Lancashire County Council

Pension Fund Committee

Friday 15th September 2017 at 10.30am (preceded by a 30 minute briefing) in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 30th June 2017** To be confirmed, and signed by the Chair.	(Pages 1 - 10)
4.	**Lancashire County Pension Fund - Admission and Termination Policy**	(Pages 11 - 34)
5.	**External Audit – Lancashire County Pension Fund Audit Findings Report 2016/17**	(Pages 35 - 62)
6.	**Lancashire Local Pension Board 2016/17 Annual Report**	(Pages 63 - 70)
7.	**2016/17 Pension Fund Annual Report**	(Pages 71 - 190)
8.	**Responsible Investment**	(Pages 191 - 200)
9.	**LCPF - 2017/18 Q1 Budget Monitoring Report**	(Pages 201 - 208)
10.	**LPP Annual Report and Financial statements 2016/17**	(Pages 209 - 266)
11.	**Feedback from members of the Committee on pension related training, conferences and events.**	(Pages 267 - 270)

Lancashire County Council

12. Supply of Lancashire Pension Fund Custodian Service (Pages 271 - 276)

13. 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.

14. Date of Next Meeting

The next meeting of the Committee will be held on the 1st December 2017 at 10.30am (preceded by a 30 minute briefing) in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

15. 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)

16. Local Pensions Partnership - Quarter 1 update (Pages 277 - 296)

17. Investment Panel Report (Pages 297 - 314)

18. LCPF Performance Overview June 2017 (Pages 315 - 328)

I Young
Director of Governance, Finance and Public Services

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 30th June, 2017 at 10.00 am in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Present:

County Councillor Eddie Pope (Chair)

County Councillors

J Burrows
S Clarke
G Dowding
C Edwards
K Ellard
T Martin
J Mein
G Oliver
A Riggott
A Snowden
A Schofield

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)
Councillor David Borrow, District Leaders Group

Independent Advisors

A Devitt
E Lambert

*County Councillor G Oliver replaced County Councillor J Fillis for this meeting only.

1. Apologies

Apologies for absence were received from Ms J Eastham (FE/HE Representative) and Councillor M Smith (Blackpool Council).

2. Constitution, Membership and Terms of Reference of the Committee

The Committee noted that on the 25th May 2017 the full County Council had approved the membership of the Committee as 19, on the basis of 12 County Councillors (comprising 7 Conservatives, 4 Labour and 1 from the Independent Group) and 7 voting co-opted members.

It was reported that Councillor D Borrow and Councillor I Moran had been appointed as representatives of the District Leaders Group on the 22nd May 2017 and Ms J Eastham, Vice Principal – Finance and Corporate Services at Blackburn College had been appointed as the new representative for FE/HE institutions.

Resolved:

1. That the current Membership of the Committee, as set out below, is noted.

J Burrows	T Martin
S Clarke	J Mein
G Dowding	E Pope (Chair)
C Edwards	A Riggott
K Ellard	A Schofield (Deputy Chair)
J Fillis	A Snowden

Voting Co-opted members

Mr P Crewe - Trade Unions
Mr J Tattersall - Trade Unions
Councillor M Smith - Blackpool Council
Councillor R Whittle - Blackburn with Darwen Council
Councillor D Borrow – District Leaders
Councillor I Moran – District Leaders
Ms J Eastham – FE/HE Institutions

2. That the current Terms of Reference of the Committee, as set out in the report presented, is noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

No declarations were made in relation to items on the agenda.

4. Minutes of the Meeting held on 17th March 2017

Resolved: That the Minutes of the meeting held on the 17th March 2017 are confirmed as an accurate record and signed by the Chair.

5. Internal Audit Annual Report 2016/17 and Audit Plan 2017/18

In presenting the report Ruth Lowry, the Head of Service for Internal Audit, informed the Committee that substantial assurance could be given regarding the internal control environment, governance and risk management arrangements for the Lancashire Pension Fund for 2016/17 with a generally sound system of internal control, adequately designed to meet the objectives of the Fund and controls that were generally applied consistently.

Resolved: That the Internal Audit Service Annual Report for 2016/17 and the outline annual work plan for 2017/18, as set out in the report presented, are approved.

6. Annual Administration Report 2016/17

The Head of Fund presented a report on the administration of the Fund and informed the meeting that overall performance of 97% had been achieved against standards and targets during 2016/17. In considering the report the Committee noted that information regarding the financial performance of the Administration Service would be regularly monitored, as mentioned in the Risk Register, and would be the subject of quarterly reports for future meetings.

Resolved: That the contents of the Lancashire County Pension Fund Annual Administration Report 2017, as set out in the report presented, is noted.

7. Lancashire County Pension Fund - Annual Governance Statement 2016/17

The Head of Fund informed the meeting that the Annual Governance Statement (AGS) for the Lancashire County Pension Fund had been produced as the overall statement prepared by the County Council could not cover the activities of the Fund in sufficient detail to provide the necessary assurance. It was noted that the AGS related to a review of the governance arrangements for 2016/2017 and, if approved, would be incorporated into the statement of accounts.

Resolved: That the Annual Governance Statement for the Lancashire County Pension Fund, as set out in the report presented, is approved and be submitted to the Chair and the Head of the Fund for signature and subsequent inclusion in the statement of accounts.

