UK and European tax authorities. The current contract with KPMG does not enable them to review any other potential tax exposures of the Fund or provide advice on the implications of the Fund's Private Equity and other alternative investments.

The investment strategy approved by the Committee in December 2010 will increase the Fund's exposure to overseas investments and could lead to the Fund having tax payment and filing obligations in various local jurisdictions. In addition, certain countries (e.g. India) stipulate that investors have local tax agents before they invest.

It is good governance to appoint tax advisors to the fund who will provide ad hoc advice on the tax structure of new investments and any overseas tax filing obligations. The advisors would also be asked to review the current investments of the fund to ensure that any tax filing and payment obligations have been met.

They would also be asked to act as tax agents in jurisdictions where there is a local law requirement.

Given the likely scale of a contract of this sort, and the relatively small number of firms with relevant global exposure it is appropriate to run the procurement process through a form of "mini competition", and a brief for this is set out at Appendix A.

The Committee is asked to agree to a mini competition procurement exercise being run to identify the appropriate tax advisors to be appointed to act on behalf of the Fund.

Consultations

One Connect Ltd Procurement Centre of Excellence.

Implications:

This item has the following implications, as indicated:

Risk management - Financial

There is a risk that the Pension Fund may not meet tax filing obligations in overseas jurisdictions and will be subject to fines and interest.

The Fund would not be able to optimise its investment return if it is unable to invest in certain countries due to it not having local tax agents in place.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Requirement to appoint tax agents and advisors for Lancashire County Pension Fund.

1. Key requirements

- 1.1.1 To provide guidance and advice on the tax structure of the Fund's overseas investments, with reference to but not exclusively – Private equity, Infrastructure and Alternative allocations.
- 1.1.2 Perform a review of the Fund's existing portfolio and produce a risk profile to allow the fund to identify:
 - Any investments which lead to overseas filing obligations.
 - Knowledge of which investments need monitoring for ongoing tax leakage.
 - A basis from which to establish a tax policy to manage compliance and tax cost.
- 1.1.3 To act as tax agents in overseas territories where local law requires agents to be in place before investments are made.

2. Bids

All bids should include the following:

- a) a method statement to demonstrate how you would intend to draw on your resources to be able to meet your obligations under the contract and secure continuity of and continuous improvement in the services.
- b) how the contract will be implemented, delivered and managed.
- c) how you can provide value added services within the Price.
- d) details of proposed remuneration.(all figures to be quoted in Sterling exclusive of VAT).
- e) references for the team proposed for this role.

3. Process

- a) Please approach the LCC officer responsible with any queries or requests for clarification regarding the services or the process.
- b) Suppliers are also asked to submit an example of their standard terms and conditions of contract.
- c) Submissions received after the deadline will not be considered.

- d) A submission can be considered to be received by LCC only once LCC has confirmed receipt of the submission to the supplier.
- e) LCC does not wish to receive any other information other than that requested by this document e.g. promotional material, brochures.
- f) LCC does not bind itself to accept the least expensive or any proposal.
- g) Should it be required, LCC reserves the right to conduct a 'clarification interview' with any organisation it receives a proposal from at a mutually convenient date and time.

4. Confidentiality

This Request for Proposal must be treated as private and confidential. Tenderers must not release details of the Request for Proposal other than on an "In Confidence" basis to those who have a legitimate need to know or whom they need to consult for the purposes of preparing a tender.

5. Bids should be returned by 31 August 2011 by email to Abigail.leech@lancashire.gov.uk copy to richard.tomlinson@lancashire.gov.uk. All bids will be acknowledged.

6. Award Criteria

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	1.1 20%
Experience of comparable service provision	25%

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Strategy for the Procurement of Governance and Proxy Voting Services

(Appendix A refers)

Contact for further information:

George Graham, (01772) 538102, County Treasurers,

george.graham@lancashire.gov.uk

Executive Summary

The current contract with Pension Investment Research Consultants (PIRC) for corporate governance advisory services is due to end on 30 June 2011. Under procurement guidelines it is good practice to market test the provision of these services and it is recommended that a mini competition procurement exercise is run to ensure the Fund receives the best value service. The current contract with PIRC will be extended to ensure services are in place whilst the procurement exercise is run.

Recommendation

The Committee is asked to approve the attached procurement procedure for the appointment of corporate governance and proxy voting advisors, and the short term extension of the current contract with PIRC.

Background and Advice

PIRC have provided corporate governance services to the fund since 2003. The current contract includes the provision of voting advice and corporate governance company reports relating to the UK FTSE Allshare, the US S & P 500 and the Eurofirst 300 index. The service also includes the provision of PIRC alerts, a weekly newsletter on current issues in corporate governance and socially responsible investment and also the County Council is entitled to two free places at any conferences PIRC organises on issues of corporate governance. The Fund's investment managers vote on the Funds behalf based on PIRC recommendations.

The Fund's current contract with PIRC is due to expire on 30 June 2011 and it is proposed that the contract be temporarily extended until the procurement process recommended in this report is completed.

A review of this service has shown that the Pension Fund only requires reports for approximately 300 companies rather than the 1,000 that are currently being received and that current best practice is to allow PIRC to vote on behalf of the pension fund. Initial research has indicated that the current arrangements are not in line with best practice and not arranged in the most cost effective way. A revised service could lead to approximately £17k cost saving to the Fund.

The Committee is asked to approve the procurement procedure detailed at Appendix 'A', the short term extension of the current contract with PIRC and the subsequent appointment of corporate governance and proxy voting advisors.

Consultations

Investment Panel.
One Connect Ltd Procurement Centre of Excellence.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Procurement

It is best practice to review and re-tender services, usually this should be carried out every 5 years.

Financial

Research indicates a potential to achieve cost savings of the order of £17k by adopting a more up to date set of arrangements for this service.

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Requirement to appoint Corporate Governance and Proxy Voting Advisors for Lancashire County Pension Fund.

1. Key requirements

- 1.1.1 To provide guidance on current best practice in corporate governance and stewardship in relevant global markets and to formulate an agreed voting policy in line with this best practice.
- 1.1.2 To provide timely research and voting advice on relevant company meetings in line with best practice and any agreed voting policy. Advice will need to be provided sufficiently in advance of company meetings to enable voting to take place by the most appropriate method(s). Advice will be required for all global equities held by the Fund.
- 1.1.3 To implement proxy voting for equities held by the Fund. Votes must be implemented by the most secure and appropriate method(s) and, where market practices allow, verification obtained that votes have been cast.
- 1.1.4 To report quarterly on voting activity. Reporting should include:
- details of meetings voted
 - any relevant meetings not voted with reasons why
 - how the Fund voted in each resolution
 - the outcome of voting
 - statistical analysis of voting (detail and format to be agreed)

2. Bid

All bids should include the following:

- a) a method statement to demonstrate how you would intend to draw on your resources to be able to meet your obligations under the contract and secure continuity of and continuous improvement in the services.
- b) how the contract will be implemented, delivered and managed.
- c) how you can provide value added services within the Price.
- d) details of proposed remuneration in pounds sterling exclusive of VAT
- e) references for the team proposed for this role.

3. Process

- a) Please approach the LCC officer responsible with any queries or requests for clarification regarding the services or the process.

- b) Suppliers are also asked to submit an example of their standard terms and conditions of contract.
- c) Submissions received after the deadline will not be considered.
- d) A submission can be considered to be received by LCC only once LCC has confirmed receipt of the submission to the supplier.
- e) LCC does not wish to receive any other information other than that requested by this document e.g. promotional material, brochures.
- f) LCC does not bind itself to accept the least expensive or any proposal.
- g) Should it be required, LCC reserves the right to conduct a 'clarification interview' with any organisation it receives a proposal from at a mutually convenient date and time.

4. Confidentiality

This Request for Proposal must be treated as private and confidential. Tenderers must not release details of the Request for Proposal other than on an “In Confidence” basis to those who have a legitimate need to know or whom they need to consult for the purposes of preparing a tender.

5. Bids should be returned by 31 August 2011 by email to Abigail.leech@lancashire.gov.uk copy to richard.tomlinson@lancashire.gov.uk. All bids will be acknowledged.

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Strategy for the Procurement of Global Equity Managers

Contact for further information:

Mike Jensen, 01772 534742, County Treasurer's Department

Mike.jensen@lancashire.gov.uk

Executive Summary

As part of implementing its investment strategy, the Fund wishes to appoint 2 to 4 global equity managers with complementary investment styles to manage its £1,500m allocation to actively managed equities. The Fund proposes to do this by the creation of a framework of around 10 investment managers giving the fund the flexibility to switch easily between managers on the framework if circumstances should dictate. The Fund proposes to use the consultancy Bfinance to manage the selection and appointment process.

Recommendation

The Committee is asked to approve the procurement of the global equity manager framework including the appointment of Bfinance to run the selection and appointment process, as set out in the report.

Background and Advice

The Fund currently has actively managed equity allocations split between overseas and UK mandates. Newton Investment Management manages an overseas equities mandate of £646m at 30 April 2011, JP Morgan has a £517m UK equities mandate and BNY Mellon manages a temporary tracker equity mandate of £717m. In addition, Legal & General manages a passive balanced tracker fund (across equities and bonds) of £1,067m.

The investment strategy approved by the Committee in December 2010 includes a switch to actively managed global equity mandates without a pre-determined geographical allocation.

The Investment Panel have considered the options for the global equity mandate, and recommends the appointment of a framework of equity investment managers, comprising around 10 managers with a range of investment approaches and styles, from which 2 to 4 managers will be awarded funds to manage immediately.

The Investment Panel anticipates that some £1,500m will be placed with 2 to 4 equity managers with complementary investment styles. This will replace the

mandates currently managed by Newton, JP Morgan and BNY Mellon. Having a framework of managers in place will mean that funds can be awarded to different managers quickly and easily when circumstances warrant and will provide the Fund with greater flexibility to respond to both opportunities and the global economic context prevailing at the time.

A mini-competition has been run amongst the Manager Selection Consultant's Bench and subject to the Committee's approval of the framework approach, it is proposed that consultants Bfinance be appointed to run the selection and appointment process, including managing the tender and OJEU notices.

Bfinance is an independent consultancy with substantial experience in selecting equity managers for both private and public sector investors. Their bespoke approach, which incorporates the specific requirements of the client and does not rely on pre-approved buy lists, impressed the Investment Panel.

It is proposed to use the restricted tender process with a view to making a final decision on the appointment of the equity managers' bench and initial funding awards in December 2011.

The restricted tender process is a two stage process. Stage 1 involves a very detailed analysis of returns from interested bidders. Bfinance advise that around 100 bids are expected from investment management firms that will be reduced to a short list of up to 20 managers, who will be invited to interview. It is expected that around 10 managers will be appointed to the framework bench.

Bfinance's analysis of bidding managers would take into account:

- Suitability to objectives of Fund
- Stability of the Organisation
- Experience
- Product Support (Assets Won/Lost)
- Team Resources
- Team Stability
- Alignment of Interests
- How representative the strategy proposed is within manager's business
- Outperformance / Risk consistency (Performance, Up & Down Analysis, Durability, Maximum Drawdown)
- Risk consistency (Volatility)
- Management Fees

Bfinance's selection process involves:

Step 1: Mandate assessment and preparation of bespoke questionnaire

Step 2: Definition of universe of candidates
Bfinance uses its presence in 7 countries to identify managers that may be candidates for the framework

- Step 3: Data collection and verification
Bfinance carries out extensive data verification work including identification of inconsistencies in data submitted
- Step 4: Quantitative and Qualitative analysis
Results are analysed weighting performance over different periods with a view to assessing likelihood of past performance repeating.
- Step 5: Presentation of results to Investment Panel
- Step 6: Due diligence, interviews and final selection
Bfinance prepares targeted questions for each short-listed manager

The broad award criteria are provisionally assumed to be:

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the proposed appointment of global equity investment managers, the Fund will continue to be managed by its existing managers with a large proportion of its equity investments restricted to the UK. With the globalisation of companies and markets, the UK market is becoming increasingly restricted. By continuing the geographical constraints, it reduces the opportunity to diversify the Fund's investments across markets and sectors as well as missing the opportunity to appoint new managers with attractive investment approaches.

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

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee

Meeting to be held on 15 July 2011.

Electoral Division affected: All

Strategy for the Procurement of a Direct Property Manager and Independent Valuers

Contact for further information:

Mike Jensen, 01772 534742, County Treasurer's Department

Executive Summary

The contracts for the management and independent valuation of the Fund's UK property portfolio have not been tendered for many years. Recent developments and internal audit recommendations suggest that the Fund would benefit from a re-tendering of the contracts.

Recommendation

The Committee is asked to approve the tendering of the UK property management and independent valuation contracts as set out in the report.

Background and Advice

The Fund owns a portfolio of 55 properties throughout the UK valued at £397 million.

The existing UK property management and valuation contracts have been in place for many years without having been market tested. Recent renegotiation of aspects of the contracts and an internal audit recommendation highlighted the need for market testing.

At its meeting on 30 March 2011, the Investment Panel agreed it was appropriate to undertake appropriate due diligence regarding tendering of the management of the UK property portfolio and its annual independent valuation.

Officers have discussed the structure of the property mandate with a number of parties including professional surveyors and another Local Government Pension Scheme.

In common with other investment mandates, it is proposed that the property management mandate be tendered as a discretionary mandate. With a discretionary mandate, the property investment manager is responsible for the overall performance of the property portfolio, including both its strategic direction and its day to day management.

The Fund also has to revalue its properties annually for accounting and performance reporting purposes. A separate tender process will be run for the valuation service.

The Fund proposes to run the tender processes in-house with the assistance of the One Connect Procurement Centre of Excellence and take appropriate specialist professional advice on the construction and scoring of the technical questions. The aim is to obtain technical advice from industry specialists rather than general consultants in order to structure the contracts in the most commercially advantageous manner for the Fund and to reflect current best practice.

It is proposed to use the restricted tender process with a view to making a decision on an investment manager by the end of 2011 and an implementation with effect from 1 April 2012 (the start of the new financial year).

The restricted tender process is a two stage process. Stage 1 is a qualifying stage from which 3 to 5 bidders are taken through to Stage 2 when detailed proposals are requested.

Stage 1 is about identifying bidders with the capacity to deliver the service and will involve evaluation of the following matters:

- Business and Corporate Structure
- Staff
- Risk management
- Performance
- Track Record
- Mandates won and lost
- Responsible property investment
- Property management
- Equal opportunities
- Health and safety
- Referees
- Professional indemnity and others insurance

Stage 2 involves an understanding and evaluation of the bidder's portfolio strategy, investment style and fee structure. Stage 2 will require the potential manager to sign a Non-Disclosure Agreement as a comprehensive Fund information pack will be sent out outlining the details of the portfolio. The pack will include information on the overall Fund philosophy and style and all available property details such as recent valuation reports containing the tenancy schedules and IPD reports.

In Stage 2 bidders will be required to provide

- Investment policy and style
- Investment process
- Proposed Strategy to meet benchmark
- Potential Returns v Market

- Sustainability
- Fees
- People
- Timings

In its assessment of fees, the Fund will seek an arrangement which links the manager's remuneration to the performance of the property portfolio.

A similar restricted tender process will be used to appoint an independent valuer to the Fund at the same time.

The broad award criteria are provisionally assumed to be:

Award Criteria	Weighting
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

With the existing contracts the Fund will forego any benefits to be gained from market testing the current arrangements.

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

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Award of the Contract for Actuarial Services

Contact for further information:

George Graham,(01772) 538102 ,County Treasurer's Department ,
george.graham@lancashire.gov.uk

Executive Summary

The contract for provision of actuarial services to the Lancashire County Pension Fund has not been formally tendered for some time. As part of the ongoing work to establish collaborative working with neighbouring funds and to formalise the Fund's contractual relationships the Committee has previously approved the undertaking of a joint procurement with the Cumbria and Merseyside Funds. This process has been led by the Merseyside Fund and this report summarises the results of the process and recommends the appointment of the new Fund Actuary.

Recommendation

The Committee is asked to note the conclusion of the process for procuring actuarial services for the Fund and the appointment of Mercer as the Fund Actuary for a period of three years with the option to extend for a further three years.

Background and Advice

The current arrangements for the provision of actuarial services to the Lancashire County Pension Fund are less formal than would be desirable and have been due for exposure to competition for some time. As a result the Pension Fund Committee approved a joint procurement with the Cumbria and Merseyside Funds.

While the Merseyside Fund has led the procurement process all three funds have participated in the evaluation and scoring of the formal proposals and presentations and have come to a common recommendation which will be processed through the relevant decision making processes.

At an early stage the basis for evaluation was agreed as 65% quality and 35% price reflecting the fact that in this particular type of contract the quality of advice can have far greater financial consequences than the simple price of the service. The quality of provision was assessed based both on the tender submissions and a series of presentations by the staff who would be involved in delivering the contract.

All four actuarial firms that are active in the local government market submitted bids, with the nature of the team's put forward and the pricing indicating the benefits of a collaborative procurement of this nature. Other than the successful bidder the firms are not identified below, as this report will be published prior to detailed feedback being provided to the unsuccessful firms.

The overall scores at the end of the procurement process were as set out in the table below:

	Firm A	Firm B	Firm C	Firm D
Quality Score	51.01	44.69	60.92	65.00
Price Score	25.67	20.22	35.00	32.48
Total Score	76.68	64.90	95.92	97.48
Rank	3	4	2	1

The conclusion of the evaluation panel was that Firm D, Mercer should be appointed for a term of three years with the option to extend for a further three years. The County Treasurer approved this under the new arrangements for procurement on 15th June 2011. Following the approval by the Merseyside Fund, the standstill period required under EU law has now expired and the contract can commence.

The officers involved in the process have concluded that there is likely to be significant advantage for all three funds in managing this contract collectively, both to reduce the overall effort involved but also to ensure that all three funds gain the benefit of new developments as they occur.

Consultations

County Secretary and Solicitor in terms of procurement law.

Implications:

This item has the following implications, as indicated:

Risk management

The procurement process led by the Merseyside Fund has been conducted in line with EU procurement law so as to mitigate the risk of challenge.

The implementation plans for the contract would have catered for the various risks which exist around the transition from one provider to another, although in the event this is unnecessary.

Financial

The new contract provides considerably more cost certainty than the previous arrangements with more tasks dealt with as part of a menu of prices rather than on a time and materials basis. In addition for some items such as the annual calculation of liabilities for accounting purposes the unit cost within the menu of prices has reduced considerably due to the various firms improving their working practices and use of technology. Thus overall considerable savings are forecast, although ultimately this will depend upon the volume of activity required of the actuary over the contract period.