8. Lancashire County Pension Fund 2016/17 Statement of Accounts and out-turn report

A report was presented regarding the review of the final out-turn position for the Lancashire County Pension Fund, including a set of draft unaudited statutory accounts for review and comment.

When considering the report the Committee discussed the proportion of investment management expenses for the Fund and recognised that those expenses were based upon a percentage of the value of the assets under management. As a result the significant growth in the value of the Fund during 2016/17 was expected to lead to an increase in management fees, though it was not considered to be unreasonable given current market conditions. With regard to transparency it was noted that the Local Pensions Partnership had already signed up to and complied with the Scheme Advisory Board Transparency Code regarding reporting.

In response to a query regarding the figure for Debtors set out at 'Current Assets' in the accounts the Head of Fund undertook to provide members of the Committee with a breakdown of the figure outside of the meeting.

Resolved:

1. That the final outturn positon and review of the 2016/17 Accounts of the Fund, as set out in the report presented, are noted and referred to the Audit & Governance Committee for approval at its meeting in July 2017.

2. That the Head of Fund be requested to provide members of the Committee with a breakdown of the figure for Debtors set out at 'Current Assets' in the accounts.

9. Progress on Delivering the Lancashire County Pension Fund Strategic Plan

The Head of Fund presented an update on the delivery of the specific objectives set out in the Lancashire County Pension Fund (LCPF) Strategic Plan.

It was reported that the creation of the Local Pension Partnership (LPP) and LPP Investments Limited had resulted in changes that had required some of the plans to be reviewed as certain objectives would be managed directly by LPP rather than the County Council. The Committee noted that as the LPP developed and the transition of assets continued a new Strategy for the LCPF would be drafted and presented to the Committee in September 2017.

Resolved:

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

2. That a draft revised Strategic Plan for the Lancashire County Pension Fund be presented to the meeting on the 15th September 2017.

10. Lancashire County Pension Fund Risk Register

The Head of Fund informed the meeting that the Risk Register presented to the Committee in December 2016 had been updated and finalised by risk owners and a copy of the final version was set out at Appendix 'A' to the report.

In considering the report the Committee noted that updates would be reported on a six monthly basis and it was requested that future reports highlight those areas where the assessment of risks had changed. It was recognised that the Pension Board had a role in monitoring the Risk Register and it was also suggested that members of the Committee have an opportunity to examine the Risk Register in detail at a future training workshop.

Resolved:

1. That the updated Risk Register, as set out in Appendix 'A' to the report presented, is noted.

2. That the Committee receive updates on a six monthly basis and that future reports highlight those areas in the Risk Register where the assessment of risk has changed.

3. That arrangements be made for members of the Committee to examine the Risk Register in detail at a future training workshop.

11. Responsible Investment

The Head of Fund updated the Committee on stewardship activities associated with the Lancashire County Pension Fund (LCPF) and reported that signatories to the UK Stewardship Code were tiered according to the quality of reporting in their statement. LCPF had been assigned Tier 1 status (the highest rating) as it had provided a good quality and transparent description of the approach to stewardship and explanations of an alternative approach where necessary.

It was also noted that the Committee had agreed in December 2016 to establish a Working Group to explore how to further support responsible investment. Following the local government election in May it was proposed to establish a Working Group comprising four members (on the basis of one representative from each political group on the Committee together with a single voting co-opted member) with Terms of Reference to be determined by the Chair.

Resolved:

1. That the report is noted.

2. That a Working Group, comprising the following members of the Committee and with Terms of Reference to be determined by the Chair be established to explore how to further support responsible investment.

   County Councillor S Clarke - Conservative
   County Councillor K Ellard - Labour
   County Councillor G Dowding - Green
   Councillor R Whittle – coopted member representing Blackburn with Darwen Council.

3. That Francis Deakin, Responsible Investment Manager for Local Pensions Partnership Investment Ltd be invited to attend the Working Group specified at 2 above.

12. Feedback from members of the Committee on pensions related training, conferences and events

Individual members of the Committee gave feedback in relation to the following Conferences which they had attended since the last meeting.

County Councillor A Schofield reported that the SPS Local Authority Investments Pooling Issues Conference in London on 23rd March had been a well organised Conference including sessions on responsible investment, real estate/residential development and pooling.

County Councillor K Ellard reported that the Workshop on the Local Pension Partnership at County Hall, Preston on the 27th March had been informative and well attended and he suggested that similar workshops in the future keep members of the Committee informed of developments.

County Councillor Pope informed the meeting that the Pensions Age Spring Conference "Aiming High" in London on 27th April had been informative and well worth attending with a variety of presentations on investments.

Mr P Crewe reported that the PLSA Local Authority Conference at the De Vere Cotswold Water Park, Gloucestershire in May 2017 had involved a range of speakers on investment and good governance from various backgrounds. Mr Crewe gave feedback on various key points which had been addressed at the Conference.

Resolved: That the report and feedback given at the meeting are noted.

13. Transaction of Urgent Business - revised Statement of Compliance with the UK Stewardship Code

A report was presented regarding a decision taken by the Director of Governance, Finance and Public Services under the urgent business procedure to approve a revised Statement of Compliance with the UK Stewardship Code for the Lancashire County Pension Fund. A copy of the approved Statement is set out in the Minute Book.