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Delivery of Value for Money in the Management of the Fund

(Appendix 'A' refers)

Contact for further information:

George.Graham, (01772) 538102, County Treasurer's Department,

George.graham@lancashire.gov.uk

Executive Summary

This report sets out for the Committee some of the commercial initiatives undertaken in the last year to drive out both immediate one-off and on-going financial benefits to the Fund. In the year these actions have produced a one-off benefit of £311,000 to the Fund and on-going savings of £751,000 per year plus efficiency savings.

Recommendation

The Committee is asked to note the report.

Background and Advice

Appendix 'A' refers.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

N/A

Reason for inclusion in Part II, if appropriate

N/A

Delivery of Value for Money in the Management of the Fund

Introduction

This report provides a summary for the Committee of the progress made over the last two financial years, and built into future plans in delivering reductions in the cost of running the Lancashire County Pension Fund.

The savings that have been made have been driven from two different processes:

- Firstly, through the re-examination, renegotiation and re-tendering of existing contracts and relationships. This element of the work includes a more commercial approach to new arrangements, and
- Secondly through the adoption of new less costly techniques, where justified by the impact on the Fund's risk profile

In the context of the Pension Fund there is a balance to be struck between cost, performance and risk. For example, pursuing a saving of 1 basis point in management fees that resulted in a fall off in investment performance would in reality result in a disbenefit to the Fund. Therefore in addressing cost and value for money issues officers have been careful to have regard to this balance.

Delivering Savings

The table below illustrates the savings that have already been delivered, or are in progress, through the approaches identified above.

	One Off Saving £000	Recurrent Saving £000 pa
Renegotiation of elements of the Property Management Contract resulting in a backdated rebate and ongoing savings	85	58
Negotiated cap to annual property revaluation fee, saving compared with previous percentage rate	36	
Cancellation of unnecessary IPD property report		18
Rebate from KPMG for poor service delivery	6	
Introduction of foreign currency accounts to hold Private Equity cash-flows saving on foreign exchange costs		10
Reduced costs arising from new Custody Contract	78	48
Reduced fund management costs from transferring L&G 2 Portfolio to the transition bench.		325
Transfer to transition bench out of pooled fund allows stock to enter stock lending programme		75

Renegotiation of L&G 1 portfolio fees. Refund of L&G fees for rebalancing not in accordance with instructions	106	50
Savings from new contract for actuarial services		102
Reduction in cost of administration from £22 per member to £21.50 per member following introduction of the new pensions payroll system, bringing the charge further below the lower quartile.		65
Total	311	751

In renegotiating elements of the property management contract, public liability insurance cover was also moved from Lancashire County Council where it represented an unrewarded risk, to a property owners' policy with the premium recharged to tenants.

With the appointment of the new custodian, the Fund also expects to make considerable officer time savings, as a result of the custodian taking full responsibility for fund manager reconciliations and National Statistics returns.

The collection of contributions from Employers by direct debit has also been implemented. This process simplifies the collection of contributions with one direct debit collection replacing over 100 cheques and transfers received each month.

In addition to these savings the various procurement exercises for which approval is sought elsewhere on the agenda should deliver further savings. In particular the early market soundings exercise in relation to Governance and Voting services indicates that with a more targeted service savings of £15,500 (45%) should be achievable.

As previously discussed by the Committee, all future fund management contracts will include an element of performance related fees with the performance hurdles linked to the achievement of the Fund's investment objectives. Ultimately the level of fees and the degree to which this sort of performance structure can be achieved will be a result of what the market will provide through the procurement process. However, by entering into the procurement process with a clear view explicitly stated regarding this, and by taking the stance that it will actively manage the relationship with external managers, the Fund is putting itself in a better position to deliver value for money.

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Revised Statement of Investment Principles

(Appendix 'A' refers)

Contact for further information:

George Graham, (01772) 538012, County Treasurer's Department,

george.graham@lancashire.gov.uk

Executive Summary

The regulations governing the operation of the Fund require that the Statement of Investment Principles must be reviewed and if necessary, revised, in case of any material change to the Principles within 6 months from the date of change. The revised Investment Strategy and Governance arrangements approved by the Pension Fund Committee at its meetings in December, January and April constitute a material change.

An updated Statement of Investment Principles is attached at Appendix 'A'.

Recommendation

The Committee is asked to approve the revised Statement of Investment Principles set out at Appendix 'A'.

Background and Advice

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 Statutory Instrument 2009/3093 came into force from 1 January 2010.

These regulations state that the Statement of Investment Principles must be reviewed and revised to incorporate any material changes to the Pension Funds policy on:

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

- (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
- (h) Stock lending.

The Statement of Investment Principles attached at Appendix 'A' reflects the material changes made to the Fund's Investment Strategy and Governance arrangement approved by the committee at its meetings in December 2010, January and April 2011 and subsequently by the Full Council on 26 May 2011.

Consultations

The Fund's Independent Advisers.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Legal

Failure to approve the revised Statement of Investment Principles would result in the non-compliance with statutory regulations.

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

Paper	Date	Contact/Directorate/Tel
SI 2009/3093	1 December 2009	Mike Jensen/Resources/34742
CLG guidance on SI 2009/3093	1 December 2009	Mike Jensen/Resources/34742
CIPFA guidance on the application of Myners Principles	December 2009	Mike Jensen/Resources/34742

Reason for inclusion in Part II, if appropriate

N/A

Statement of Investment Principles

Introduction

The Statement of Investment Principles sets out the arrangements which the Lancashire County Pension Fund has in place to manage its investments and the controls within those arrangements.

This statement of Investment Principles, (SIP) complies with the LGPS regulations 1998 and subsequent amendments, (SI 2002/1852 and SI 2009/3093).

The SIP has been produced following consultation with the Fund's Investment Panel, and a representative of the Fund's Actuary. The Statement is reviewed each year in the light of any new policy developments.

Responsibility for Investment Management

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

- The Pension Fund Committee and its Sub-Committee,
- The Fund's Investment Panel;
- The Fund's Investment Managers.
- The Fund's Custodian
- The Treasurer to the Fund.

The division of responsibility is outlined in detail in the Governance Policy Statement. The full terms of reference and delegated authority are set out in the Constitution of Lancashire County Council. Please see the link below for further information:

[Constitution](#)

In summary, the responsibilities are set out below:

Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and for 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 Trade Union representatives and a representative of the Higher and Further Education Sectors in Lancashire.

Investment Panel

The Investment Panel consists of two independent advisors, the Treasurer to the fund (as Chair), the officer of the County Council fulfilling the role of Chief Investment Officer for the Fund and an officer of the County Council identified by the Treasurer to the Fund to oversee investment activities.

The Panel will meet at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks, but will formulate recommendations to the Treasurer to the Fund and or the Pensions Fund Committee through meetings of the full Panel.

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

- a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
- b. The performance management of Investment Managers;
- c. The broad composition of the Fund's investment portfolio, management style and types of investment;
- d. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support.
- e. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their terms of office and remit;
- f. The allocation of ranges and thresholds within which the Investment Managers should operate;
- g. Review of the Statement of Investment Principles and compliance with investment arrangements;
- h. Recommendations on the detailed management of the investment portfolios and to respond to requests from investment managers to vary certain aspects of their mandates;
- i. The performance management of any internally managed investments; and
- j. The securing of specialist advice within allocated budgets.

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 Fund's current investment managers are:

- Legal and General Investment Management who are responsible for an index tracking portfolio (passive portfolio) across all asset classes apart from property, private equity and hedge funds.

The Fund's specialist managers are:

- Newton Investment Management - Global Equities
- J P Morgan Asset Management - UK Equities
- UBS Global Asset Management - Bonds

- Knight Frank- Direct Property
- Capital Dynamics - Private Equity
- Gottex Fund Management – Hedge Fund of Funds

The Fund Managers have full discretion to invest within the policy limits laid down by the Pension Fund Committee and the Investment Panel, subject to restrictions set out later in this document.

Investment Objective

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

- a) To ensure that resources are available to meet the Pension Fund's liabilities through achieving investment performance at least in line with actuarial assumption.
- b) 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 2.5% p.a. for the period pre-retirement and 1.0% p.a. post-retirement.

The asset out-performance assumption represents 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.

The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred Pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the fund as the liability profile of the membership matures over time.

Types of Investment

The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities, including the following categories of investment:

- a. Fixed interest securities managed by Investment Managers;
- b. UK equities managed by the Investment Managers;
- c. Overseas equities and bonds managed by Investment managers;
- d. Local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;

- e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
- f. Acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
- g. Indirect pooled property investments;
- h. Designated index linked funds;
- i. Investments managed internally and not by Investment Managers; and
- j. Any other monies to be invested other than in the above categories.

Provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.

Underwriting is permitted provided that the investment complies with the existing investment policy.

Balance between Different Types of Investment

The managers, with the exception of the Property Manager have full discretion to invest within each investment category for which they are responsible, subject to statutory limits and any asset allocation ranges, around the benchmark, agreed between the Investment Panel and the managers. The Property Manager's mandate is advisory with final decisions being taken by the Treasurer to the Fund based upon that advice.

The Fund Specific Structure/Benchmark of the Fund was reviewed in 2010 and the Pension Fund committee agreed a new investment Strategy in December 2010. Implementation of this revised strategy began in 2010/11 and will continue through 2011/12. The Committee agreed a range based benchmark for asset classes allowing flexible asset allocation. The agreed ranges are:

Asset Class	Range %
Global Equities – Active and Passive, Physical and Index. Private and Publicly Quoted	40-60
Diversified Property –UK and Overseas. Direct and indirect.	10-20
Lower Volatility Strategies - (including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations)	20-40

The following interim benchmark is in place until the investment strategy is fully implemented and is subject to change following further consideration by the Investment Panel on allocations to future mandates.

Structure of the Fund (Benchmark %) - Interim Benchmark

Asset Class	Total	Benchmark Index
Equities	60	FTSE All World
Private Equity	7	BVCA Median
Property	10	IPD
Hedge Fund of Funds	3	Interbank Bid 7 Day Notice Rate
Bonds	18	FTSE A All Stocks Gilts
Cash	2	7 Day Notice Rate
Total	100	

Stock Lending

Stock lending is undertaken up to the 35% limit as permitted under the Local Government Pension Scheme Management and Investment of Funds (Amendment) Regulations 2009. The programme is monitored for performance, limit and counterparty credit adherence, and voting requirements, via the Fund custodian and the Stock Lending manager's online reporting packages.

Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003

The limits shown in Column 1 are those laid down under the 1998 Regulations. The limits in Column 2 are those allowed under the 2003 Regulations and 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 Lancashire County Pension Fund's Investment Panel and Pension Fund Committee has reviewed the 1998 Regulations limits and have adopted the increased limits for any single insurance contract and also for all contributions to partnerships.

	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%	15%
4. with the sum of - (a) all loans (but see paragraph 1); 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 all loans (but see paragraph 12).	10%	-
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but see paragraphs 2 and 3).	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 (but see paragraph 3).	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 (but see paragraph 14).	25%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35% *

* The Local Government Pension Scheme Management and Investment of Fund's (Amended) Regulations 2005 allow administering authorities to

increase the limit on their investments in securities transferred by the authority under stock lending arrangements from 25% to 35% of the total of their Pension Fund investments.

Investment Performance Targets and Benchmarks

- The UK and Global Equity specialist managers are expected to outperform the Fund Specific Benchmark performance return by 1.5% (net of fees) on a rolling three year basis.
- The Bonds specialist manager is expected to outperform the Fund Specific Benchmark performance return by 0.75% (net of fees) on a rolling three year basis.
- The Private Equity Manager is expected to outperform the median return in the British Venture Capital Association (BVCA) survey of Private Equity returns by 3%.
- The Index Tracking Manager is expected to achieve the index return for each asset class under its management.
- The property manager is expected to outperform the IPD Small Funds Benchmark (£10m to £300m) return by 1% on a rolling three year basis.
- The Hedge Fund of Funds manager is expected to outperform the London Interbank Bid 7 day notice rate by 6% per annum (net of fees) over a rolling three year period.
- The WM survey of Local Authority Pension Fund returns is also used by the Fund for comparative information purposes. In the WM analysis, private equity returns are compared to the FTSE all share returns as BVCA data is not available on a regular quarterly basis.

Policy on Risk

The overriding objective of the Lancashire County Pension 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.

Within this the managers, in particular, are regularly questioned by the Investment Panel about the risk profile of their Lancashire portfolios.

Policy on Realisation of Investments

The Fund Managers are responsible for the realisation of investments and reinvestment of the proceeds. The proceeds from the realisation of investments are invested by the Fund Managers as cash deposits, until required for reinvestment in equities or fixed interest stocks. However, as the custody arrangements for the property portfolio and private equity portfolio are

administered by Lancashire County Council, the realisation of investments for these asset classes are invested as cash deposits by the County Council until required for reinvestment in new properties or Private Equity Funds. As the Fund is cash flow positive, there is no need to realise investments in order to pay for benefits.

Monitoring and Review

The investment activities of the Fund's Investment Managers are reviewed at each Panel meeting and reported to the Pension Fund Committee. At these meetings, asset allocation and investment performance of the Investment Managers 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 Treasurer 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).

Social, Environmental and Ethical Considerations

In general, the Fund takes an active stance on corporate governance issues. It is a client of Pensions Investment Research Consultants (PIRC), who advises the Fund on Socially Responsible Investment issues. It is also a member of the Local Authority Pension Fund Forum, which is a group of local authorities that meet to discuss and act / engage in respect of Socially Responsible Investment and Corporate Governance issues.

Policy on Voting

- The Pensions Investment Research Consultants (PIRC) shareholder principles and voting guidelines are used as general guidance for the exercise of the Fund's voting rights. (The Fund currently subscribes to the PIRC FTSE All Share, The European and US Voting Service.)
- The Fund's Investment Managers exercise the Fund's voting rights on the Committee's behalf, having regard to the PIRC guidelines, but also taking account of the particular circumstances of individual companies.
- The Committee delegates its agreement of any significant departure from the guidelines, proposed by the managers, to the Treasurer as Chairman of the Investment Advisory Panel.
- In all voting decisions the long-term financial interests of the Lancashire County Pension Fund are paramount.

Custody of the Fund

- The Fund's Global Custodian is BNY Mellon Asset Servicing. This service will transfer to Northern Trust by August 2011.
- The Custody for the Private Equity portfolio and the Property portfolio is currently administered by Lancashire County Council.
- The Fund's Index Tracking Manager (Legal and General Investment Management) invest Fund's with Legal and General Assurance (Pensions Management) Ltd in a unitised policy of assurance (Pooled Funds).
- The Custody of the Hedge Fund of Funds portfolio is administered by Citco Fund Services (Europe) BV.
- Details of Custody fees are held within the Treasurer's office and are generally based on the volume of transactions.
- The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

Fee Structure

Details of fees paid to individual Fund managers are subject to confidentiality agreements and are generally linked to the value of Fund's under management. As part of the Fund's desire to ensure Fund Management agreements reflect transparency in respect of fee structures, the Fund managers have either removed or are in the process of phasing out soft commission arrangements.

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

Under the Lancashire County Council Scheme of delegation to Chief Officers, the Treasurer to 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 Fund's) Regulations 1998, (as amended) with regard to the requirement to review the investments made by the Fund Managers. She reports at each meeting of the Pension Fund Committee.

The Treasury and Investment Team within the County Treasurer's Department supports the Treasurer in respect of her 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;
- Production of Pension Fund Business Plan;
- 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 investment managers and custodians;
- The provision of data for performance monitoring and interpretation of performance results;
- The conducting of procurement exercises to secure the services of Investment Managers and other service providers on behalf of the Fund;
- The identifying of and conducting of due diligence on individual investment opportunities for consideration by the Investment Panel;
- Monitoring voting action by the managers;
- Advice to the Treasurer on Pension Fund Investment issues;
- Verification, monitoring and payment of Pension Fund fee invoices;
- Monitoring the receipt of income due to the Fund;
- Representing the Treasurer 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
- Research initiatives.

Myners Principles of Investment Practice

The Myners Review of Institutional Investment in the UK

The Local Government Pension Scheme (Management and Investment of Fund's) Amendment Regulations 2002 came into force on 9 August 2002. It requires administering authorities to publish, in their Statement of Investment Principles, the extent to which the authority complies with the 10 Principles of Investment Practice and to give reasons for any non-compliance. The 10 principles were replaced by six new principles in 2009; a summary of compliance with these principles is outlined 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. A Pension Fund Business Plan is approved by the Pension Fund Committee on an annual basis.

Principle 2: Clear Objectives

Fully compliant: The overall objective for the Fund is outlined in the Statement of Investment Principles. A Fund Specific Benchmark was introduced from 1 July 2002.

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. The Fund has considered all major asset classes and has made commitments to Private Equity, Property and Hedge Fund of Funds. The new Investment Strategy identifies scope for allocation to further alternative asset classes.

Principle 4: Performance assessment

Fully compliant: Performance of the managers is assessed on a quarterly basis, with a detailed formal review of annual and long-term performance undertaken annually and reported to the Pension Fund Committee. Performance is measured by the WM Company, and Investment Property Databank. Regular monitoring of the performance of the Committee and the advisors commenced during 2007/08. Two new independent advisers were appointed in May 2009.

Principle 5: Responsible ownership

Partially compliant: The Fund votes all its shares, utilising the PIRC Voting Guidelines, and 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. Although the Fund does not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism, required for full compliance, the Fund's Corporate Governance and Activism policies achieve similar aims.

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.

In addition to the Annual Report, which is distributed to all member bodies within the Fund as a matter of course and is available on request to any Scheme Member, the Fund operates a web site (www.yourpensionservice.org.uk) and provides all of its Members with regular information bulletins.

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Annual Report and Accounts of the Fund – 2010/2011

(Appendix A refers)

Contact for further information:

George Graham, 01772 538012, County Treasurers Department,

George.graham@lancashire.gov.uk

Executive Summary

This reports sets out the Lancashire County Pension Fund Annual Report 2010/11

Recommendation

The Committee is asked to agree the Lancashire County Pension Fund Annual Report 2010/11, 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 is to approve the annual report for submission to Full Council

A copy of the Lancashire County Pension Fund Annual Report 2010/11 is attached at Appendix 'A'. The content of the Annual Report includes the following sections:

An overview of the management and financial performance of the fund

This highlights the major issues considered by the Investment Panel and Committee during the year, a summary of market conditions and a summary of the performance of the fund.

The Governance Compliance Statement

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.

Investments of the Fund

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

The accounts and financial statements

The accounts and financial statements of the pension fund approved by the County Treasurer on 29 June 2011 are shown in the County Council's Statement of Accounts and also in the Pension Fund Annual Report. The accounts are currently being audited by the audit commission and the auditor's opinion will be included in the published Annual Report, when this is complete.