Resolved: That the report is noted.

14. Urgent Business

No items of urgent business were raised under this heading.

15. Date of Next Meeting

It was reported that at the previous meeting the Committee had agreed to hold an additional meeting in July to consider the Statement of Accounts for the LCPF. However, that meeting was no longer considered necessary as the 2016/17 Statement of Accounts and out turn report had been presented to the Committee earlier in the meeting.

In view of the above the Chair proposed that the meeting arranged for 10.30am on the 27th July in Cabinet Room 'D' – The Henry Bolingbroke Room at County Hall, Preston be cancelled and the venue used for a workshop to give members of the Committee an opportunity to examine the Risk Register in detail as discussed earlier in the meeting.

Resolved:

1. That the Committee scheduled to be held at 10.30am on the 27th July 2017 in Cabinet Room 'D' – The Henry Bolingbroke Room at County Hall, Preston be cancelled.

2. That the date, time and venue specified at 1 above be used for a workshop to enable members of the Committee to examine the Risk Register in detail, as discussed earlier in the meeting.

3. That in view of the cancellation specified at 1 above the next scheduled meeting of the Committee be held at 10.30am (preceded by a 30 minute briefing) on the 15th September 2017 in Cabinet Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

16. Exclusion of Press and Public

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

17. Investment Panel Report.

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

The Committee received a report on various matters which had been considered by the Investment Panel since its last meeting, including the disenchantment of the electorate in the US and across Europe, the current expansion of markets, activity by central banks, future interest rates and the impact of inflation on consumer spending in the UK retail sector.

Resolved: That the report of the Investment Panel is noted

18. LCPF Performance Overview March 2017

(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).

A report was presented which summarised the performance of the LCPF up to March 2017. It was noted that since the March 2016 actuarial valuation the Fund had outperformed both internal and actuarial benchmarks. Prior to the meeting the Committee had received a presentation by Mr Lambert, Independent Advisor, regarding performance of the Fund.

It was noted that an update in relation to the LCPF Investment Strategy would be presented in September with the finalised Strategy being submitted to the Committee in November for approval.

Resolved: That the contents of report and the earlier presentation on the performance of the Fund are noted.

19. Local Pension Partnership business plan and 3 year budget.

(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 Head of Fund presented the report on the 2016/17 financial position of the Local Pension Partnership (LPP) and the 3 year budget until 2019/20 together with an updated strategic business plan for LPP.

It was suggested that the Director of Finance from LPP be invited to attend a future workshop on the budget.

Resolved:

1. That the updated strategic business plan and 3 year budget for the Local Pensions Partnership, as set out in the report presented, is approved.

2. That the Director of Finance from LPP be invited to attend a future workshop on the budget.

20. Local Pensions Partnership quarter 4 update

(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 Director of Strategic Programmes and Group Company Secretary and the Managing Director and Chief Investment Officer from the Local Pensions Partnership (LPP) presented a report on the investment and administration functions operating within LPP.

Resolved: That the report and verbal updates given at the meeting are noted.

21. Supply of Pension Fund Actuarial Services

(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 Head of Fund informed the meeting that as the current contract for actuarial services was due to expire on the 30th September 2017 it was proposed to procure services on the basis of the timelines and award criteria set out in the report.

Resolved: That the County Council's Procurement Service undertake a procurement exercise via the National LGPS Framework to appoint an independent provider, to undertake actuarial services for the next 6 years, on the basis set out in the report presented.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
(All Divisions);

Lancashire County Pension Fund - Admission and Termination Policy
(Appendix A refers)

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

Executive Summary

The termination policy for the fund has been in existence largely in its current form since 2009. Whilst it has been amended to allow for procedural and regulatory changes there hasn't been a fundamental review. The main area that requires a review is the actuarial assumptions which are used to assess the value of the liabilities at the point the employer exits the fund. In discussions with our actuaries it was felt that current methodology did not provide enough protection for the remaining employers from the downside risks and the policy in Appendix 'A' has been updated to provide further protection.

Recommendations

1. That the changes to the admission and termination policy, as set out in Appendix 'A' to this report, are approved for consultation with the employers in the Fund.

2. That a further report on the outcome of the consultation specified in 1 above is presented to the Committee on the 23rd March 2018

Background and Advice

When an employer leaves the Fund, an assessment needs to be made of the assets and liabilities attributable to it under the Fund. If there is any deficit of assets against liabilities then this needs to be met by the employer. This assessment and payment of any deficit is both a requirement of the LGPS Regulations and sensible financial practice, as otherwise the deficit attributable to the leaving employer would need to be picked up by other employers within the Fund.

Given that employers leaving the Fund can be a regular event, a standardised policy for determining the amount of any deficit would be beneficial even though the existence of such a policy is not a formal requirement of the LGPS Regulations.

Lancashire County Council

Having a policy:

- Provides clarity to all stakeholders.
- Provides a consistent approach, and which is therefore less open to challenge by the leaving employer and their advisers.
- Enables the termination process to be carried out efficiently.