An up to date list of all the scheduled and admitted bodies within the fund is included within the notes to the financial statements.

Actuarial Valuation

A summary of the latest actuarial valuation carried out at March 2010 and applicable for the three years commencing 1 April 2011.

The following standing policy statements are referred to in the Annual Report as available from the Pension Fund and from its web-site at **www.yourpensionservice.org.uk**:

The Governance Policy Statement

The Governance Policy Statement approved by the Committee in April 2008 has been updated to include changes agreed by the Committee in February 2011.

The Communication Policy Statement

There are no changes to this document, which was revised in April 2007.

The Funding Strategy Statement

The Funding Strategy Statement which was approved by committee in February 2011.

The Statement of Investment Principles

The Statement of Investment Principles to be approved by committee as a separate item in July 2011 meeting.

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/Directorate/Tel
Investment Manager reports, Investment Panel Agendas and Minutes	Quarterly throughout the year	Mike Jensen – Resources – 01772 534742

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund**Annual Report 2010/11****Contents**

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A. Management Structure

Management Structure as at 31 March 2011

Administering Authority
Lancashire County Council

Pension Fund Committee 2010/2011 (as at March 2011)

Lancashire County Council

D A Westley (Chair)
M J Welsh (Vice Chair)
T Aldridge
M Brindle
P Evans
M France
J Lawrenson
F De Molfetta
M Parkinson
T Pimblett
S Riches
G Roper
K Young

Blackburn with Darwen Borough Council

R O'Keeffe

Blackpool Borough Council

G Bell

District Councils

P Doyle
P Goldsworthy

Co-opted Members representing Trade Unions

R P Harvey
R Whittle

Co-opted Member representing HE/FE Establishments

P Hyett

Fund Managers

Legal & General Investment
Management
Newton Investment
Management
J P Morgan Asset
Management
UBS Global Asset
Management
Knight Frank (Rutley Capital
Partners)
Capital Dynamics
Gottex Fund Management
Mellon Transition
Management

Custodian

BNY Mellon Asset Servicing

Independent Investment Advisers

E Lambert
N Mills

Treasurer to the Lancashire County Pension Fund

G Kilpatrick CPFA

Actuary

Mercer

Auditor

Audit Commission

Property Solicitors

Pinsent Curtis Biddle
Cobbetts

Independent Property Valuer

Cushman & Wakefield

Corporate Governance Adviser

PIRC

Performance Measurement

WM Company

AVC Providers

Prudential
Equitable Life

Legal Advisors (other than property)

In House

Bankers

National Westminster

B. Overview of Management and Financial Performance

The investment activities of the Lancashire County Pension Fund during 2010/11 have continued to be influenced by world financial and political events. The monetary and fiscal policy fallout from the credit crisis has continued to drive the investment markets globally. Central Banks, in particular the US Federal Reserve, have in general provided heightened liquidity to financial markets. 2010/2011 saw the US economy failing to recover at the expected pace, in particular with regard to employment creation and a second round of quantitative easing (QE) worth US\$600bn+ which in turn gave a strong boost to asset markets globally. Whilst growth remained anaemic in developed economies the ongoing strength in emerging markets gave strong support. The FTSE All World index rose 5.8% with the FTSE All share rising 4.4% during the year, although both indices had fallen substantially before the introduction of QE. Credit markets continued their 2009/10 recovery, the IBOX non Gilt Sterling index rising 5.1%.

Government bond markets in the US, UK and core Europe generally performed well over the 12 month period, the IBOX 5-15yr index rose 6.2%. Markets had expected that some monetary stimulus would be withdrawn during the year, leading to higher interest rates and reduced bond market performance. Interest rates were raised regularly in emerging economies to defend against commodity driven inflation but the weak levels of growth in developed markets combined with a number of natural disasters continued to give support to core bond markets.

The fiscal position of a number of countries caused concern to international credit markets as the borrowing requirements of many governments ballooned and bailouts were arranged for Greece, Ireland and Portugal. Whilst these actions calmed markets in the short term, the danger of sovereign defaults remains high. The range of potential final outcomes is broad with disintegration of the Eurozone being seen as the most dangerous.

2009/10 was a period of review for the fund and 2010/11 a year of strategic reassessment and initial implementation. The investment returns of the Fund over past years had been mediocre and as a result the Pension Committee approved a substantially changed investment strategy and approach. The Committee have agreed to take a risk management based approach to investment and to closely align target returns with the actuarial valuation of the Fund's liabilities.

It is pleasing to report that whilst strategy implementation is at a very early stage there are improving signs on performance, the Fund having undershot its benchmark by 0.3% (-3.6 % in 2009/10) and having increased its funding ratio from 80% to 83.4% during the year. These are encouraging signs which the Fund will look to build on in forthcoming years as full implementation is completed.

The overall return achieved by the Fund during 2010/11 was 8.2% compared to the benchmark return of 8.5% and the average local authority return of 8.2%. This ranked in the 46th percentile of the WM Local Authority Universe i.e. within the 2nd quartile of local authority returns.

During the year the Fund was cash flow positive, with income from contributions and investments exceeding expenditure on benefits and expenses by £93.255m.

The change in the Fund's investment strategy, the change in role of the Investment Panel together with improvements in governance place the Fund in a better position to deal with developments in global risks, the international regulatory framework and the future of structure pensions in general.

Capital for long term investment is a scarce commodity post credit crunch, placing Local Government Pension Funds in a strong position to positively address the goals of full funding and sustainable cost, provided that investment and liability management are addressed effectively.

Administration of the Fund has again been very strong over the year, with Your Pension Service being named Lancashire County Council's Team of the Year.

D Westley
Chairman of the Pension Fund Committee

G Kilpatrick CPFA
County Treasurer and Treasurer to the
Lancashire County Pension Fund

C. Governance of the Fund

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

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 Administration Panel and issues delegated to the Treasurer to the Fund. These can be found in the Fund's Governance Policy Statement which is available from the Fund and can be accessed via the Fund's website at: <http://www.yourpensionservice.org.uk>

The Fund's Governance Compliance Statement is shown below reporting compliance with guidance given by the Secretary of State.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT:

Principle		Full Compliance
A Structure	<p><i>(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</i></p> <p><i>(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)</i></p> <p><i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p> <p><i>(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.</i></p>	<p>√</p> <p>×</p> <p>(see note 1 below)</p> <p>√</p> <p>√</p>

B Representation	<p><i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)</i></p> <p><i>These include:</i></p> <ul style="list-style-type: none"> <i>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</i> <i>(ii) scheme members (including deferred and pensioner scheme members)</i> <i>(iii) independent professional observers (2)</i> <i>(iv) expert advisers (on an ad hoc basis)</i> 	<p>× (see notes 1 and 2 below)</p>
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Reasons for Partial Compliance

Note 1: Although District Councils, Scheduled Bodies and employees are represented, Admitted bodies are not. Admitted bodies only represent 7% 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.

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 officers and it is not apparent what added value such an appointment would bring.

C Selection and Role of Lay Members	<p><i>(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.</i></p> <p><i>(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 time.)</i></p>	√
D Voting	<p><i>(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.</i></p>	√
E Training/ Facility Time/ Expenses	<p><i>(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.</i></p> <p><i>(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.</i></p>	√ √
F Meetings – Frequency	<p><i>(a) that an administering authority's main committee or committees meet at least quarterly.</i></p> <p><i>(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.</i></p> <p><i>(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.</i></p>	√ √ √

G Access	<i>(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.</i>	√
H Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	√
I Publicity	<i>(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.</i>	√

County Council's Annual Governance Statement

The County Council has produced its Annual Governance Statement for 2010/11. This statement sets out assurances on the County Council's governance arrangements, internal control and the way the County Council manages its affairs.

As the County Council is responsible for the administration of the Pension Fund, including the provision of systems, controls and governance and this statement embraces the activities of the Pension Fund. Copies of this document are available from the Fund and are available on the Fund's website at: <http://www.yourpensionservice.org.uk>

D. Administration of the Pension Fund

Overview

The Local Government Pension Scheme is a statutory pension scheme, and operates on a “defined benefit basis”. Lancashire County Council is required by law to administer the Scheme within the geographical area of Lancashire.

The County Council administers the Scheme for over 100 employers within Lancashire (a complete list of employers is set out in Note 1 of the Notes to the Financial Statements). These employers include organisations such as local authorities, further and higher education colleges and voluntary and charitable organisations. This includes a number of “Admitted Bodies”. These are organisations that have entered into an admission agreement with the County Council to participate in the Fund.

A Service Level Agreement (SLA) is in place between Your Pension Service and the Pension Fund Committee for the provision of pension administration services and support.

An Annual Administration Report is produced in accordance with the SLA and describes the performance of Your Pension Service (YPS) against the standards set out in the Agreement during the year. The Administration Report also details events and activities undertaken by YPS over the year and sets out any Scheme specific regulatory change.

A summary of the Annual Administration Report is set out below.

Summary

2010/11 has proved a challenging year. The main focus for Your Pension Service has been to support a number of Fund employers, in particular Lancashire County Council, through extensive voluntary redundancy programmes, to provide benefit estimates to agreed timescales as well as processing actual retirements on time.

At the beginning of 2011 the Service changed its name to ‘Your Pension Service’ to better reflect the diversity of our clients and customers.

The Service was delighted to be awarded ‘Corporate Team of the Year’ at Lancashire County Council’s Pride Awards ceremony in July 2010. This prestigious corporate award recognises outstanding teamwork as well as best practice and an enthusiasm for change.

YPS continues to achieve its key performance indicator and continues to be cost effective with the cost of administration remaining below the Government’s key indicator.

The full Annual Administration Report can be accessed via the Fund's website:

<http://www.yourpensionservice.org.uk>

Changes to the Local Government Pension Scheme

Legislation was issued during the year 2010/11 which has affected the Local Government Pension Scheme and is detailed below:

- **The Local Government Pension Scheme (Benefits, Membership and contributions) (Amendment) Regulations 2011**

In the main these were drafting amendments and clarifications to the 2008 scheme.

- **Local Government Pension Scheme (Miscellaneous) Regulations 2010**

These Regulations come into force on 30 September 2010, but with various effective dates and amend the following sets of Scheme provisions: The Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 & the Local Government Pension Scheme (Administration) Regulations 2008

These regulations made significant changes to the Local Government Pension Scheme Regulations

Changes effective from 1 October 2008

Pensioner members who have a suspended third tier ill health benefit can now request early payment of these benefits from age 55.

The death grant due to a member with suspended third tier benefit is now a guarantee of 5 times the pension. If the suspended third tier pension has been brought back into payment, the death grant calculation is a guarantee of 10 times the pension in payment. In both cases the guarantee is less the amount of any pension payments already made

Changes that take effect from 6 April 2009

Pension credit members may now elect to receive their share of the pension scheme benefits attributed to the former spouse, following divorce proceedings, from age 60.

Changes that take effect from 30 September 2010

Employers are not required to undertake a review of a third tier ill health pension at 18 months for members who have already attained age 65 at that time.

A time restriction has been introduced when a third tier ill health pension can be uplifted to a second tier pension, this is to avoid pensions being recalculated many years later.

There is now a restriction on the amount of ill health benefits awarded to a member who returns to local government employment and is awarded ill health retirement benefits for a second time.

The calculation of the survivors benefits provides protection where members reduce their hours and then die in service as a result of the same medical condition that caused the reduction in hours.

New employees who join the scheme on or after 30 September 2010 who also have a deferred benefit(s) from an earlier LGPS employment(s) can now elect to combine any of their previous membership periods with their current active employment, providing they elect within 12 months of first joining the scheme.

Current scheme members have the same opportunity until **1 October 2011** to make an election to combine any previous membership which they have either previously chosen not to, or not been able to before, due to other restrictions in the regulations.

Administering authorities now have the power to redirect pension payments to appropriate persons on behalf of individuals who are now no longer capable of managing their own affairs.

Other information

Further statements relating to the administration of the Scheme are required under the Local Government Scheme Regulations. The Communication Policy Statement and the Pensions Administration Strategy Statement are available from the Fund and can be accessed via the Fund's website at: <http://www.yourpensionservice.org.uk>

Your Pension Service can be contacted at:

PO Box 100
County Hall
Preston
PR1 0LD

Telephone: 01772 530530

E-mail: pensions.helpdesk@lancashire.gov.uk

Participation in the Fund

	Number at 31 March 2011	Number at 31 March 2010
(1) Active scheme members:		
Scheduled Bodies	47,912	49,707
Admitted Bodies	3,781	4,021
Total	51,693	53,728
(2) Pensioners:		
Pensions in Payment	37,632	35,933
Preserved Pensions	44,928	41,330
Total	82,560	77,263

Additional Voluntary Contributions (AVC's)

The AVC providers to the Fund are Prudential and Equitable Life. The AVC's are invested separately from the Fund's main assets and are used to acquire additional money purchase benefits. Members participating in these AVC arrangements each receive an annual statement from the provider confirming the amounts held in their account and the movements during the year.

New AVC applications have risen during 2010/11 compared with the previous year resulting in an increase of total AVC funds under management of £1.3m rising from £13.8m in 2009/10 to £15.1m for 2010/11.

Note 15 of the Notes to the Financial Statements of this report contain a detailed breakdown of the current value of the Fund's AVC's.

Risk Management

The Fund's governance arrangements, described in this report, ensure that the management of fund administrative, management and investment risk is undertaken at the highest levels. The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The Funding Strategy Statement identifies the risks, counter measures and monitoring and reviewing risks associated with the funding strategy of the Pension Fund. The key risks are shown in Annex 3 of the Funding Strategy Statement.

The policy in respect of investment risk, including monitoring and review of performance is found in the Statement of Investment Principles.

The County Council's Annual Governance Statement identifies how the system of internal control throughout the County Council is designed to manage risk to a reasonable level.

Copies of these documents are available from the Fund and are published on the Fund's website at: <http://www.yourpensionservice.org.uk>

E. Investment Policy and Performance

Structure

There are three levels of responsibility for the investment management of the Lancashire County Pension Fund (the "Fund"). First, the county council's Pension Fund Committee (the "Committee") takes major policy decisions and monitors overall performance. The Statement of Investment Principles is available from the Fund and on the Fund's website. Second, the Investment Panel (the "Panel") recommends composition and monitors the activity of the Fund's managers on a regular basis. Third, the investment managers fix precise weightings and select stock within the allocations set by the Panel and Committee. A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement available from the Fund and on the Fund's website.

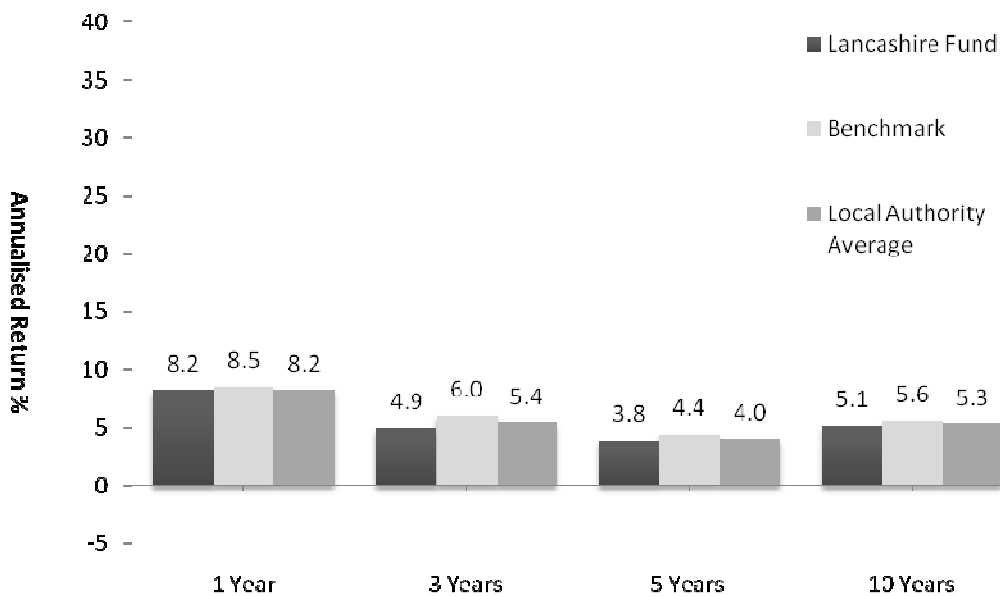
The Panel consists of two independent external investment advisers, the Chief Investment Officer, the Deputy County Treasurer and the Treasurer to the Pension Fund, who acts as Chair. The Fund is currently managed by seven specialist external managers and one external index-tracking manager (multi-asset) with a balance of cash managed in-house. The various mandates, including their value at 31 March 2011 are shown below.

Manager	Mandate	Value £000
Legal & General Investment Management	Index tracking - multi asset	1,046,129
Newton Investment Management	Global Equities	638,819
JP Morgan Asset Management	UK Equities	500,826
UBS Global Asset Management	Bonds	602,907
Knight Frank	Property	397,505
Capital Dynamics	Private Equity	201,872
Gottex Fund Management	Hedge Fund of Funds	69,589
Mellon Transition Management	Global Equities	701,481
In-House	Cash	122,127
Total		£4,281,255

Performance

The Fund is invested to meet liabilities over the medium-to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund. The performance of the Fund is measured against a Fund specific benchmark with individual managers being given performance benchmarks and targets which are linked to index returns for the assets they manage. Details of these can be found in the Statement of Investment Principles available from the Fund and on the Fund's website. The Fund also subscribes to the annual WM Survey of UK Pension Funds, which shows comparisons with other local authority pension funds. The performance of the investment managers is reviewed on a regular basis by the Panel and any recommendations arising from those reviews are forwarded to the Committee for consideration.

Looking first at total Fund returns, the chart below shows the total return of the Fund compared to the fund specific benchmark and the average local authority pension fund return measured over 1,3,5 and 10 years to 31 March 2011:

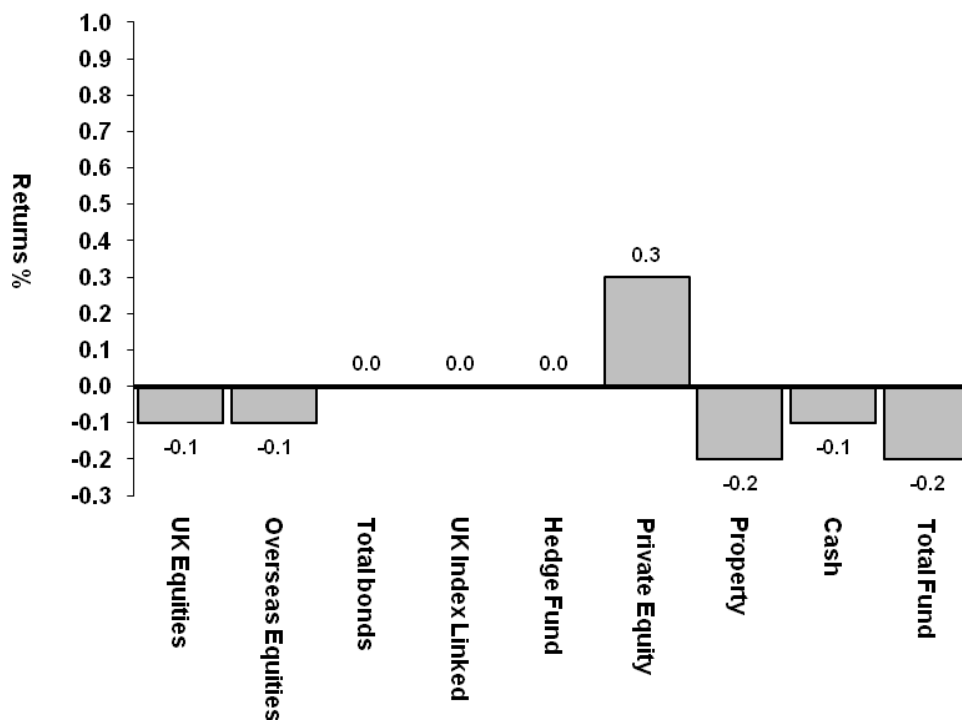


Looking at market returns generally, an average return of 8.2% amongst local authority pension funds in 2010/11 reflected the more stable nature of investment markets during the year after the extreme volatility of 2009/10. The impact of the stimulus measures employed by monetary authorities to counter the credit crisis and the general slowdown in global economic activity generated positive returns in most asset classes. Positive returns were well distributed across most markets with Private Equity providing the largest contribution. The Fund's 2010/11 overall return was 8.2%, compared to the benchmark return of 8.5% and the average local authority return of 8.2% ranking the Fund in the 46th percentile of local authority funds measured.

Looking at individual asset classes, the passive equity managers L&G and Transition (with BNY) underperformed their benchmarks slightly in the year, while the active managers (Newton for overseas equities, JP Morgan for UK equities & UBS for Bonds) all produced returns greater than their benchmarks. The property portfolio was also marginally below benchmark whereas the private equity portfolio performance was well in excess of its benchmark. Private equity performance tends to lag that of the large public markets, so the 2011 results include some of the valuation increase that was reflected in publicly quoted equities the year before.

An analysis of the Fund's performance by asset class can be seen in the chart below. It shows the relative returns for each asset class i.e. the ratio of the actual return to the benchmark return and is weighted to reflect that a 1% out-performance on a small return of say 6% has a greater impact than a 1% out-performance on a large return of say 20%.

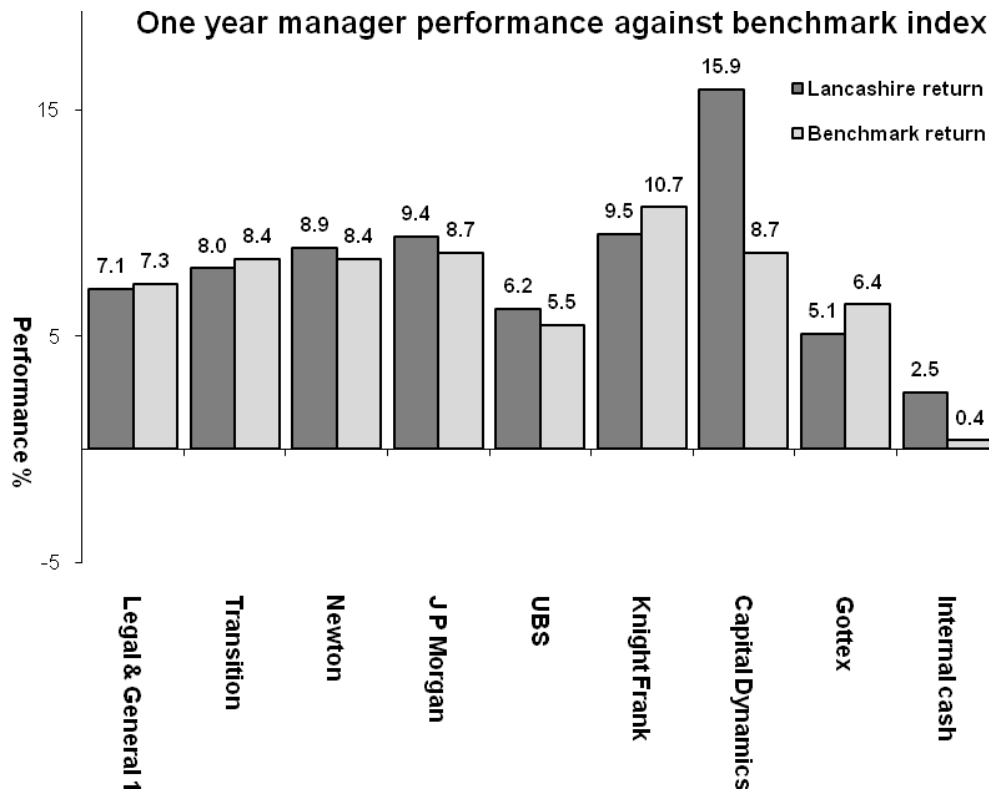
Relative returns of Fund compared to benchmark return 2010/11



The Fund's investment managers are set performance targets as shown in the Statement of Investment Principles. The overall performance target of each manager is measured over a rolling three year period, as inevitably there will always be short-term fluctuations in performance. These targets are set for the active managers i.e. those with a mandate to outperform a benchmark through active stock picking and sector allocations. The portfolio managed by Legal and General is a passive portfolio, where the manager does not seek to outperform the benchmark, but merely to track the index for each asset class.

The transition mandate was transferred under the same terms from a Legal and General passive fund to BNY Mellon Transition passive fund in March 2011.

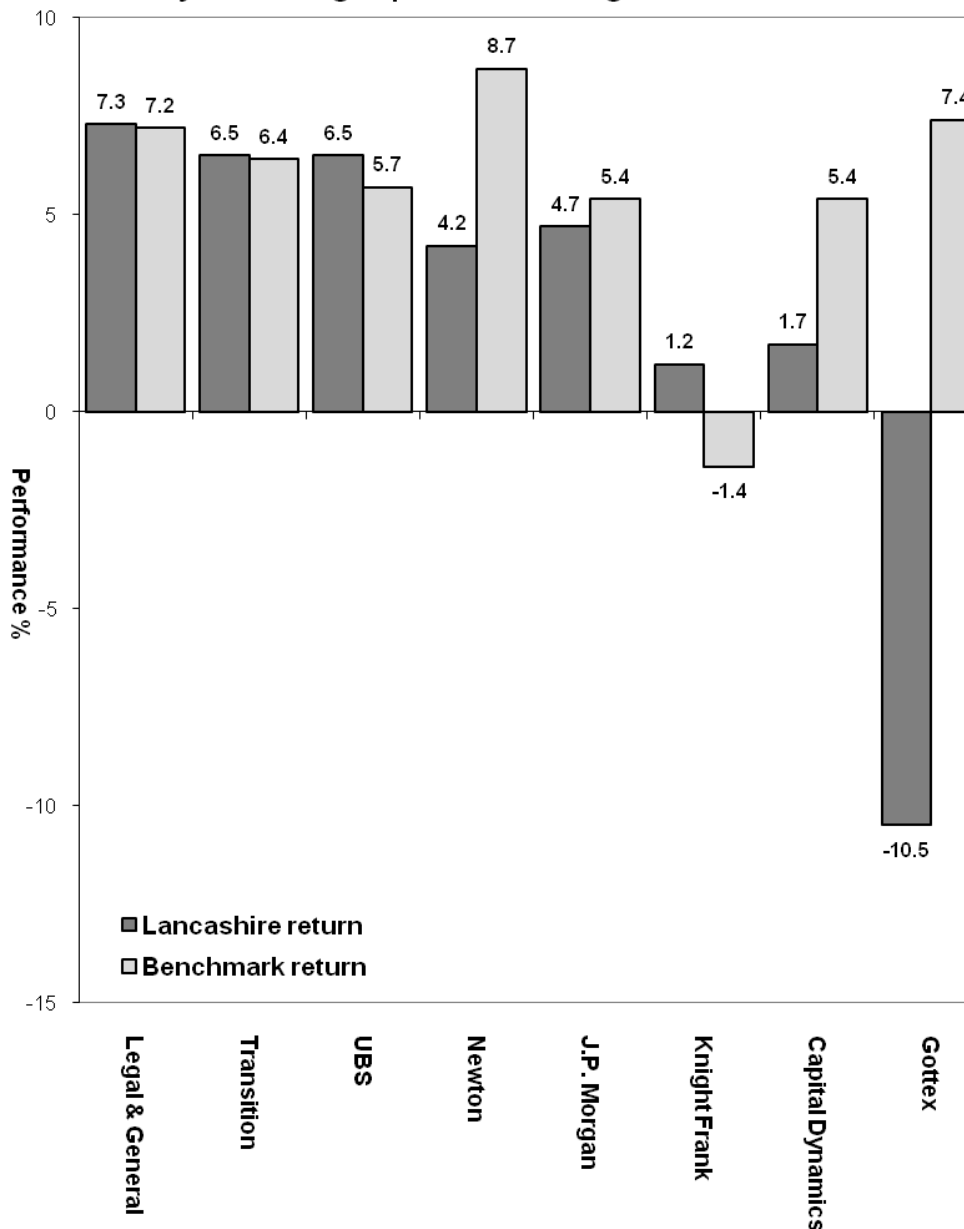
Although each manager's performance is measured against a fund specific benchmark allocation, managers are given discretion to invest a smaller or greater amount than the benchmark allocation, within agreed tolerances for some of the managers' portfolios. The global equities portfolio is relatively unconstrained. These decisions will reflect their views on market conditions within various countries or between different types of instruments. The one year performance of the managers to 31 March 2011 is shown in the chart below:



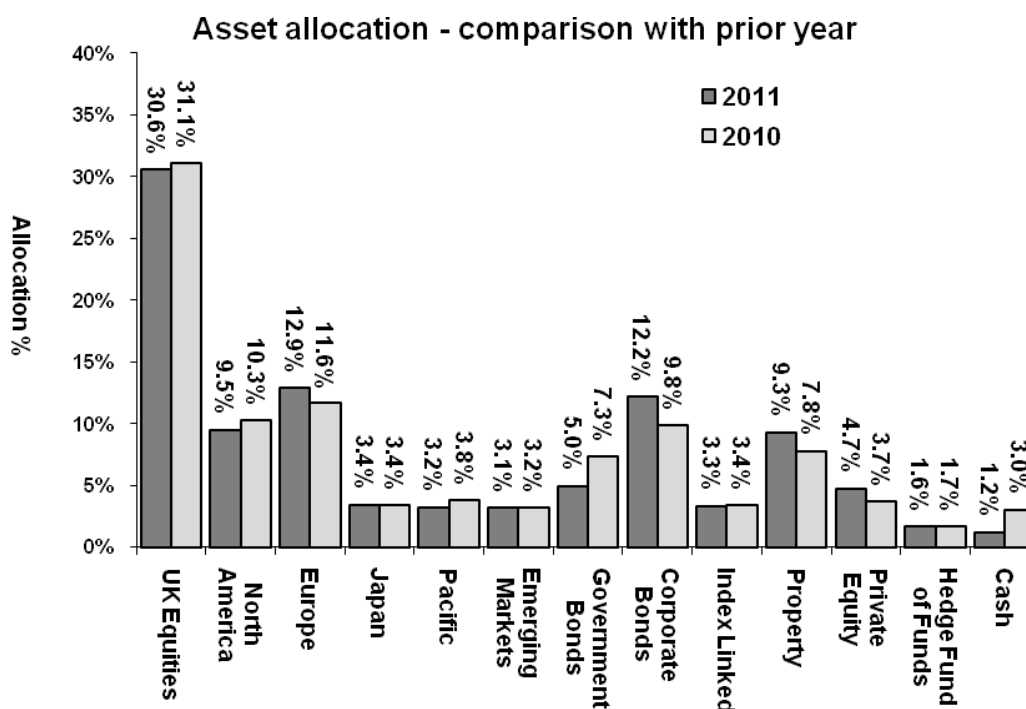
The portfolio managed by Gottex under-performed the benchmark returns. The portfolios managed by UBS (bonds), Newton (Global Equities), JP Morgan (UK Equities), Capital Dynamics (Private Equity) and internally managed cash outperformed the benchmark returns.

Over one, three and five years, the Legal and General passively managed portfolios are producing returns very close to the index return. An analysis of the specialist managers' performance over three years is shown in the chart below:

Three year manager performance against benchmark index



Over three years, Capital Dynamics (private equity) JP Morgan (UK equities), Newton (global equities), Gottex (fund of hedge funds) have underperformed their benchmark, whilst Passive allocations, UBS (bonds) and Knight Frank (property) have outperformed. It can be argued that the long term nature of Private Equity allocations are such that the three year measures are invalid, as investment during the initial stages (years 1-3) generates returns in the later stages (years 4-7). The longer term performance results of these managers will continue to be reviewed by the Panel and Committee during the coming year.



The Fund has continued with its policy of bringing asset allocations up to the agreed benchmark, particularly in the area of property.

Largest ten equity holdings of the Fund at 31 March 2011

Equity	Market value 31 March 2011 £'000	Percentage of net assets of the Fund %
Royal Dutch Shell 'B' Shares	59,969	1.40%
HSBC Holdings Ord USD0.50 (UK)	53,297	1.24%
Vodafone Group Ord USD0.11428571	52,225	1.22%
GlaxoSmithKline Ord GBP0.25	43,052	1.01%
BP PLC Ord USD.25	42,111	0.98%
GlaxoSmithKline Ord GBP0.25	41,934	0.98%
BHP Billiton PLC USD0.50	38,224	0.89%
Anglo American USD0.54 (post consolidation)	30,786	0.72%
British American Tobacco Ord GBP0.25	27,906	0.65%
BG Group PLC Ord GBP0.10	27,562	0.64%
Total	417,066	9.73%

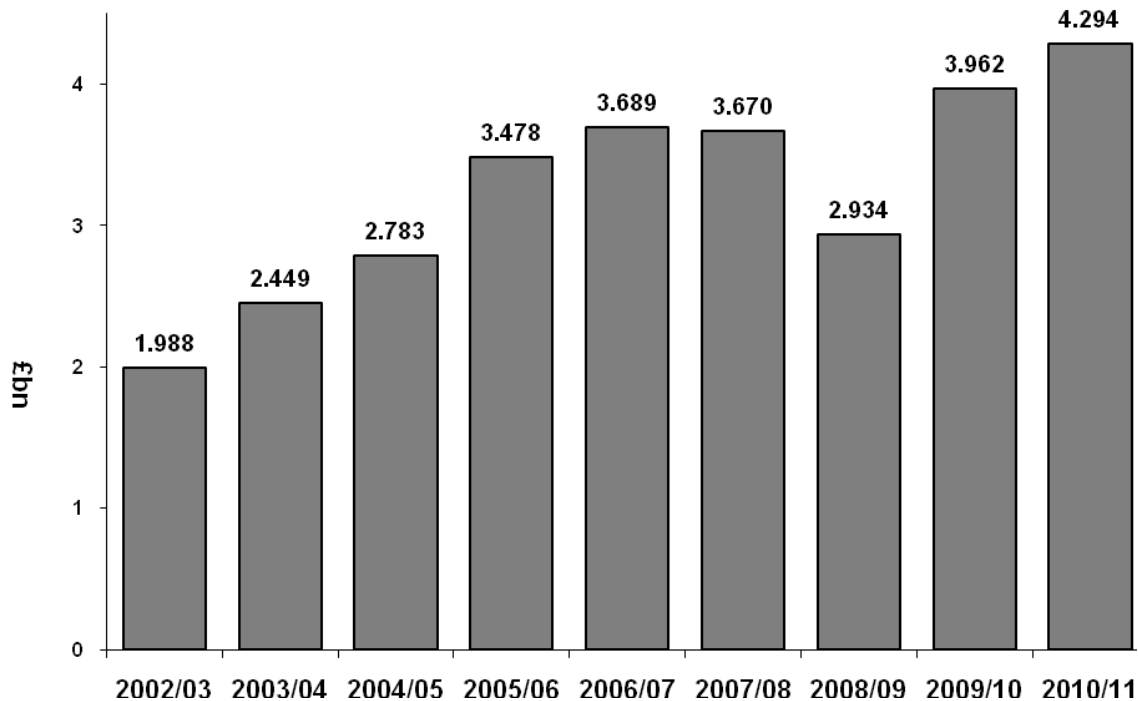
Largest ten property holdings of the Fund at 31 March 2011

Property	Sector	Market value 31 March 2011 £'000
10 Brook St, London	Offices	32,000
Sainsburys Store, Elgiva Lane, Chesham	Shops	27,000
Princes Mead Shopping Centre, Farnborough	Shopping Centre	26,300
Benson House, Leeds	Offices	19,700
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	16,000
Tuscany Park, Wakefield	Industrial / Warehouse	15,600
Somerfield Store, Wymondham	Shops	15,250
Princes St, Edinburgh	Shops	12,500
Effra Road Retail Park, Brixton	Retail Warehouse	11,900
Endeavour Way, Wimbledon	Retail Warehouse	11,000
Total		£187,250

Sector weightings of the Fund's property holdings at 31 March 2011

Sector	Market value 31 March 2011 £'000	Percentage of property portfolio %
Shops	108,755	27
Shopping Centre	26,300	7
Retail Warehouse	53,850	13
Industrial / Warehouse	74,975	19
Offices	119,450	30
Office / Warehouse	9,450	2
Workshop / Garage	4,725	2
Total	£397,505	100

Value of Fund 2002/03 to date



The increase in the value of the funds assets in 2010/11 reflects the positive returns achieved by most of the managers, as well as the general slowdown in economic activity.

Policies in respect of Socially Responsible Investment and Voting

The following policies are extracted from the Fund's Statement of Investment Principles.

Social, Environmental and Ethical Considerations

In general, the Fund takes an active stance on corporate governance issues. It is a client of Pensions Investment Research Consultants ("PIRC"), who advise the Fund on socially responsible investment issues. It is also a member of the Local Authority Pension Fund Forum, which is a group of like-minded authorities that meet to discuss and act / engage in respect of socially responsible investment and corporate governance issues.