The termination policy has been in existence largely in its current form since 2009. Whilst it has been amended from time to time to allow for procedural and regulatory changes, it was felt due for a more fundamental review.

This is because:

- It is an area where the policy of LGPS Funds generally can move over time.
- General policies have moved on since 2009.
- The current policy is heavily linked to the funding approach used for the actuarial valuation, and that approach has been modified at part of the 2016 actuarial valuation.

The main area for review is the actuarial assumptions which are used to assess the value of the liabilities at the point the employer exits the Fund. These assumptions involve a substantial degree of estimation, because those liabilities are the future benefit payments in relation to the employer's members and former members, and these benefit payments will extend for decades into the future. The key assumption (and therefore the main focus of the review) is the investment return which is assumed to be earned on the investments which back those liabilities over the long-term future. This assumed investment return is normally referred to as the "discount rate".

When setting the discount rate there are a number of options which could be used:

- A "best estimate" of the future investment return on the Scheme's assets.
- Using an approach consistent with that used for the latest actuarial valuation.
- Base it on the yields on long-term gilts at the date of exit.
- Use a "cash flow matching" approach, using the estimated yield on a subset of the scheme's investments which are expected to be broadly in line with the profile of the liabilities.
- Base it on the yields available on corporate bonds at the date of exit.

In considering which option is the most appropriate, it needs to be borne in mind that the termination assessment is a one-off calculation, so to the extent that future investment returns are different from those assumed in the termination assessment this difference falls as a benefit or cost to the other employers in the Fund.

In discussions with the actuaries it was felt that allowance needs to be made for the downside risks in order to protect the remaining employers, so the first two options were eliminated.

Whilst gilt yields are used by a number of Funds as the basis for the assessment, it was recognised that the Fund invests very little in gilts, so such an approach would not match with the Fund's investments. In addition, particularly in current market conditions it tends to produce a very high deficit at the point of exit. Whilst this might seem attractive from the perspective of seeking to reclaim a higher amount of money from the exiting employer, and so protect the remaining Fund employers, it was felt that it would serve to discourage employers from exiting the Fund even in circumstances where it would be in both the employer's and the Fund's interests for exit to take place.

The cash flow matching approach was felt to be the most attractive from a theoretical point of view. However, it suffered from the disadvantage of being more subjective (requiring regular reassessment rather than being based on publically available information), and would therefore make the exit process more cumbersome and less transparent.

At the present time, using yields available on corporate bonds is similar in nature to the cash flow matching approach, and has the advantage of being based on publically available information. It is also an approach used in calculating pension liabilities to be used in employers' accounts and so it is a generally recognised approach. It is used by a number of other LGPS Funds. For these reasons, this is the approach being recommended to the Committee.

In addition a minor amendment is made to the charging structure currently in place for new admission agreements and academies joining the Lancashire County Pension Fund. The standard charges are unchanged however additional interest charges are introduced where initial pension contributions are paid to the fund late. These interest charges are in line with those allowed for under regulation 71 of the LGPS Regulations 2013/2356. This replaces the former doubling of the standard charge for late admissions and more accurately reflects a "late" payment charge, which takes account of the size and delay of a late payment.

It is intended to have a 3 month consultation period with employers on the new policy, and also to give them some lead-in time in case they wish to exit as a result of the change in policy. It is therefore proposed that the new policy will apply to exits with an effective date of 1st April 2018 or later.

Consultations

Mercer

Implications:

This item has the following implications, as indicated:

Risk management

It is good practice to review the policy to ensure it is up to date and that employers in the fund are protected from the downside risk of an employer exiting.

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

Paper	Date	Contact/Tel
N/A		

DRAFT

APPENDIX A

ADMISSION AND TERMINATION POLICY

LANCASHIRE COUNTY PENSION FUND

SEPTEMBER 2017

Lancashire County Council

A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an employer's participation in the LCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

POLICY OBJECTIVES

RISK MITIGATION

The Fund, in managing the admissions and exit process, aims to mitigate risk as far as possible, within its risk management framework. The admissions and exit process reflects this framework.

EFFICIENT PROCESSES

The Fund, in managing the admissions and exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

COSTS OF MANAGING ADMISSIONS AND TERMINATIONS

The Fund will pass on relevant actuarial costs to new employers but at the same time operate a model which seeks to minimise these costs. The Fund will also recover its own costs from employers and apply a charging framework which encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.

It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.

LCPF 'DEFAULT' POSITION

This policy has been subject to consultation with employers in 2015: where the term 'default position' is used within this policy it is assumed that any existing or aspirant employer has made itself aware of, and accepts, existing policy and practice, unless specifically stating otherwise. In practical terms this means where there is a requirement (on the Fund) to consult with employers around aspects of the admissions/entry process, the Fund will assume employers accept its default position unless the employer expressly states otherwise. Should an employer wish to deviate from the Fund's default position then the Fund's charging framework will reflect the additional cost of doing so.

The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members who transfer to another employer, as a result of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement, to retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.

Please see the glossary for an explanation of the terms used throughout this document.

B - ENTRY TO THE FUND

1. BACKGROUND

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme (LGPS) (the "Regulations"). Unlike other employers, such as county councils, district councils, academies and further and higher education corporations, who are named within the Regulations as bodies having an automatic right to participation in the LGPS, admission bodies do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the LGPS.