Policy on Voting

The PIRC shareholder principles and voting guidelines are used as general guidance for the exercise of the Fund's voting rights.

The Fund's investment managers exercise the Fund's voting rights on the Committee's behalf, having regard to the PIRC guidelines, but also taking account of the particular circumstances of individual companies.

The Committee delegates its agreement of any significant departure from the guidelines, proposed by the managers, to the Treasurer as Chair of the Investment Panel.

In all voting decisions the long-term financial interests of the Fund are paramount.

Policy on Risk

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio. Within this the managers are regularly questioned by the Panel about the risk profile of the portfolios that they manage for the Fund.

Compliance with Myners Principles

The Fund is compliant with the Myners Principles, details of which can be found in the Statement of Investment Principles available from the Fund and on the Fund's website at: <http://www.yourpensionservice.org.uk>.

F. 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 County Treasurer, who is also the Treasurer 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 Treasurer to the Pension Fund

The Treasurer 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 Treasurer 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 Treasurer 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 2011 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.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
29 June 2011

Fund Account

		2010/11	2009/10
	Note	£000	£000
Contributions and Benefits			
Contributions	6	227,220	208,419
Transfers in	7	15,619	26,697
		<u>242,839</u>	<u>235,116</u>
Benefits	8	214,497	182,808
Payments to and on account of leavers	9	12,752	21,794
Administrative expenses	10	3,658	3,471
		<u>230,907</u>	<u>208,073</u>
Net additions from dealings with members		<u>11,932</u>	<u>27,043</u>
Return on investments			
Investment income	11	89,327	71,431
Change in market value of investments	13	238,831	934,980
Investment management expenses	17	(8,004)	(5,807)
Net return on investments		<u>320,154</u>	<u>1,000,604</u>
Net increase (decrease) in the fund during the year		<u>332,086</u>	<u>1,027,647</u>
Net assets of the scheme			
At 1 April		<u>3,961,585</u>	<u>2,933,938</u>
At 31 March		<u>4,293,671</u>	<u>3,961,585</u>

Statement of Net Assets

Year Ended 31 March	Note	2011 £000	2010 £000
Investment assets	13	4,282,145	3,951,836
Investment liabilities	13	(890)	(1,506)
Current assets	18	21,627	13,277
Current liabilities	19	(9,211)	(2,022)
		4,293,671	3,961,585

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 at 31 March 2011 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

**Treasurer to the Lancashire
County Pension Fund
29 June 2011**

County Councillor Sam Chapman

**Chairman of the Audit Committee
26 September 2011**

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is administered by Lancashire County Council. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2010/11 cash inflows during the year consisted of £332.166 million and cash outflows were £238.911 million, representing a net cash inflow of £93.255 million (compared with an inflow of £92.667 million in the previous year). Benefits payable amounted to £214.497 million and were partially offset by net investment income of £89.327 million (including £14.672 million accrued dividends); contributions of £227.220 million and transfers in of £15.619 million produced the positive cash inflow.

The investments of the Pension Fund are managed by eight external 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 Fund's website at:

<http://www.yourpensionservice.org.uk>

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

	Number at 31 March 2011	Number at 31 March 2010
(1) Active Scheme Members		
Scheduled Bodies	47,912	49,707
Admitted Bodies	3,781	4,021
Total	51,693	53,728
(2) Pensioners		
Pensions in Payment	37,632	35,933
Preserved Pensions	44,928	41,330
Total	82,560	77,263

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
Barnoldswick Town Council
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Town Council
Hambleton Primary Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Myerscough College
Nelson & Colne College
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd
Ribble Valley Borough Council
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Mary's College, Blackburn
University of Central Lancs
West Lancs District Council
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)
Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit
Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Connaught Environmental Ltd (Blackpool BC)
Connaught Environmental Ltd (Blackpool Coastal)
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd

Admitted Bodies (cont'd)

Hyndburn Homes Ltd
I Care
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley)
Liberata UK Ltd (Pendle)
Lytham Schools Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawstone)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd
NSL Ltd (Lancaster)
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd
Pendle Leisure Trust Ltd
Preston Care & Repair
Preston Council for Voluntary Services
Progress Care Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Rossendale Leisure Trust
Signposts MARC Ltd
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
South Ribble Community Leisure Ltd
Sungard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employers

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool & Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley & Pendle Joint Transport Committee
Burnley & Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancs Development Corporation
Clitheroe Town Council
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Developments Association
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport
Kirkham Grammar School (Boarding)
Lancashire County Enterprises Ltd
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning
Lancaster Royal Grammar School (Boarding)
Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council

Former Employers (cont'd)

Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawstorne)
Solar Facilities Management Ltd (Ripley)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other

Blackpool Transport Services Ltd
Rossendale Transport Ltd
(Membership restricted to employees "deemed" at deregulation in 1986)

2. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This is the Pension Fund's first year of adoption of IFRS. Due to previous convergence of UK GAAP with IFRS there are no material differences in the financial statements arising from the transition.

The financial statements summarise the transactions and net assets of the Pension Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial position of the Pension Fund does take account of such obligations

3. Actuarial Position

The Actuarial position of the Pension Fund is dealt with in detail elsewhere in this Annual Report.

In summary, the last actuarial valuation was undertaken by Mercer Consulting as at 31 March 2010.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £3,962 million represented 80% of the Funding Target of £4,955 million at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. 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 (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing 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	For future service liabilities
Rate of return on investments:		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £4,942 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2011

4. Accounting Policies

- General

The financial statements have been prepared on an accruals basis except for transfers to and from the Pension Fund and contributions refunded, which are treated on a cash basis. Investment Management expenses are generally linked to the value of Funds under management. There is no performance related fees payable during 2010/11.

- Valuation of Assets

Investments are shown at their fair value as at 31 March 2011. The fair value is the current bid price for quoted securities and unitised securities.

Investments denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2011.

Futures are exchange traded and fair value is determined using exchange prices at their reporting date.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date

The fund's freehold and leasehold properties were valued on 31 March 2011 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

Investments in Private Equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

- Employers' Contributions

Employers' contributions are based on rates determined, at their triennial valuation, by the Actuary of the Pension Fund. (The rates used for the year ending 31 March 2011 came into effect 1 April 2008, following the Actuary's Valuation of the Pension Fund at 31 March 2007).

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

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

The items in the Pension Fund's net asset statement at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £201.8m. There is a risk that this investment may be under or overstated in the accounts.
Hedge Fund of Funds	The Fund of Funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the Fund of Funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Hedge Fund of Funds value in the financial statements is £70m. There is a risk that this investment may be under or overstated in the accounts.

6. **Contributions receivable**

	2010/11	2009/10
	£000	£000
Employers' contributions		
County Council	70,845	64,580
Scheduled Bodies	85,610	73,591
Admitted	14,314	13,524
	<u>170,769</u>	<u>151,695</u>
Employees' contributions		
County Council	22,491	22,421
Scheduled Bodies	28,818	28,860
Admitted	5,142	5,443
	<u>56,451</u>	<u>56,724</u>
Total contributions	<u>227,220</u>	<u>208,419</u>

Within the employee contributions figure for 2010/11, £280,938 is voluntary and additional regular contributions. All employee contributions are normal contributions.

7. **Transfers in**

	2010/11	2009/10
	£000	£000
Individual transfers in from other schemes	15,619	24,900
Bulk transfers in from other schemes	0	1,797
	<u>15,619</u>	<u>26,697</u>

8. **Benefits**

	2010/11	2009/10
	£000	£000
Pensions	149,206	141,347
Lump Sum retirement benefits	60,932	36,835
Lump Sum death benefits	4,359	4,626
	<u>214,497</u>	<u>182,808</u>

9. **Payments to and on account of leavers**

	2010/11	2009/10
	£000	£000
Refunds to members leaving service	19	14
Contributions equivalent premium	(1)	(7)
Individual transfers to other schemes	12,734	21,787
	<u>12,752</u>	<u>21,794</u>

10. **Administrative expenses**

	2010/11	2009/10
	£000	£000
Administration and processing	3,314	3,117
Audit fee	94	95
Legal and other professional fees	250	259
	<u>3,658</u>	<u>3,471</u>

All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

11. **Investment income**

	2010/11	2009/10
	£000	£000
Income from fixed interest securities	23,906	21,440
Dividends from equities	29,591	27,638
Income from index linked securities	4,664	3,169
Income from pooled investment vehicles	851	313
Net rents from properties	23,357	16,980
Interest on cash deposits	1,464	2,447
Other	5,494	(556)
Total Investment Income	<u>89,327</u>	<u>71,431</u>

The above investment income is shown net of irrecoverable withholding tax, which amounted to £642,111 in 2010/11 (2009/10: £583,533). Income received in respect of Legal and General pooled funds are automatically reinvested within the relevant sector fund and are therefore excluded from the above analysis.

12. Stock Lending

EsecLending is 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 2010/11 was £178,513 (Due to economic circumstances there was no stock lending income in 2009/10).

Securities on loan at the 31st March 2011 were £96.1m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities and consist of £11.1m of equities and £85m of bonds. The related collateral totalled £100.9 million.

13. Investments

	Value at 1 April 2010 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2011 £000
Investment assets					
Fixed interest securities	448,115	406,366	(295,504)	122	559,099
Equities	1,011,699	1,090,374	(442,198)	75,195	1,735,070
Index linked securities	103,240	50,946	(15,957)	2,819	141,048
Pooled investment vehicles	1,962,203	154,919	(872,607)	151,043	1,395,558
Derivative contracts	23	4,116	(2,367)	(919)	853
Property	306,115	89,889	(9,070)	10,571	397,505
	3,831,395	1,796,610	(1,637,703)	238,831	4,229,133
Derivative contracts (forward currency positions)	1,573				1,779
Cash deposits	106,180				36,561
Other investment balances	12,688				14,672
	3,951,836				4,282,145
Investment liabilities					
Derivative contracts (forward currency positions)	1,506				890
Net investments	3,950,330				4,281,255

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2010/11 amounted to £2,316,511 (2009/10: £2,381,789).

The investment assets at 31 March 2011 are managed by eight external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Manager	2010/11 £000	%
Legal & General Investment Management	1,046,129	24
Newton Investment Management	638,819	15
J P Morgan Asset Management	500,826	12
UBS Global Asset Management	602,907	14
Knight Frank	397,505	9
Capital Dynamics	201,872	5
Gottex Fund Management	69,589	2
Mellon Transition Management	701,481	16
In-House	122,127	3
	4,281,255	100

	2010/11 £000	2009/10 £000
Fixed Interest Securities		
UK public sector quoted	179,848	193,424
UK corporate bonds quoted	352,300	239,967
Overseas public sector	0	240
Overseas corporate bonds	26,951	14,484
	559,099	448,115

	2010/11	2009/10
	£000	£000
Equities		
UK quoted	832,599	456,182
Overseas quoted	902,471	555,517
	<u>1,735,070</u>	<u>1,011,699</u>

	2010/11	2009/10
	£000	£000
Index Linked Securities		
UK quoted	141,048	103,240
	<u>141,048</u>	<u>103,240</u>

	2010/11	2009/10
	£000	£000
Pooled Investment Vehicles		
Managed/Unitised funds - UK Equities	448,871	757,116
- Overseas Equities	423,247	711,962
- Public Sector Bonds	0	94,864
- Corporate Bonds	141,833	134,664
- Index Linked	32,178	30,176
Unit trusts		
- UK Equities	22,351	16,082
- Overseas Equities	4,807	6,192
Other pooled investment vehicles - UK	5,943	0
- Overseas	44,870	0
Private Equity investments		
- UK	32,026	28,689
- Overseas	169,843	116,400
Hedge Fund of Funds	69,589	66,058
	<u>1,395,558</u>	<u>1,962,203</u>

Properties	2010/11 £000	2009/10 £000
UK – Freehold	318,925	238,750
UK – Long Leasehold	78,580	67,365
	<u>397,505</u>	<u>306,115</u>

The valuation of each property is on the basis of market value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms.

Derivatives Contracts	2010/11 £000	2009/10 £000
Futures Contracts	853	23
	<u>853</u>	<u>23</u>

Type of Future	Expiration	Economic Exposure £000	Asset £000	Liability £000
UK gilt exchange traded	3 months	(18,747)	112	
Hang Seng (HKG)	1 month	3,961	59	
MSCI Singapore Index	1 month	4,939	102	
SPI 200 Index	3 months	13,810	<u>580</u>	
Total			853	

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought	Sold	
	£'000 EQV	£'000 EQV	£'000
Investment assets			
6 months and under	41,753	43,532	<u>1,779</u>
Investment liabilities			
6 months and under	27,221	28,111	<u>890</u>

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	2010/11	2009/10
	£000	£000
Cash Deposits		
Sterling	33,514	105,970
Foreign currency	3,047	210
	<u>36,561</u>	<u>106,180</u>

	2010/11	2009/10
	£000	£000
Other investment balances		
Outstanding dividend entitlements and recoverable withholding tax	14,672	12,688
	<u>14,672</u>	<u>12,688</u>

14. Nature and extent of risks arising from Financial Instruments

Credit Risk

The Pension Fund's credit risk is managed through the Fund's Treasury Management policy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid out by the Fitch and Moody's rating services. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria are detailed below:

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
Government Bonds and Treasury Bills	AA+	1,000	50 yrs
Supranational Bonds G10 Sovereign Bonds	AA+	1,000	50 yrs
Investment Grade Corporate Bonds	AAA	250	25yrs
	AA	150	10yrs
	A	75	5yrs
General collateral reverse repurchase agreements	AA+ or better	1,000	1yr
Term Deposits with UK and Overseas Banks (domiciled in UK) and Building Societies	Purple (Highest quality, greatest certainty of support)	200	1 yr
	Orange (Highest quality, slightly less certainty of support)	100	1yr
	Red (Highest quality but lower than orange)	50	3 months
	Green (Quality, but lower than Red and lower certainty of support)	25	1 months
	Public Works Loan Board – Debt Management Office Deposit Facility	Government Institution	500
Other UK Local Authorities and Pension Funds	AAA (implied currently)	500	50yrs

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
Money Market Funds	AAA Rated, weighted average maturity 6 months	250	These investments do not have a defined maturity date.
Bond Funds	AAA Rated Weighted average maturity less than 5yrs	200	These investments do not have a defined maturity date.
Certificates of Deposit. Collateralised lending agreements backed by higher quality government or local government and supranational securities.	AA, with AAA for any collateral used	500	5yrs
Non credit rated "nationalised" banks	Blue	250	1yr

The placing of residual overnight deposits will be with either the Pension Fund's custodian bank or Lancashire County Council.

Liquidity Risk

The Pension Fund has no plans to borrow money, but under the Fund's regulatory regime, it may do so in certain limited circumstances, to:

pay benefits due under the scheme; or

meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment

The Pension Fund may only borrow money if, at the time of borrowing, the Treasurer reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of the Pension Fund within 90 days of the date of the borrowing.

If borrowing were necessary, the Treasurer, with the Treasury Management Team, would seek the most cost effective and prudent source of funds appropriate for the purpose. Borrowings would be structured in such a way as to be most suitable for the specific need.

Investment Risk

In order to achieve its statutory obligations to pay pensions, the Pension Fund invests its assets, including employer and employee contributions in a way that allows it to meet its liabilities as they fall due for payment. The Pension Fund's Statement of Investment Principles sets out the Investment Strategy and the benchmark range of asset allocations.

Any investment transaction carries a degree of risk including credit risk, market risk, interest rate risk and foreign exchange risk. The Pension Fund mitigates against these risks by diversification across asset classes, markets and sectors. The Pension Fund also ensures that all the managers invest in accordance with the Local Government Pension Scheme Regulations 1998 and its Statement of Investment Principles.

The Pension Fund also stipulates the following investment restrictions on manager contracts:-

Global Equities Manager

The managers shall not invest more than 5% of the value of the portfolio or the FT all share weighting of stock plus 2%, whichever is greater, in any one issue.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

The Manager may only enter into derivatives as a protective measure subject to the following limits:

- No more than 5% of the portfolio may be invested in gilt and equity index futures.
- Currency futures must be limited to 1/3 of overseas currency exposure by individual markets.
- The Manager must give prior notification of entry into derivative markets.
- No more than 30% of the total value of the Pension Fund portfolio shall be invested in overseas markets with subsidiary limits of 25% for overseas equities and 15% for overseas bonds.

No more than 10% of global fixed income investments, including index linked investments, may be invested in securities issued by issuers who are not government guaranteed or supranational issuers. Corporate bonds must have a minimum credit rate of Aa3/AA as measured by Moody's or Standard & Poor's.

UK Equities Manager

The managers shall not invest more than 5% of the value of the portfolio in any one issue.

Derivatives are used for efficient portfolio management only with a maximum exposure of 10% of the assets held.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

Bonds Manager

Maximum exposure to currencies other than sterling is 10% of the market value of the fund.

The manager may use derivatives for hedging and efficient portfolio management, the maximum derivative exposure, excluding hedging is 30% of the Fund.

The maximum exposure to option premium exclusive of any in-the money portion of the premium is 5% of the Fund.

Stock lending

The contract with the third party lending agent states that stock can only be lent to a list of approved borrowers.

The contract also states that the third party lending agent can only accept collateral in the form of government debt or supranational bonds from a limited range of countries and organisations, with a minimum issuer credit rating of Aaa by Moody's or AAA by Standard & Poor's.

In addition to the specific restrictions above, the managers comply with relevant regulatory framework, which requires that specific risk warnings should be given to clients to highlight the nature of such transactions.

15. Additional Voluntary Contributions (AVC's)

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). 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 2010 to 31 March 2011 for Prudential and 1 September 2009 to 31 August 2010 for Equitable Life.

	Equitable Life	Prudential	Total
	£000	£000	£000
Value at the start of the year	1,445	13,798	15,243
Income (incl. contributions, bonuses, interest, transfers in)	74	4,656	4,730
Expenditure (incl. benefits, transfers out, change in market value)	258	3,322	3,580
Value at the end of the year	1,261	15,132	16,393

16. Custody of Investments

The Pension Fund's current custodian, Bank of New York Mellon is responsible for the safekeeping of assets, collection of income due, and settlement of trades and provides an independent confirmation and valuation of assets held by the Pension Fund. The custodian contract has recently been tendered and the contract has been awarded to Northern Trust, who will take over the custody of the Pension Fund from 1 August 2011.

The Pension Fund's index tracking manager, Legal and General Investment Management, invests funds with Legal and General Assurance (Pensions Management) Ltd in a unitised policy of assurance, which is reported on by the custodian.

Lancashire County Council is the custodian of the Pension Fund's private equity and property portfolios.