The Council as administering authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status MUST be submitted to the Council, as administering authority, in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should be submitted at least three months before the proposed transfer or admission date.

Regulation reference: Regulation 3 (5), 4 (2) (b) and Schedule 2 part 3 paragraph1 and 12 (a) of the Local Government Pension Scheme Regulations 2013/2356

The regulations above detail the criteria under which an admission body may enter into an admission agreement with the Lancashire County Pension Fund. Those criteria are set out below specifically under the terms of Schedule 2 Part 3 paragraph 1 and Regulation 4 (2) (b):

Schedule 2 Part 3 paragraph 1

a) *a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);*
b) *a body, to the funds of which a Scheme employer contributes;*
c) *a body representative of*
    i. *any Scheme employers, or*
    ii. *(ii) local authorities or officers of local authorities;*
d) *a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
    i. *the transfer of the service or assets by means of a contract or other arrangement,*
    ii. *a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),*
    iii. *directions made under section 497A of the Education Act 1996;*
e) *a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme*

Regulation 4 (2) (b)

Where a person's entitlement to be a member of an NHS Scheme is by reason of employment by—

i. *a Care Trust designated under section 77 of the National Health Service Act 2006,*
ii. *an NHS Scheme employing authority as a result of a prescribed arrangement under section 75 of that Act, or section 33 of the National Health Service (Wales) Act 2006, or*

iii. the Care Quality Commission as a result of a transfer of employment from the Commission for Social Care Inspection, in connection with its dissolution under Part 1 of the Health and Social Care Act 2008;

Then that person can be designated as eligible for membership of the Scheme in an admission agreement made between an administering authority and one of the bodies specified in (i) to (iii) above if the person was an active member immediately before becoming employed by one of those bodies; and the person is not an active member of an NHS Scheme in relation to that employment.

2. POLICY STATEMENT

a) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 para 1 (d) (i) (formerly known as Transferee Admission Bodies)

Admissions under this criterion relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement. The Fund's policy is to accept these admissions but may not do so if there are unaddressed concerns around the prior compliance, with the Fund's Pensions Administration Strategy Statement (PASS), of an existing admitted employer. The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers proactively to ensure they understand and meet PASS commitments.

Unless exceptional circumstances are identified the Fund's default position will be for the admitted body to commence from a 100% funded position and be closed to those eligible employees identified at the point of transfer.

In addition where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities. The Fund reserves the right to insist on security even if the transferring employer does not agree.

b) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Regulation 4 (2) (b)

An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.

c) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 para 1 (a) (formerly known as Community Admission Bodies) and the remaining criteria under schedule 2 Part 3 excluding a) above

The Fund will expect an existing scheme employer to act as guarantor in respect of an admission (normally the Fund will require this to be a scheduled body of suitable standing). Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Head of the Lancashire County Pension Fund.

Where an admission is agreed, following a risk analysis agreed by the administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund.

In all cases an admission body must accept and agree to meet the conditions of participation detailed at Appendix 1 and the clauses set out within Lancashire County Pension Fund's standard draft admission agreement.

The Fund's default position is that it will not amend its standard Admission Agreement template; should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £35 per hour

FUTURE SERVICE CONTRIBUTION RATES AND DEFICITS

In line with the philosophy of minimising costs for all involved, the Fund will use models (where possible) provided by the Fund actuary which will set interim future service contribution rates (FSR) and deficits according to the principles set out below.

Models are used in respect of new academies, Parish or Town Councils and the admission of an employer in respect of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement.

Where the parameters fall outside those specified within the models below, admissions will normally involve a full actuarial assessment of relevant parameters. Any risk issues will be addressed by the Fund with a view to minimising risk exposure to itself.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However the administering authority reserves the right to determine that an employer specific deficit recovery period will apply.

1 - ACADEMIES

The new Academy will generally be an ex-Local Education Authority (LEA) school from one of the Fund's three employers with LEA status. Where this is the case:

- The FSR will be set at the previous employer's existing FSR rate, which will apply until the next valuation;

- The opening deficit will be calculated using an actuarial model which allocates a share of the LEA's deficit at the most recent valuation of the Fund.

At the next valuation a 'stand-alone' FSR and deficit will be calculated by the Fund's actuary. The Fund's general deficit recovery policy will be used to determine deficit payments, unless its risk management framework determines that a different period be applied, either at the academy creation stage or at subsequent triennial valuations

Where a new academy joins the Fund as an independent free school or via its status as part of a multi-academy Trust which is already a Fund employer, and where the pre-Academy status school was not the responsibility of either Lancashire County Council, Blackburn with Darwen Borough Council or Blackpool Borough Council, no opening deficit will typically be assigned. The FSR applied will initially match the LEA area in which multi academy trust or stand-alone free school is based. Any deficit arising at the next triennial valuation will be assigned to the new academy accordingly.

Academies which were previously schools under an LEA outside of the three existing LCPF LEA employers will only be able to join LCPF if they join a MAT which is already a Fund employer. If an academy leaves one MAT and joins another which is not a LCPF employer, any deficit will be allocated to the previous MAT.