Citco Fund Services Europe B.V. is the custodian of the Hedge Fund of Funds portfolio.

17. Investment management expenses

	2010/11 £000	2009/10 £000
Administration, management and custody	6,214	5,270
Performance measurement service	59	73
Other advisory fees	1,731	464
	<u>8,004</u>	<u>5,807</u>

18. Current assets

	2010/11 £000	2009/10 £000
Contributions due from: Employers	13,390	5,985
Members	2,589	2,545
Debtors: bodies external to general government	5,648	4,747
	<u>21,627</u>	<u>13,277</u>

Included within the contributions due from employers figure is £2.7 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

19. Current liabilities

	2010/11 £000	2009/10 £000
Unpaid benefits	7,739	0
Accrued expenses	1,472	2,022
	<u>9,211</u>	<u>2,022</u>

20. **Taxation**

The Pension Fund has been approved by HMRC as an exempt approved scheme and is, therefore, exempt from UK income tax and capital gains tax on the profits resulting from the sale of investments. The Pension Fund is also exempt from United States withholding tax on dividends and recovers withholding taxes on other foreign dividends where authorised by the relevant tax treaty or foreign legislation. As Lancashire County Council is the administering authority of the Pension Fund, VAT input tax is recoverable on all the Pension Fund's activities, including expenditure on investment and property expenses.

21. **Contingent Asset and Liability**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

22. **Contractual Commitments**

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2011 being £201.8m. 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. The outstanding commitments at 31 March 2011 are £152.2m.

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. They include:

- At 31 March 2011, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 50 scheduled and 148 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.
- The Pension Fund Committee comprises 13 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the District Councils, 2 Trade Union

representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2010/11. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

The Pension Fund invests cash with Lancashire County Council, the administering authority for the Pension Fund. At 31 March 2011 the balance invested with the County Council is £7,229,854. Cash invested with Lancashire County Council has generated interest of £1,336,923 during 2010/11.

24. Impairment of Icelandic Investment

At the time the Icelandic banks collapsed in October 2008, Lancashire County Pension Fund had an investment of £2.487m with Landsbanki.

At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the Pension Fund can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that the Authority will recover 94.85% of the value of the claim (CIPFA May 2011).

The Pension Fund has taken a prudent approach and has not adjusted its recovery to reflect the 94.85%, as this figure is wholly dependant on realisations made from the assets of the bank and may change. In its accounts, the Pension Fund has assumed that it will receive back 83p in the pound, without interest payable over a number of years and has left the impairment at £518,280 (the same as 31 March 2010).

25. **Statement of Investment Principles**

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at <http://www.yourpensionservice.org.uk>

G. 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 2010 which determines contribution rates effective from 1 April 2011 to 31 March 2014. The full actuarial valuation is available on the Fund's website at: <http://www.yourpensionservice.org.uk>

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 accordance with the Funding Strategy Statement, which is available from the Fund and its website. 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.

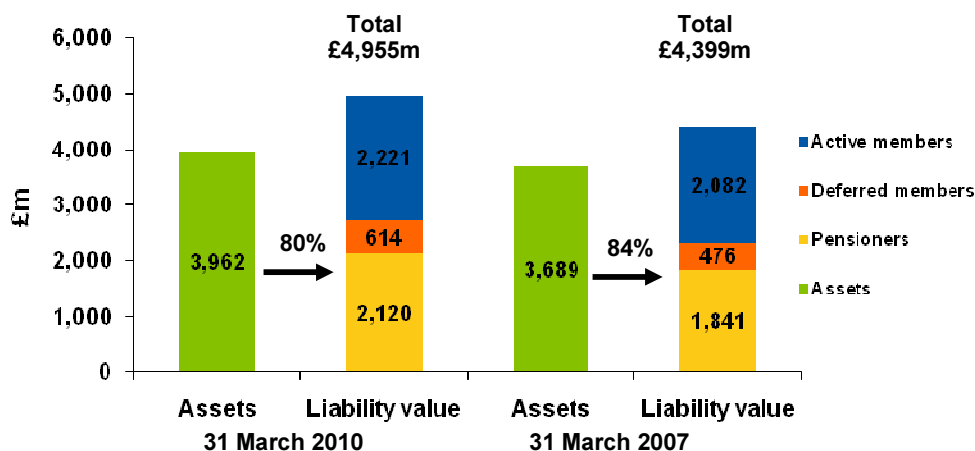
The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target date for achieving full funding is being maintained as at the 2007 valuation. The FSS also specifies any transitional arrangements ("phasing") for the implementation of revised employer contribution requirements.

The valuation (effective from 1 April 2011) revealed a funding level of 80% and an average employer's contribution rate of 19.1%. There have been a number of material developments which have impacted on the fund since the previous valuation in 2007. The introduction of an Inflation Risk Premium (IRP) into the determination of the pension increase assumption used for the valuation has offset the adverse impact of the fall in real yields since the 2007 valuation. The effect of the IRP in conjunction with the change from RPI to CPI indexation more than offsets the negative impact of the yields change. Revisions of the assumptions adopted for the 2010 valuation has overall acted to place a lower value on liabilities and has therefore improved the funding position.

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2010, detailing the breakdown of the 80% funding level is as follows:

Funding results – funding target

The market value of the Fund's assets at the valuation date is compared with the value of the Fund's past service liabilities (the funding target) below. The funding position at the previous valuation is shown for comparison.



The employer contributions for 2010/2011 are still based on the 2007 valuation and the recommended employer contributions for the period 1 April 2008 to 31 March 2011 are set out in the Schedule to the Rates and Adjustments at page 51 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 from the Fund's website at: <http://www.yourpensionservice.org.uk>

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 77

Name of Fund

Lancashire County Pension Fund

Regulation 77(3)

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 2008 should be at the rate of 13.3 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2008, as set out above, should be individually adjusted as set out in the attached Schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS Regulations for the calculation of employee contributions.

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of the Rates and Adjustments 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.

Regulation 77(7)

I have also shown on the attached Schedule for each employer the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2008 taken into account when setting the employer's contribution rate. I have assumed numbers of early retirements and average additional liabilities in respect of those early retirements will be such that, over the period of the certificate, the total additional liabilities in respect of each employer will be as set out the Schedule. Allowance for ill health retirements has been included in each employer's contribution rate. The additional liabilities anticipated have been assessed using the method and assumptions set out in this report.

Signature



Name

C R Hull

Date of signing

31 March 2008

Schedule to the Rates and Adjustments Certificate dated 30 March 2008

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Amount £
Accrington & Rossendale College	0.8	14.1	2.1	15.4	3.5	16.8	
Alzheimers Society	10.5	23.8	10.5	23.8	10.5	23.8	
Arnold Schools	(1.0)	12.3	1.0	14.3	3.0	16.3	
Barnoldswick Town Council	1.6	14.9	1.6	14.9	1.6	14.9	
Beaufort Avenue Day Care Centre	4.7	18.0	7.1	20.4	9.5	22.8	
Blackburn College	2.6	15.9	2.6	15.9	2.6	15.9	
Blackburn St Mary's College	(2.1)	11.2	(0.8)	12.5	0.5	13.8	
Blackburn with Darwen Borough Council	1.8	15.1	1.8	15.1	1.8	15.1	
Blackpool & Fylde MIND Association	2.5	15.8	2.5	15.8	2.5	15.8	
Blackpool & The Fylde College	1.6	14.9	2.8	16.1	3.9	17.2	£216,000
Blackpool Airport Ltd (from July 2004)	8.5	21.8	12.0	25.3	15.5	28.8	
Blackpool Borough Council	2.6	15.9	2.6	15.9	2.6	15.9	£677,100
Blackpool Coastal Housing	(1.0)	12.3	(1.0)	12.3	(1.0)	12.3	
Blackpool Sixth Form College	0.1	13.4	0.1	13.4	0.1	13.4	
Blackpool Transport Services Ltd	(13.3)	0.00	(13.3)	0.00	(13.3)	0.00	
Blackpool Zoo (Grant Leisure)	3.1	16.4	3.1	16.4	3.1	16.4	
Blackpool, Fylde & Wyre Society for the Blind	25.0	38.3	25.0	38.3	25.0	38.3	
Burnley Borough Council	6.7	20.0	6.7	20.0	6.7	20.0	
Burnley College	0.1	13.4	0.5	13.8	0.9	14.2	
Calico Housing Ltd	4.0	17.3	5.0	18.3	6.0	19.3	
CAPITA	5.3	18.6	7.4	20.7	9.5	22.8	
Carden Croft Ltd	3.5	16.8	3.5	16.8	3.5	16.8	
Cardinal Newman College	0.8	14.1	2.2	15.5	3.4	16.7	
Catholic Caring Services	1.2	14.5	3.6	16.9	4.0	17.3	
Catterall Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11
	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Amount £
Chorley Borough Council	3.5	16.8	4.5	17.8	5.5	18.8	
Chorley Community Housing	1.9	15.2	1.9	15.2	1.9	15.2	
Church Road Methodist Day Centre	2.7	16.0	4.2	17.5	5.6	18.9	
Commission for Education & Formation	8.5	21.8	9.7	23.0	10.9	24.2	
Community Alliance (Burnley & Padiham) Ltd	(0.8)	12.5	1.2	14.5	3.2	16.5	
Community Council of Lancashire	1.2	14.5	1.2	14.5	1.2	14.5	
Community Gateway Association Ltd	(1.6)	11.7	(0.7)	12.6	0.2	13.5	
Contour Housing Association	4.2	17.5	4.2	17.5	4.2	17.5	
CXL Ltd	(2.4)	10.9	(2.4)	10.9	(2.4)	10.9	
Danfo (UK) Ltd	2.8	16.1	2.9	16.2	3.0	16.3	
Edge Hill University College	0.2	13.5	0.2	13.5	0.2	13.5	
Elm House Management Committee	0.8	14.1	0.8	14.1	0.8	14.1	
Enterprise Managed Services Ltd	(4.2)	9.1	(2.6)	10.7	(1.0)	12.3	
Eric Wright Commercial Ltd	4.0	17.3	4.0	17.3	4.0	17.3	
Fylde Borough Council	2.9	16.2	3.9	17.2	4.9	18.2	
Fylde Coast YMCA	3.0	16.3	3.0	16.3	3.0	16.3	
Fylde Community Link	3.4	16.7	3.4	16.7	3.4	16.7	
Galloways Society for the Blind	27.3	40.6	27.3	40.6	27.3	40.6	
Glenburn Sports Centre (Bullough Contract Services)	3.4	16.7	3.4	16.7	3.4	16.7	
Housing Pendle Ltd	0.3	13.6	0.3	13.6	0.3	13.6	
Hyndburn Borough Council	7.7	21.0	10.5	23.8	11.5	24.8	
Hyndburn Homes Ltd	0.2	13.5	0.2	13.5	0.2	13.5	
Hyndburn Homewise	(0.7)	12.6	1.1	14.4	2.9	16.2	
Kirkham Grammar School	0.7	14.0	1.7	15.0	2.7	16.0	
Kirkland Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	
Lancashire & Blackpool Tourist Board	(3.2)	10.1	(0.2)	13.1	(0.2)	13.1	
Lancashire County Branch Unison	4.3	17.6	4.3	17.6	4.3	17.6	

Admitted Bodies	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11
	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Amount £
Lancashire County Council	3.1	16.4	3.8	17.1	4.5	17.8	£2,075,400
Lancashire Economic Partnership	(1.2)	12.1	(1.2)	12.1	(1.2)	12.1	
Lancashire Fire & Rescue Service	3.4	16.7	3.8	17.1	4.2	17.5	£223,600
Lancashire Police Authority	0.1	13.4	0.5	13.8	1.0	14.3	£418,500
Lancashire Probation Committee	4.3	17.6	4.3	17.6	4.3	17.6	
Lancashire Valuation Tribunal	31.9	45.2	31.9	45.2	31.9	45.2	
Lancaster & Morecambe College	0.6	13.9	1.8	15.1	3.0	16.3	
Lancaster City Council	3.8	17.1	4.8	18.1	5.8	19.1	
Lancaster University	(0.6)	12.7	0.1	13.4	0.8	14.1	
Leisure In Hyndburn	1.2	14.5	1.2	14.5	1.2	14.5	
Liberata	2.4	15.7	2.4	15.7	2.4	15.7	
Lytham Schools Foundation	0.5	13.8	0.5	13.8	0.5	13.8	
Mellor's Catering	3.2	16.5	4.2	17.5	5.1	18.4	
Myerscough College	(2.3)	11.0	(1.2)	12.1	(0.2)	13.1	
Nelson & Colne College	(0.2)	13.1	0.4	13.7	1.0	14.3	
New Directions	8.6	21.9	16.6	29.9	24.5	37.8	
New Fylde Housing	12.4	25.7	18.4	31.7	24.2	37.5	
North Western & North Wales Sea Fisheries Committee	8.7	22.0	9.6	22.9	9.6	22.9	
Ormerod Home Trust Ltd	8.9	22.2	8.9	22.2	8.9	22.2	
Our Lady Queen of Peace (Bullough Contract Services)	1.7	15.0	1.7	15.0	1.7	15.0	
Pendle Borough Council	7.3	20.6	8.3	21.6	9.3	22.6	
Pendle Leisure Trust Ltd	0.0	13.3	1.1	14.4	2.1	15.4	
Penwortham Town Council	(1.7)	11.6	(0.4)	12.9	0.9	14.2	
Pilling Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	
Preston Care & Repair	0.9	14.2	0.9	14.2	0.9	14.2	
Preston City Council	2.8	16.1	3.6	16.9	4.3	17.6	
Preston College	(0.8)	12.5	0.4	13.7	1.6	14.9	

Admitted Bodies	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11
	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Individual Adjust-ment (%)	Total Contribu-tion Rate (%)	Amount £
Preston Council for Voluntary Services	(1.7)	11.6	(1.7)	11.6	(1.7)	11.6	
Progress Housing Group	3.9	17.2	4.9	18.2	5.9	19.2	£137,000
Progress Recruitments	(2.3)	11.0	(0.3)	13.0	1.5	14.8	
Queen Elizabeth Grammar School	3.1	16.4	4.8	18.1	6.4	19.7	
Ribble Valley Borough Council	2.3	15.6	2.3	15.6	2.3	15.6	£198,000
Rossendale Borough Council	4.8	18.1	4.8	18.1	4.8	18.1	
Rossendale Leisure Trust	(1.5)	11.8	(1.5)	11.8	(1.5)	11.8	
Rossendale Transport Ltd	1.3	14.6	1.3	14.6	1.3	14.6	
Runshaw College	(0.6)	12.7	0.5	13.8	1.5	14.8	
South Ribble Borough Council	3.2	16.5	4.1	17.4	5.0	18.3	
South Ribble Community Leisure	4.3	17.6	4.3	17.6	4.3	17.6	
Sungard Vivista Ltd	3.7	17.0	3.7	17.0	3.7	17.0	
Surestart Hyndburn	(5.6)	7.7	(4.7)	8.6	(3.8)	9.5	
Twin Valley Homes Ltd	3.7	17.0	3.7	17.0	3.7	17.0	
University of Central Lancashire	(0.7)	12.6	(0.7)	12.6	(0.7)	12.6	
University of Cumbria	(1.3)	12.0	(1.0)	12.3	(0.8)	12.5	
West Lancashire Community Leisure Ltd	(2.9)	10.4	(2.9)	10.4	(2.9)	10.4	
West Lancashire District Council	4.7	18.0	4.7	18.0	4.7	18.0	
Whitworth Town Council	3.6	16.9	3.6	16.9	3.6	16.9	
Wyre Borough Council	7.4	20.7	7.4	20.7	7.4	20.7	
Wyre Housing Association	28.7	42.0	34.7	48.0	40.5	53.8	

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged %
Blackpool Council for Voluntary Services	See notes
Blackpool & Fylde Society for the Deaf	100
Burnley & Pendle Development Association	100
Burnley District Citizens Advice Service	See notes
Burton Manor Residential College	100
Ex Department of Transport	100
Ex National Health Service	100

Former Employers	Proportion of Pension Increases to be Recharged %
Ex National Water Council	100
Fylde Coast Developments Association	100
Lancashire On-Line Learning	See notes
Lancashire West Partnership	See notes
Lancashire South East Probation Committee	100
Skelmersdale College	See notes
Spastics Society	100

Notes

Members of the Fund employed by Skelmersdale College have transferred to membership of the Tyne and Wear Fund, and so a bulk transfer payment will be required. Any residual funding shortfall in the LCPF after the transfer payment should then be recovered from the College.

Any further contributions required in respect of termination assessments for the admission agreements with Blackpool CVS, Burnley CAB, Lancashire West Partnership and Lancashire On-Line Learning will be notified separately.

H. Contacts

<http://www.yourpensionservice.org.uk>

Benefits and other Administrative Issues

Pensions Helpdesk
Your Pension Service
PO Box 100
County Hall
Preston
PR1 0LD
Telephone: 01772 530530
E-mail: pensions.helpdesk@lancashire.gov.uk

Pension Benefits and Administration

Diane Lister
Head of Your Pension Service
Telephone: 01772 534827
E-mail: diane.lister@lancashire.gov.uk

General Pension Fund Investment/Accounting Queries

Telephone: 01772 534724
Fax: 01772 533948
E-mail: Fin.TreasuryManagement@lancashire.gov.uk

Pension Fund Accounts, Investments and Governance

Mike Jensen
Chief Investment Officer
Telephone: 01772 534742
E-mail: mike.jensen@lancashire.gov.uk

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Updated Governance Policy Statement

(Appendix 'A' refers)

Contact for further information:

Diane Lister, (01772) 534827, County Treasurer's Department

Diane.lister@lancashire.gov.uk

Executive Summary

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy Statement under regulation 31 of the LGPS (Administration) Regulations.

The Fund's Governance Policy Statement has been reviewed and updated following the approval of the Committee's revised constitution by the Full Council on 26 May 2011. A copy of the revised Governance Policy Statement is attached at Appendix 'A'

Recommendation

The Committee is asked to approve the updated Governance Policy Statement as presented at Appendix 'A'.

Background and Advice

The regulations regarding Governance Policy Statements require an administering authority to prepare, maintain, publish and keep under review a written statement setting out:

(a) whether it delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

(b) if it does so –

- the frequency of any committee or sub-committee meetings;
- the terms, structure and operational procedures of the delegation;
- whether such a committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and if so, whether those representatives have voting rights.

(c) the extent to which a delegation, or absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply,

the reasons for not complying.