Given that there are a growing number of academy chains (or multi academy trusts), which operate as single employers with common policies in regard to issues such as ill health and early retirement and common sets of employer discretions, the Fund will offer the option of pooling to academy chains as part of subsequent valuation exercises.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

2 – PARISH OR TOWN COUNCILS

Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved. The factors cover future service only, and so assume that the employer is fully funded on admission. If this is not the case then cases are referred to the Fund's actuary for assessment.

Similarly cases will also be referred to the scheme actuary if any member has an earlier period of LGPS service which they wish to link to service with the Parish or Town Council or, additionally, where exceptional circumstances are identified.

The temporary FSR will apply until the next valuation, at which stage a 'stand-alone' FSR for the Parish or Town Council will be calculated by the Fund's actuary.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

3 –PROSPECTIVE ADMISSION BODIES FALLING UNDER SCHEDULE 2 PART 3 PARA 1 (D) (I) (FORMERLY KNOWN AS TRANSFEREE ADMISSION BODIES)

Admission agreements for bodies relating to organisations that have taken on work on behalf of a scheme employer by means of a contract, will have an opening FSR matching the transferring employer's FSR, where the criteria set out below are met:

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under these circumstances the FSR used throughout the lifetime of the contract will match that of the original transferring employer (including any changes following triennial valuations).

Under this approach the original transferring employer assumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

Where the above criteria are not met, then, at the point of admission, the FSR will be set by the Fund actuary, and reassessed at each following valuation. At the end of the contract any identified deficit will be recovered from the out-going admission body. If this cannot be recovered from the admission body, or a surplus position exists, then this will be absorbed by the original transferring employer. This principle also applies where a contract is re-let to either an incumbent or new contractor.

Transferring employers will be able to propose the use of other models, any security arrangements or termination deficit calculations. However the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach additional costs will be incurred.

C - EXITING THE FUND

BACKGROUND

Lancashire County Pension Fund must obtain an actuarial assessment showing the exit payment due when a body ceases to be a scheme employer or no longer has any active members. That body is liable for the exit payment. This applies equally to all scheme employers participating in the fund, regardless of whether an admission agreement is in place. The purpose of the exit payment is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit.

In the event that these liabilities cannot be recovered from the exiting employer then these liabilities will normally fall to be met by the Fund as a whole (i.e. all scheme employers) unless there is a guarantor or successor body within the Fund.

Regulation reference: Regulation 64 of the Local Government Pension Scheme Regulations 2013/2356;

POLICY STATEMENT

A termination assessment will always be carried out for bodies who cease to be a scheme employer within Lancashire County Pension Fund, the actuarial cost of which will be charged to the outgoing scheme employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer as detailed in part B of this policy statement.

Treatment of assets and liabilities at termination will be as follows:

- Where a guarantor is in place, all assets, liabilities and any funding deficit (not recovered from the outgoing body) will be subsumed by that guarantor being that they will also be a scheme employer within the Fund.

- If there are surpluses at termination then these will be subsumed by the Fund, unless the admission body exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract, in which case on termination, any 'orphan' liabilities and the related assets in the Fund will be subsumed by the relevant scheme employer.

- If there are potential liabilities that cannot be recovered from the outgoing employer and a bond or other form of security is in place, then the amount of those liabilities will be recovered from the bond/security.

- In the case of older admissions in place prior to 20/11/2009, where there is no guarantor, bond or other security in place and where the existing admission agreement has not been subsequently amended to include a guarantor, bond or other security, then following the termination assessment any outstanding liabilities will be recovered from the outgoing body. Where this is not possible then this liability will be subsumed by the Fund as a whole. Any surplus identified will likewise be subsumed by the Fund.

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the administering authority, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.

FUNDING ASSUMPTIONS FOR TERMINATION CALCULATIONS

The LCPF policy is that a termination assessment will be made based on a corporate bond funding basis, **unless** the terminating employer has a guarantor within the Fund or a successor body exists to take over their liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the terminating employer's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the terminating employer if a shortfall emerges in the future (after termination).

If, instead, the terminating employer has a guarantor within the Fund or a successor body exists to take over their liabilities, the LCPF policy is that the valuation funding basis will be used for the termination assessment. The guarantor or successor body (or the Fund in respect of older admission arrangements) will then, following any termination payment made, subsume the assets and liabilities of the terminating employer within the Fund. This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

The corporate bond financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

31 March 2016	Valuation funding assumptions	Corporate bond assumptions
Discount Rate	4.4% p.a.	3.6% p.a.
CPI price inflation	2.2% p.a.	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption for the corporate bond approach. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

Therefore the corporate bond approach for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.5% p.a. used in the 2016 valuation for ongoing funding and contribution purposes.

Notwithstanding the above, at the discretion of the Head of Fund a "minimum risk" approach may be used for the calculation of the termination assessment. Under such an approach the discount rate would be linked to long-term gilt yields rather than corporate bond yields. If this were to be applied then the employer would be notified when termination was being discussed.

NOTIFICATION OF TERMINATION

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

TERMINATION PAYMENTS

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination.