Under its terms of reference the Committee is required to approve the Fund's Governance Policy Statement. The Statement (as shown at Appendix 'A') has been reviewed and updated to incorporate recent changes to the Fund's governance arrangements, following the approval of the committee's revised constitution by the Full Council on 26 May 2011. In addition, the opportunity has been taken to review the document fully and a number of minor 'tidying up' amendments have been made as a result. Other than the revised governance arrangements, the main change is the inclusion of the Fund's Governance Compliance Statement. The Governance Compliance Statement was previously omitted and the opportunity has now been taken to include the Statement at Appendix I of the Governance Policy Statement.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A

**LANCASHIRE COUNTY PENSION FUND
GOVERNANCE POLICY STATEMENT**

(Updated as at July 2011)

INTRODUCION

1. This is the Governance Policy Statement of Lancashire County Pension Fund, administered by Lancashire County Council, the administering authority.

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under regulation 31 of the LGPS (Administration) Regulations.

2. This statement has been prepared by the administering authority in consultation with appropriate interested persons.

PURPOSE of Governance Policy Statement

3. The regulations regarding governance policy statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

(a) whether it delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

(b) if it does so –

the frequency of any committee or sub-committee meetings;

the terms, structure and operational procedures of the delegation;

whether such a committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and if so, whether those representatives have voting rights.

(c) the extent to which a delegation, or absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

GOVERNANCE of Lancashire County Pension Fund

4. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the council's constitution. The Pension Fund Committee reports directly to Full Council. The County Treasurer is designated Treasurer to the Pension Fund.

COUNTY COUNCIL THE PENSION FUND COMMITTEE (non-executive committee)

Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:
 - a. One co-optee representing the Further and Higher Education sector in Lancashire;
 - b. One co-optee from Blackburn with Darwen Council;
 - c. One co-optee from Blackpool Council;
 - d. Two co-optees representing Trade Unions; and
 - e. Two co-optees representing the Lancashire borough and city councils.
2. The role of the Committee is to:
 - a. exercise responsibility for the administration of the Lancashire County Pension Fund ("the Fund");
 - b. establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future investment policy for the Fund;
 - c. monitor and review investment activity and the performance of the Fund; and
 - d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.
3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

Terms of Reference

1. To exercise Lancashire County Council's responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.
2. To have overall responsibility for investment policy and monitor overall performance.

3. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.
4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
6. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
7. To approve the policies and procedures for any internally managed Fund investments.
8. To establish a Pension Fund Administration Sub-Committee and agree its composition, role and terms of reference.
9. To receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
10. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:
 - a. external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
 - b. external property agents and advisors;
 - c. an external corporate governance adviser;
 - d. an external Fund custodian;
 - e. external performance measurement advisers;
 - f. the Fund Actuary; and
 - g. the Fund's AVC Provider
11. To approve an Annual Business Plan, Statement of Investment Principles, Governance Policy Statement, Treasury Management Strategy and Policy and Governance Compliance Statement.
12. To approve the Pension Fund Annual Report.
13. To approve a Funding Strategy statement to include the Fund's policy in respect of:
 - a. the Funding Target;
 - b. the collection of employee contributions;
 - c. the collection of employer contributions;

- d. the collection of additional employer contributions; and
- e. Admissions and Terminations.

14. To determine which pension related functions and responsibilities should be exercised under the Council's Scheme of Delegation to Chief Officers.

15. To approve the overall appropriate and necessary training requirements for members of the Committee.

PENSION FUND ADMINISTRATION SUB-COMMITTEE (Sub-Committee of the Pension Fund Committee)

Composition and role

1. The role of the Pension Fund Administration Sub-Committee ("the Sub-Committee") is to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
2. The Sub-Committee shall meet at least twice a year or otherwise as necessary.
3. The membership of the Sub-Committee shall be determined by the Pension Fund Committee ("the Committee"). The current membership is five County Councillors, one Trade Union representative and one representative from either the Lancashire borough and city councils or the Lancashire Unitary Authorities. All members have voting rights.

Terms of Reference

1. To ensure that the Committee's functions as Administering Authority are discharged and approve an Annual Administration Report.
2. To agree the terms of a Service Level Agreement in relation to the provision of administration services and support.
3. To submit reports and make recommendations to the Committee relating to the administration of the Lancashire County Pension Fund.
4. To respond to any Government consultations relating to the administration and benefits of the Local Government Pension Scheme.
5. To approve the following:
 - a. Pensions Administration strategy statement;
 - b. Communication Policy statement;
 - c. Internal Dispute Resolution procedure;
 - d. Death Grant procedure;
 - e. Bulk Transfer Payment policy;
 - f. Commutation policy (small pensions);
 - g. Transfer policy; and
 - h. Abatement policy.

INVESTMENT PANEL

Composition and role

1. The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities, including the following categories of investment:
 - a. fixed interest securities managed by Investment Managers;
 - b. UK equities managed by the Investment Managers;
 - c. overseas equities and bonds managed by Investment Managers;
 - d. local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
 - e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
 - f. acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
 - g. indirect pooled property investments;
 - h. designated index linked funds;
 - i. investments managed internally and not by Investment Managers; and
 - j. any other monies to be invested other than in the above categories; provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.
2. The Panel will:
 - a. review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
 - b. monitor the performance of the Fund's Investment Managers; and
 - c. report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.
3. The Panel does not exercise any delegated powers but instead will provide advice to the Treasurer to the Fund who will either exercise his/her delegated powers or make recommendations to the Pension Fund Committee taking into account the advice and views from the Panel.
4. The membership of the Panel comprises:
 - a. The Treasurer to the Fund (as Chair);
 - b. Not less than two independent advisers appointed in accordance with arrangements determined by the Pension Fund Committee;
 - c. The officer of the County Council fulfilling the role of Chief Investment Officer for the Fund; and
 - d. An officer of the County Council identified by the Treasurer to the Fund to oversee investment activities.
5. The Panel will meet at least quarterly, or otherwise as necessary.

6. The Panel may operate through sub groups to undertake particular tasks, but will formulate recommendations to the Treasurer to the Fund and or the Pensions Fund Committee through meetings of the full Panel.

Terms of Reference

1. To provide advice to the Treasurer of the Fund regarding:
 - a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
 - b. The performance management of Investment Managers;
 - c. The broad composition of the Fund's investment portfolio, management style and types of investment;
 - d. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider (" external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support;
 - e. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their terms of office and remit;
 - f. The allocation of ranges and thresholds within which the Investment Managers should operate;
 - g. Review of the Statement of Investment Principles and compliance with investment arrangements;
 - h. Recommendations on the detailed management of the investment portfolios to respond to requests from investment managers to vary certain aspects of their mandates;
 - i. The performance management of an internally managed investments; and
 - j. The securing of specialist advice within allocated budgets.

DELEGATION

Under the Scheme of Delegation to Chief Officers, Council and Committee Functions are delegated as follows: -

County Treasurer

Pensions Fund

As Treasurer of the Lancashire County Pension Fund:

1. Subject to the prior agreement of the two independent advisers on the Investment Panel to allocate monies for investment in the following categories of investment:
 - a. categories fixed interest securities managed by Investment Managers;
 - b. UK equities managed by Investment Managers;
 - c. overseas equities and bonds managed by Investment Managers;

- d. local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
 - e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
 - f. acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
 - g. indirect pooled property investments;
 - h. designated index linked funds;
 - i. investments not to be managed by Investment Managers; and
 - j. other monies to be invested other than the above categories. Provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.
2. To report to each meeting of the Pension Fund Committee:
- a. the investments authorised by the Treasurer to the Fund in accordance with paragraph 1 above since the previous meeting of the Pension Fund Committee, including the recommendations made by the Investment Panel in relation to each investment ;and
 - b. any investments that were considered by the Investment Panel but were not actioned by the Treasurer to the Fund together with the reasons for this.
3. To set the appropriate funding target for the Fund.
4. To place any monies not allocated to investments on short term deposit in accordance with the Treasury Management Strategy and Policy approved by the Pension Fund Committee.
5. In consultation with the Investment Panel, to monitor and review the performance of investments made by Investment Managers and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.
6. To be responsible for the management of the Fund's property portfolio in accordance with the policy guidelines of the Pension Fund Committee and subject to the Procurement rules and Financial Regulations of the County Council, comprising:-
- a. the negotiation and acceptance of terms for the acquisition, development and redevelopment and disposal of land and buildings;
 - b. the acquisition and disposal of incidental property vehicles;
 - c. the negotiation and acceptance of terms for the granting, renewing, reviewing, varying or assignment of leases, underleases, tenancies, licences and any other interest in Fund property;
 - d. the preparation and implementation of schemes of works of modernisation, improvement, maintenance and repair to Fund property together with the invitation and acceptance of tenders and the authorisation of expenditure on such works;

- e. the appointment and supervision of managing agents and professional advisors necessary for the effective management of the Fund's property portfolio, within budget provision;
 - f. the collection of all rents, the setting of management and collection of service charges, insurance premiums and any other monies arising out of the Fund's property portfolio, together with the approval of any in-house systems established to achieve this; and
 - g. The placing of insurance cover for the Fund's property portfolio to such value and for such risks as shall be considered appropriate.
7. To execute documentation relating to the implementation of a new investment mandate or existing investment mandates, including the renewal of property leases.
8. To maintain all necessary accounts and records in relation to the Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Administration Sub-Committee.
9. To arrange and authorise the provision of appropriate training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.
10. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
11. To prepare and submit the following to Pension Fund Administration Sub-Committee:
 - a. Pension Administration Strategy statement;
 - b. Commutation policy (small pensions);
 - c. Internal Dispute Resolution procedure;
 - d. Death Grant procedure;
 - e. Bulk Transfer Payment policy;
 - f. Transfer policy;
 - g. Abatement policy; and
 - h. Communication policy statement;

and to arrange for the implementation and review as necessary of the abovementioned statements, strategies, policies and procedures.

12. To prepare and submit the following to the Pension Fund Committee:
 - a. Pension Fund Annual Report;
 - b. Annual Business Plan;
 - c. Statement of Investment Principles;
 - d. Funding Strategy statement including the Fund's policy in respect of:

- (i) the Funding Target;
 - (ii) the collection of employee contributions;
 - (iii) the collection of employer contributions;
 - (iv) the collection of additional employer contributions;
 - (v) Admissions and Terminations;
- e. Governance Policy Statement;
 - f. Governance Compliance Statement; and
 - g. Treasury Management Strategy and Policy and to arrange for the implementation and review as necessary of the abovementioned statements, strategies, policies and procedures.
13. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme, under the terms of a Service Level Agreement.
14. The payment of death grants in accordance with the agreed Death Grant Procedures.
15. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.
16. To arrange and authorise appropriate and necessary training for members of the Committee.
17. To appoint any required external support (subject to the role of the Pension Fund Committee and the Independent Investment Panel), their terms of office and remit

CURRENT REPRESENTATION

The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Training sessions have been held for the Pension Fund Committee, usually immediately before or after Committee meetings. The sessions cover all aspects of funding, investments, Scheme management and administration and are facilitated by an appropriate Officer, Investment Manager or Fund Actuary.

Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989.

On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay representatives, with or without

voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989). Membership of the Lancashire Pension Fund Committee is set out on page 2 of this statement

DCLG is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy Statement, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by DCLG, and where an authority has chosen not to comply, to state the reasons why. The Fund's statement is set out at Appendix I.

INCLUSION

Lancashire County Council is committed to the widest inclusion of all stakeholders in respect of consultation and communication outside of the formal governance arrangements. The arrangements include;

With Employing Authorities

The ratio of contributors from the various employing authorities in the Lancashire County Pension Fund may be analysed as follows

Scheduled bodies 93%
Admitted Bodies 7%

Lancashire County Council hosts an annual Employer Forum targeted at the Chief Officers of all employing authorities. At this forum Chief Officers are briefed on current funding, fund performance and actuarial matters including the latest valuation. Any other topical pension fund matters are also raised at this forum.

In December of actuarial valuation years, a forum is held between the Fund Actuary and the Fund Employers to discuss the outcome of the actuarial valuation and the reasons for proposed contribution changes and how they will be applied.

All employing authorities are kept abreast of events, such as proposed changes in the regulations and their implications, and they are encouraged to get in touch if they have questions.

In addition to the briefings outlined above, Lancashire County Council holds an annual Practitioners Conference. The opportunity is taken at these meetings to brief attendees on the investment side of the scheme as well as practical administration issues.

Communication is covered in detail in the Fund's Communication Strategy Statement. Lancashire County Council also provide an employer training service to ensure that Fund employers, particularly payroll and HR staff are aware and conversant with their obligations as employing authorities and have a sound understanding of LGPS regulation and administration.

With Employees

Lancashire County Council provides all members of the scheme with an annual Pensions Newsletter, which includes a summary of the annual report and financial summary of the scheme. Lancashire County Council's intranet and internet web site includes the following fund documents;

- *Full annual report*
- *Statement of Investment Principles*
- *Funding Strategy Statement*

In addition various documents are available on Lancashire County Council's intranet and internet site including, the LGPS Guide, latest news updates, and other information relating to the Scheme and Fund. Lancashire County Council maintains a working relationship with the unions.

The County Council's Joint Negotiating and Consultative Forum may discuss pension issues at its meetings, and invites Pensions and/or HR representatives to discuss current issues. Trades Unions are consultees of the Government in their own right in the same way as employers and LGPS Administering Authorities.

In addition to the above the LGPS Administration Regulations 2008 includes regulation 65, which sets out the provision for Administering Authorities to prepare a written statement of 'its Pensions Administration Strategy'.

REVIEW

This document is reviewed following any material changes to the administering authority's governance policy and was last reviewed on 15 April 2011.

Lancashire County Pension Fund Governance Compliance Statement:

Principle		Compliance
A. Structure	<p>(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</p> <p>(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⁾</p> <p>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(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.</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">x</p> <p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
B. Representation	<p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. ⁽¹⁾</p> <p>These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</p> <p>(ii) scheme members (including deferred and pensioner scheme members)</p> <p>(iii) independent professional observers ⁽²⁾</p> <p>(iv) expert advisers (on an ad hoc basis)</p>	<p style="text-align: center;">x</p> <p style="text-align: center;">x</p>
C. Selection and Role of Lay Members	<p>(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.</p> <p>(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 time.)</p>	<p style="text-align: center;">✓</p>

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.	✓

Notes

(1) The reasons for partial compliance in respect of Structure are as follows. District Councils, Scheduled Bodies and Scheme are represented. Admitted bodies only represent 7% 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.

(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 essentially that currently performed by officers and it is not apparent what added value such an appointment would bring. This is the reason for partial compliance in respect of Representation.

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Internal audit annual report 2010/2011

(Appendix 'A' refers)

Contact for further information:

Rachel Tanner, 01772 534904 County Treasurer's Department

rachel.tanner@lancashire.gov.uk

Executive Summary

A copy of the internal audit annual report for the Lancashire County Pension Fund is attached at Appendix 'A'. Based on the internal audit work undertaken during the year we are able to provide substantial assurance over the internal control environment for the pension fund and pension administration.

Recommendation

The Committee is asked to consider the report.

Background and Advice

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Internal Audit Service to provide a written report to those charged with governance which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents our opinion based upon the work we have performed during 2010/11 for the Lancashire County Pension Fund.

Consultations

None

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/Directorate/Ext
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Rachel Tanner County Treasurer's Department X 34904

Reason for inclusion in Part II, if appropriate:

N/A

Appendix 'A'

Lancashire County Council: Pension Fund

Internal Audit Service

Annual report for the year ended 31 March 2011



Contents

1. Introduction
2. Assessment of internal controls
3. Internal audit work undertaken
4. Scope, responsibilities and assurance
5. Summary of findings

1 Introduction

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires the head of internal audit to provide a written report to those charged with governance, timed to support the Annual Governance Statement, which includes an opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, including the control environment. This report presents our opinion based upon the work we have performed.
- 1.2 This report covers the period 1 April 2010 to 31 March 2011.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by staff across the County Treasurer's Department in the course of our work.

2 Assessment of internal controls

Overall opinion

- 2.1 Based on the internal audit work undertaken during the year we are able to provide **substantial** assurance over the internal control environment for the pension fund and pension administration.
- 2.2 It is our opinion that there is a generally sound system of internal control which is adequately designed and controls are being consistently applied in the majority of areas reviewed, although there are some areas where control needs to be strengthened.
- 2.3 Management responses to the findings from our work have been positive and indicate that action has or will be taken where issues have been identified. Whilst recognising there are control issues which need to be addressed, our detailed findings identify good areas of effective control.

Key issues and themes arising during the period

- 2.4 Lancashire Pensions Service has been under particular pressure during 2010/11 arising from the additional work involved both in processing the abnormal level of redundancies required this year across the scheme's employers and also from the implementation of the new pensions administration system, Altair. Given this backdrop it is particularly pleasing to report that we are able to provide substantial assurance over the pensions administration procedures operated during the year which included consideration of the:

- transfer of data to the new system and the integrity of data held on the new system;
- authorisation of new members;
- retirement calculations;
- death grant calculations;
- employee and employer contributions to the scheme;
- transfers into and out of the scheme;
- payments through the pensions payroll system and;
- purchase of additional pension contributions.

- 2.5 In relation to the pension fund itself our work has encompassed three reviews consisting of the current global custodian arrangements, the property fund and third party assurance reports produced for three of the investment managers.
- 2.6 Due to the delay in tendering for the new global custodian contract we were not able to undertake the intended review of the new arrangements as indicated in our audit plan but instead we considered the adequacy and effectiveness of the transactional operations of the global custodian arrangements in 2010/11.
- 2.7 The audit work we performed allowed us to provide substantial assurance over the internal control environment. Information on investment activity was received from the global custodian and from investment managers on a regular basis, and was accurately reconciled within the Treasury Management Section. In addition, we verified that the management fees charged were correct.
- 2.8 The audit work we have undertaken for the property fund allows us to provide substantial assurance over the property portfolio. The activities and performance of the property fund investment manager is monitored on a regular basis by the Investment Panel and the Pension Fund Committee, and we were able to verify that the correct management fees had been charged.
- 2.9 We note that the fund's property management contract has not been tendered for over 25 years. Whilst performance of the property portfolio can be compared to benchmark returns and compared to other local authority property portfolio returns, there is no assurance that the charges being paid are currently competitive. We acknowledge that this position had already been identified by management and action is being taken to re-tender the contract at the earliest opportunity.

- 2.10 Our review of the third party assurance reports produced for three of the fund manager's systems enabled us to provide full assurance on the control environment in operation within these fund managers' systems.

Fraud/ special investigations

- 2.11 There were no days used in the investigation of suspected financial irregularities in relation to the pension fund.