D - CHARGING STRUCTURE

'TARIFF' CHARGES – RECOVERY OF LCPF ADMINISTRATION COSTS

- Admission agreement - £1,000
- New Academy – £350

'NON-TARIFF' CHARGES – RECOVERY OF LCPF COSTS

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where pensions contributions due to the LCPF are paid 'late' then additional interest charges will be made against those contributions. 'Late' within this context means where the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which a new employer is deemed to have commenced in the LCPF.

The interest charges applicable will be in line with the requirements set out in regulation 71 of the LGPS Regulations 2013/2356. Under this arrangement any interest payable will be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

RECOVERY OF OTHER COSTS

Actuarial, Legal and any other costs incurred by LCPF in direct relation to an admission will be recovered from the new employer.

E - RISK MANAGEMENT

When an employer is admitted to the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with LCPF, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations– for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk, and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an aspirant admitted body joins the Fund under the exceptional circumstances route (as specified in section B2 above) the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

GLOSSARY

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

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

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

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

Corporate bond basis:
An approach where the discount rate used to assess the liabilities is determined based on the yields of AA-rated corporate bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted for employer accounting purposes, and also is usually adopted when an employer is exiting the Fund.

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

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

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

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

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

Scheme employers:
Any organisation that participates in the LGPS, including admission bodies.

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

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

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

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

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

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

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

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may sometimes be adopted when an employer is exiting the Fund.

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

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

Scheduled bodies:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. Scheduled bodies include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

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

Appendix 1

Conditions of Participation

1. **PAYMENTS**

1.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.

1.2 The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3 The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.

1.4 Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by the Administering Authority and notified to the Admission Body. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.5 Where the Admission Body certifies that:

1.5.1 an eligible employee aged 55 or more, is retiring by reason of redundancy or in the interests of efficiency; or

1.5.2 an eligible employee is voluntarily retiring on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions; or

1.5.3 an eligible employee who is a deferred member of the Scheme requests that their benefits are brought into payment early on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions;

and immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits as certified by an actuary appointed by the Administering Authority. Such sum to be paid (unless other terms are agreed between the Administering Authority and the Admission Body) within thirty (30) calendar days of receipt by the Admission Body of the written notification.

1.6 The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.

1.7 If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY'S UNDERTAKINGS

The Admission Body undertakes:

2.1 to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.2 To comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734);

2.3 To adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;

2.4 To formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

2.5 To notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.6 To notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;

2.7 To immediately notify the Administering Authority (and the Scheme employer where appropriate) in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.

2.8 Where the admission agreement exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract then employees are only eligible for continued participation of the LGPS where they are "employed in connection with" the contract. "Employed in connection with" shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an

Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.

3. **ACTUARIAL VALUATIONS**

3.1 The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2 Upon termination of this Agreement the Administering Authority must obtain:

3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former eligible employees as at the date of termination; and

3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

the costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

4. **TERMINATION**

4.1 An Admission Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate the Agreement to the other party or parties to the Agreement.

4.2 The Agreement shall terminate automatically on the earlier of:

4.2.1 the date of the expiry or earlier termination of the Contract ; or

4.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations.

4.3 The Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

4.3.1 the insolvency winding up or liquidation of the Admission Body;

4.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;

4.3.3 the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;

4.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
None;

External Audit – Lancashire County Pension Fund Audit Findings Report 2016/17
(Appendix A refers)

Contact for further information: Karen Murray, 0161 234 6364, Director, Grant Thornton karen.l.murray@uk.gt.com

Executive Summary

The Audit Findings Report at Appendix 'A', sets out the findings of the external auditor following their audit of the Pension Fund Accounts for 2016/17. This report was presented to the Council's Audit and Governance Committee on 31 July 2017. The external auditor provided an unqualified audit opinion on the pension fund accounts following the meeting on 10 August 2017.

Recommendation

The Committee is asked to note the External Audit report following their audit of the Lancashire County Pension Fund Accounts for 2016/17.

Background and Advice

Attached at Appendix 'A' is the external auditor's Audit Findings Report following their audit of the accounts for Lancashire County Pension Fund for 2016/17. This includes reporting the outcome of their work against the main audit risks highlighted in the Audit Plan as presented to the Pension Fund Committee on the 17 March 2017.

The Audit Findings Report is as presented to the Audit and Governance Committee on 31 July, 2017 and Committee should note that the outstanding items highlighted in red have now been finalised and the final unqualified audit opinion has been issued.

Representatives of Grant Thornton will be in attendance to present the report and address any questions from the Committee.

Lancashire County Council

Consultations

The report has been agreed with the Head of Fund, Lancashire County Pension Fund and the County Council's Section 151 Officer.

Implications:

This item has the following implications, as indicated:

Risk management

No significant additional risks have been identified.