Implications for the Annual Governance Statement

- 2.12 On the basis of our work during 2010/11, we are aware of no internal control weakness that require disclosure in the Annual Governance Statement.

3 Internal audit work undertaken

- 3.1 Work carried out during 2010/11 was in accordance with the audit plan presented and approved by Audit Committee in April 2010 and the Pension Fund Committee in July 2010. Details of the assurance provided, and key issues identified for each of the areas covered are set out in the 'Summary of our Findings and Assurance' table attached. This shows that 101 days were spent on delivering the audit plan against planned audit activity of 120 days.
- 3.2 This work has been undertaken with regular liaison with the council's external auditors to minimise any duplication in planned coverage.
- 3.3 A number of areas of work were completed on or just after the end of the financial year. Our report on pensions administration is still in draft but we feel it is appropriate to include our opinion in the summary of findings.
- 3.4 Action plans have been agreed in respect of all finalised audit reports. These set out the management responses to each of our recommendations, and indicate that positive action has been, or will be taken. Implementation of these plans will be followed up as part of our 2011/12 work.

Internal audit plan 2011/12

- 3.5 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA.
- 3.6 The plan focuses on two distinct areas which cover the governance and management of the pension fund's assets and pension administration.

The audit reviews identified under each of these areas is explained in more detail below.

Pension fund

- 3.7 We have included audit resources to review the arrangements for investing funds under the revised investment strategy which was approved in December 2010. The revised strategy requires the fund to make a wider range of individual investment decisions, rather than simply placing funds with investment managers, and will involve implementing new procedures and processes.
- 3.8 We plan to undertake an overview of the governance arrangements currently operated for the pension fund which will include consideration of the current committee structure, and the liaison and reporting lines between members and senior officers in addition to the roles and responsibilities of key individuals associated with the pension fund. We also propose to review the new arrangements which will be introduced during the coming year following the re-tendering of the global custodian services. It is intended that there will be a more direct link between the new global custodian's own systems and the council's Oracle Financials system and we plan to audit the security and integrity of data passing over this link. We also plan to review the ongoing oversight by the council over the new global custodian's activity.
- 3.9 As part of the pension fund's 2011/12 business plan it is the intention to review the current fund manager mandates, with a view to re-tendering a number of them. We will review the adequacy of the processes employed for the procurement of one of the new investment managers.
- 3.10 From April 2011 the pension fund will have its own bank account, separate from that of the county council, and we propose to review the controls introduced for this new arrangement.
- 3.11 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA. This will involve using statutory reporting from the investment managers and custodian in the first instance. These documents will be used to gain assurance over the external investment management activities where appropriate.

Pension administration

- 3.12 In the same way that we are required to consider controls over the county council's corporate financial systems, any assessment of the risks to the pension fund will require our assurance over the key controls over the administration of the fund. This year's work will be focussed on testing the key controls we documented as part of last year's review and the implementation of a new pensioner payroll system integrated within the pensions administration system.

4 Scope, responsibilities and assurance

- 4.1 Details of the scope of our work, and management's and internal audit's responsibilities regarding systems of risk management, internal control are explained in pages 9 and 10. This sets out the basis of our assessment and limitations on the assurance that we can provide.

Access to this report and responsibility to third parties

- 4.2 We have prepared this report solely for Lancashire County Council. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 4.3 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

5 Summary of findings

Overall summary and assurance provided

- 5.1 We have set out in the table on pages 7 to 8 below a brief summary of each review undertaken during this year. This sets out the planned and actual days we have spent on each review, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business. The key issues/comments encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.
- 5.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

- 5.3 **System adequacy:** We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.
- 5.4 **System effectiveness:** We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.
- 5.5 It is therefore possible that a system would, if operated as intended, provide adequate control over its inherent risks, but that lapses in controls in practice leave the system exposed to risk.
- 5.6 It is also possible that a system may be inadequate in its design, but is nonetheless operating as intended, albeit with inbuilt weaknesses that mean that the control objectives cannot be met.
- 5.7 Ideally, a system will be adequately designed to achieve its control objectives, and operated effectively in practice.
- 5.8 The table below indicates briefly with simple ticks (✓) and crosses (x) our overall assessment of each system we have reviewed during the year and the assurance you may take from its operation in supporting effective internal control.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues / Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Audit Areas						
Pensions administration – manual controls	30	30	0	✓	✓	A draft report was issued in June 2011. The system is adequately designed and effectively operated. Since our last audit Lancashire Pensions Service has transferred over to the new Altair pensions administration system. During our audit we examined the controls surrounding the transfer of data to the new system and were satisfied with the reconciliations undertaken.
				Substantial assurance		
Pensions administration – ICT controls	20	7	13	-	-	Due to the pressures experienced by Lancashire Pensions Service this review has been delayed and will be completed and reported as part of 2011/12 audit plan, when we consider the new pension payment arrangements through the Altair system.
Global custodian	25	17	8	✓	✓	The final report was issued in May 2011. Information on investment activity is received from the global custodian and from investment managers and reconciled on a regular basis. Arrangements are in place to record transactions on the general ledger, though this needs to be done by manual journals. The process would be more efficient if the global custodian system interfaced with the general ledger. It is acknowledged that the Treasury Management Section is attempting to have this interface with the new global custodian contract.
				Substantial assurance		
Property fund	15	22	(7)	✓	✓	The final report was issued in April 2011. The main area of concern relating to the absence of tendering arrangements for a significant period of time has been recognised by management and action is being taken to rectify this position at the earliest opportunity.
				Substantial assurance		

Review area	Audit days			Assurance		Key issues / Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Third party assurance reports	10	11	(1)	✓	✓	The final report was issued in April 2011. The three fund managers we reviewed were Legal and General, UBS and Newton. We noted that in all three cases, the expected key controls were in place and assurance was provided on them in the reports.
				Full assurance		
New bank account	15	0	15	-	-	The new bank account was only introduced in April 2011 and this review has been rolled forward into the 2011/12 audit plan.
Planning and management	5	6	(1)	-	-	This time relates to the production of the annual plan and report, planning/ progress meetings and general advice.
Prior year work	0	8	(8)	-	-	This relates to the finalisation of the previous year's audit reviews.
Total Days	120	101	19			

Summary of our findings and assurance

1. Scope, responsibilities and assurance

Approach

- 1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- 1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Audit Committee and the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 1.7 No limitations have been placed on the scope or extent of the work we carried out during the year by the management or staff of the County Treasurer's Department.

Limitations on the assurance that internal audit can provide

- 1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Pension Fund External Audit Fees 2011/12

(Appendix 'A' refers)

Contact for further information:

Clive Portman, 0844 798 7038, Audit Commission,

c-portman@audit-commission.gov.uk

Executive Summary

This report provides the proposed fees for the external audit of Lancashire Pension Fund for 2011/12.

Recommendation

The Committee is asked to note the Audit Commission's fee letter for the audit of the Pension Fund for the year ending 31 March 2012.

Background and Advice

Attached at Appendix 'A' is the fees letter covering the Audit Commission's planned audit work for 2011/12. The fee for 2011/12 represents a reduction against 2010/11 of £6,706 (10.8%).

The letter refers to the 'scale fee'. This is the fee determined by the Audit Commission nationally. In previous years the Audit Commission set a scale fee for each audit based on a formula linked to net assets in the case of the pension fund. Local auditors agreed a fee locally reflecting their local risk assessment of the work which would be needed but with an expectation that the locally agreed fee would fall within a pre-defined variation from the scale fee. The locally agreed fee for the pension fund has remained constant in recent years although the scale fee has not. This is because the net assets of the pension fund, and therefore the scale fee, have varied significantly whilst the auditor's assessment of the work needed has remained relatively constant.

For 2011/12, the Audit Commission has again set the scale fee for pension funds based on the net assets of the pension fund. No pre-determined variation from scale fee has been set by the Audit Commission for 2011/12 and the expectation is that locally agreed fees will be the same as scale fee unless there is a significant change in the auditor's risk assessment of the fund.

The way in which the pension fund is being managed is changing and the fee letter for the pension fund notes that the application of the new Treasury Management strategy and policy may result in the need for additional audit procedures. In particular, investments in new and more complex financial instruments could require additional audit work. The letter notes that this will be considered later in the year when more information is available and any impact on the fee will be reported to the audit committee and pension fund committee.

Consultations

The fees have been agreed with the Treasurer to the Pension Fund. The fee letter was considered and noted by the Audit Committee at its meeting on 27 June 2011.

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/Directorate/Tel
Audit Commission's statement of responsibilities of auditors and of audited bodies		Fiona Blatcher Audit Commission 0844 798 7056
Audit Commission Act 1998		
Codes of Audit Practice		
Audit Commission Work programme and scale of fees 2010/11		
Reason for inclusion in Part II, if appropriate		
N/A		

Appendix 'A'

15 April 2011

Gill Kilpatrick
Treasurer
Lancashire County Pension Fund
County Hall
PO Box 78
Preston
PR1 8XJ

Direct line 0844 798 7056

— Dear Gill

Annual Audit Fee 2011/12 - Lancashire County Pension Fund

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year on Lancashire County Pension Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee for pension funds reflects no inflationary increase in 2011/12 for audit scales of fees and is calculated based on the size of pension fund net assets.

The Commission has stated in its “Work programme and scale of fees 2011/12” publication that it will keep scale fees for pension funds under review. In this context the Commission will analyse the costs of completed 2010/11 audits to determine whether it needs to make any changes.

The scale fee for Lancashire County pension Fund is £55,089. The table below shows a comparison of audit and scale fees for 2011/12 and 2010/11.

Audit Area	2011/12	2010/11
Scale Fee	£55,089	£49,437
Planned Audit Fee	£55,089	£61,795

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich,
Bolton, BL6 6QQ

T 0844 798 7300 F 0844 798 7301 www.audit-commission.gov.uk

Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those assumed within the scale fee. The audit fee set for 2010/11 reflected the need for additional audit procedures relating to a number of specific audit risks for the Pension Fund including issues around the lack of a separate bank account and difficulties in obtaining assurance for the private equity fund investments. For 2011/12 these issues are not expected to require additional audit procedures following changes made by the Pension Fund. However, the application of the Pension Fund's new Treasury Management Strategy and Policy could result in the need for additional audit procedures. In particular investments in new and more complex financial instruments could require further audit work. At this time, it is too early to assess the impact of the proposed changes on my audit responsibilities and I have therefore set the initial audit fee at scale fee for 2011/12. On completion of my 2010/11 audit I will consider the impact of the new arrangements for the management of the pension fund and will assess the impact on the audit fee. This review will include consideration of the planned reviews to be undertaken by internal audit for 2011/12 and the extent to which they will reduce the need for me to undertake additional audit procedures.

I will issue a separate audit plan in December 2011. This will detail the risks identified to the financial statements audit. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with you. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee and pension

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Clive Portman District Auditor	c-portman@audit-commission.gov.uk 0844 798 7038	Clive is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Treasurer and Chairs of the Pension Fund and Audit Committees and issuing the auditor's report.
Fiona Blatcher Engagement Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Fiona manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.
Ian Pinches Team Leader	i-pinches@audit-commission.gov.uk 0844 798 1975	Ian has experience of auditing the financial statements of pension funds. He will lead the on-site team in delivering the audit.

Your audit team will:

- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Clive Portman
District Auditor

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Pension Fund Committee. As the pension fund accounts remain part of the financial statements of Lancashire County Council as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements	September 2012

Pension Fund Committee

Meeting to be held on 15 July 2011

Electoral Division affected: All

Pension Fund Administration Sub-Committee

(Appendix 'A' refers)

Contact for further information:

Chris Mather, 01772 533559, Office of the Chief Executive,

chris.mather@lancashire.gov.uk

Executive Summary

The Pension Fund Administration Sub-Committee met on 5 July 2011. A copy of the minutes of the meeting is attached at Appendix 'A'.

Recommendation

The Committee is asked to note the minutes of the Pension Fund Administration Sub-Committee meeting held on 5 July 2011.

Background and Advice

The Pension Fund Administration Sub-Committee met on 5 July 2011 to consider reports on the following

- The Annual Administration Report for 2010/11. A copy of the report is available for inspection on the council's website at <http://council.lancashire.gov.uk/mgConvert2PDF.aspx?ID=3394>
- Membership of the Local Government Pension Scheme by Lancashire County Council employees.

Further information including the decisions taken can be found in the minutes of the meeting which are attached at Appendix 'A'..

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no risk management implications arising from this item.

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

Paper	Date	Contact/Directorate/Tel
Agenda and Minutes of the Pension Fund Administration Sub-Committee	5 July 2011	Chris Mather/OCE/01772 533559

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Pension Fund Administration Sub-Committee

**Minutes of the Meeting held on Tuesday, 5th July, 2011 at 10.00 am in
Cabinet Room 'B' - County Hall, Preston**

Present:

County Councillor Michael Welsh (Chair)

County Councillors

M Brindle G Roper
F De Molfetta K Young

Co-opted members

B Harvey (Trade Union representative)
Councillor M Smith (Blackpool Council
representative)

1. Apologies

None.

2. Disclosure of Personal and Prejudicial Interests

County Councillor M Brindle and Mr R Harvey declared personal non-prejudicial interests in the agenda as they were members of the Local Government Pension Scheme.

3. Minutes of the Meeting held on 15 June 2010

Resolved: That the Minutes of the meeting held on 15 June 2010 be confirmed and signed by the Chair.

4. Constitution

It was reported that the County Council at its annual meeting on 26 May 2011 had approved the constitution of the Sub-Committee on the basis of 3 Conservative members, 1 Labour member, 1 Liberal Democrat member, 1 trade union co-opted member and 1 co-opted member representing the Lancashire District Councils and Unitary Authorities. The membership of the Sub-Committee and its terms of reference were reported. It was also reported that the County Council had appointed County Councillors M Welsh and G Roper as Chair and

Deputy Chair of the Sub-Committee for the remainder of the municipal year 2011/12.

Resolved:

- (i) That the appointment of County Councillors M Welsh and G Roper as chair and deputy chair of the Sub-Committee for the remainder of the 2011/12 municipal year be noted.
- (ii) That the membership and terms of reference of the Sub-Committee, as now reported, be noted.

5. Annual Administration Report

The Sub-Committee considered the 2010/11 Annual Administration Report. The Report described the performance of Lancashire Pensions Services (LPS) against the standards set out in the Service Level Agreement between LPS and the Pension Fund Committee. The Report also explained the activities and events undertaken by LPS during the year.

In particular, the Sub-Committee's attention was drawn to the following matters:

- 2010 had proved a challenging year. The main focus had been to support a number of Fund employers, in particular Lancashire County Council, through extensive voluntary redundancy programmes, to provide benefit estimates to agreed timescales as well as processing actual retirements on time
- Overall performance continued to be broadly in line with SLA targets and the Service continued to meet its key performance indicator 'to calculate and pay all retirement benefits within 10 working days'.
- The service was unable to meet its performance target to provide benefit estimates within 10 days of request. This was due to the unprecedented levels of requests following Lancashire County Council's Direct VR initiative when 3,089 estimates were processed between September 2010 and March 2011, a 32% increase in volume compared to the previous year.
- The Service aimed to ensure that resources were in place to meet current demand and that service levels would return to normal levels during 2011.
- The information contained within the Annual Administration Report related only to the Lancashire County Pension Fund. Similar reports would be prepared in respect of the Cumbria Pension Fund.
- The Service had been awarded 'Corporate Team of the Year' at Lancashire County Council's Pride Awards ceremony in July 2010. This prestigious corporate award recognised outstanding teamwork, as well as best practice and an enthusiasm for change.
- The Service changed its name to 'Your Pension Service' from February 2011 to better reflect the diversity of its clients and customers which now included Cumbria Pension Fund administration.

In welcoming the report, the Committee asked that its thanks and appreciation be extended to the Your Pension Service staff for the work undertaken during the past year.

Resolved:

- (i) That the 2010/11 Administration report, as now presented, be approved.
- (ii) That the Committee's thanks and appreciation be extended to the Your Pension Service staff for the work undertaken during 2010/11.

6. Report on Membership of LGPS

The Sub-Committee considered a report on the relatively low take up of the Local Government Pension Scheme (LGPS) by County Council employees.

An analysis of eligible employees within the County Council was carried out in May 2011. This revealed that 25% of employees eligible to join the LGPS were not in the scheme. This was consistent with a recent study undertaken by GMB which indicated that on average around one in four Council workers had opted out of the LGPS. The Sub-Committee noted that previous estimates had produced a much higher figure of around 40% of County Council employees not being members of the LGPS. This was due to the inclusion of casual employees as eligible members. However, following a regulatory change casual employees were longer eligible and these employees had therefore been removed from the figures.

An additional analysis of opt-out rates for County Council employees revealed an opt out rate of 36% of new starters during 2010/11. The profile of employees not joining/opting out, as identified in the analyses, was:

- Of 31,680 posts eligible to join the LGPS, 7,941 (25%) are not members of the Scheme;
- 83% of non members are female.
- 79% of non members work less than 30 hours per week
- 84% of non members earn less than £10 an hour
- 72% of non members take home less than £10,000 pa
- 53% of non members work in or around schools

A more detailed analysis was presented and the Sub-Committee felt that it would be helpful to have a male/female breakdown of the detailed results.

There was a general discussion on the results of the analyses and the possible options to encourage a greater take up of the LGPS by County Council employees. The current uncertainty around the future LGPS was also highlighted and members felt that given the circumstances it was not the right time to undertake a campaign to promote Scheme membership.

The Sub-Committee agreed that officers should be requested to establish focus groups to look at the LGPS and in particular the reasons for employees not taking up membership and to establish what might make the LGPS more attractive. It was felt that each focus group should be drawn from a particular category of employee i.e. those earning under or over £15,000pa or aged 30 and under. The results of the focus groups would help the Sub-Committee to give further consideration to measures that could be undertaken to increase LGPS membership. The Sub-Committee would also need to have regard to any announcements regarding changes to the future operation of the LGPS.

A concern was expressed about misleading information that surrounded the future of the LGPS which was causing some anxiety and upset. It was felt that improved communications with employees were needed to allay fears and address any misconceptions. Officers were asked to consider the options for the provision of accurate and up to date information to employees possibly through the annual benefits statement. Officers felt that the timescale might be too tight but agreed to look at ways in which communications could be improved.

Resolved:

- (i) That employee focus groups be established to explore the reasons for the relatively low take up of the Local Government Pension Scheme.
- (ii) That officers be requested to consider measures to improve communications with employees about the future operation of and changes to the Local Government Pension Scheme.

7. Urgent Business

None.

8. Date of Next Meeting

Resolved: That arrangements be made for a meeting of the Sub-Committee to take place in October 2011.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 20

(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 21

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