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

Paper	Date	Contact/Tel
N/A		

The Audit Findings for Lancashire County Pension Fund

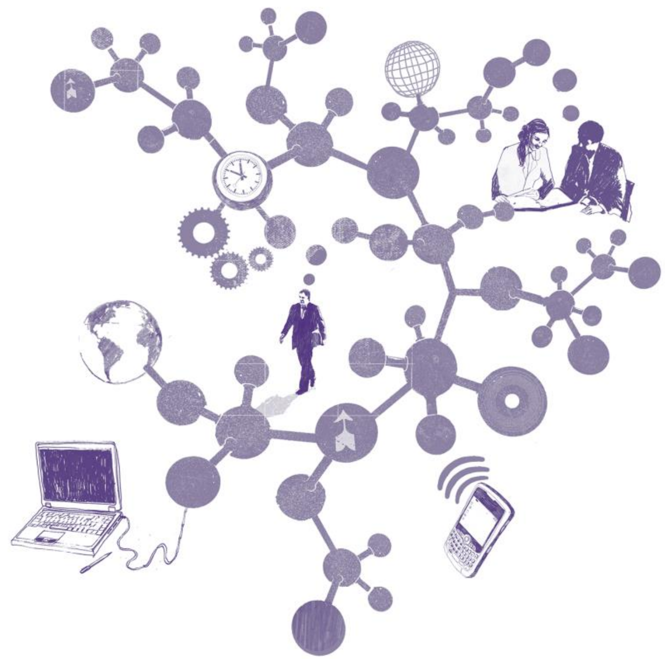
Year ended 31 March 2017

31 July 2017

Karen Murray
Director / Engagement Lead
T 0161 234 6364
E karen.l.murray@uk.gt.com

Marianne Dixon
Engagement Manager
T 0113 200 2699
E marianne.dixon@uk.gt.com

Ian Pinches
Assistant Manager In charge
T 0161 234 6359
E ian.m.pinches@uk.gt.com



Grant Thornton

Private and Confidential

Audit and Governance Committee
Lancashire County Council
County Hall
Preston
Lancashire
PR1 8RE

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

0161 953 600
www.grant-thornton.co.uk

July 2017

Dear Members

Audit Findings for the Lancashire County Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the Lancashire County Pension Fund, the Audit and Governance Committee of Lancashire County Council), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray

Engagement lead

Contents

Page 39

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Lancashire County Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our final sample testing of journal entries
- review of the final version of the financial statements
- review of the final version of the annual report
- completion of our internal review procedures
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 25 May 2017 and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). Both the draft financial statements and the audited financial statements for the year ended 31 March 2017 recorded net assets of £7,209.3 million

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgably to audit requests and queries. We have recommended a very small number of adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the Head of Fund and Director of Financial Resources.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £60,362k (being 1% of net assets from the prior year audited statements). We have considered whether this level remained appropriate during the course of the audit and, recognising the increase in net assets, we revised our overall materiality to £72,093k (being 1% of net assets reported in the draft financial statements at 31 March 2017).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £3,604k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures	£20,000 however individual misstatements will be evaluated with reference to how material they are to the other party
Disclosure of senior manager salaries and allowances	Due to the public interest in these disclosures and the statutory requirement for them to be made	£5k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Pension Fund, we have determined the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Pension Fund's administering authority (Lancashire County Council), mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	In accordance with our audit plan we: • reviewed entity-level controls – including journal environment • reviewed journal entry processes and controls • reviewed accounting estimates, judgements and decisions made by management Work being finalised: • review of all journals posted and identification of any unusual significant transactions. • testing any identified unusual journal entries to supporting documentation	Our audit work has not identified any evidence of management over-ride of controls. Our sample testing of journal controls and testing of journal entries is still ongoing and we will update the Audit and Governance committee with the results of this work. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Page 45

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Level 3 Investments (Valuation is incorrect) Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	In response to the risk we have: • updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel form the Pension Fund • tested a sample of individual investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period • reviewed the qualifications of fund managers and custodian as experts able to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached • reviewed the competence, expertise and objectivity of any management experts used.	Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.

Page 46

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances • for direct property income, rationalised income for a sample of properties against expected rental income.	Our audit work has not identified any significant issues in relation to the risk identified
Investment purchases and sales	Investment activity not valid. Investment valuation not correct	We have undertaken the following work in relation to this risk: • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances • tested a sample of purchases and sales to ensure they are recognised appropriately.	Our audit work has not identified any significant issues in relation to the risk identified
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances • tested a sample of those investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation • for direct property investments, agreed values in total to the valuer's report and taken steps to ensure it is appropriate for us to place reliance on the valuer as an expert .	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct. (Occurrence)	We have undertaken the following work in relation to this risk: • carried out procedures and walkthrough testing to understand the pension fund's arrangements for gaining assurance over recorded contributions • tested the controls over occurrence, completeness and accuracy of contributions • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • performed controls testing over completeness, accuracy and occurrence of benefit payments • tested a sample of pension payments, lump sums, and refunds • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the accuracy of member data • performed controls testing over annual/monthly reconciliations and verifications with individual members • tested a sample of changes to member data made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Page 48

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The financial statements include policies for recognition of the following: • 3.1.1 Contribution income – recognised on an accruals basis, receipts in advance are accounted for as income • 3.1.2 Transfers to and from other schemes – recognised on a cash basis with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement. • 3.1.3 Investment income: - interest income – recognised on accruals basis - dividend income – recognised when shares are quoted - distribution from pooled funds – recognised at date of issue • 3.1.4 Property related income – rental income recognised on straight line basis over period of lease • 3.1.5 Movement in net market value of investments – recognise realised and unrealised profits over financial year.	Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities. Our testing has confirmed these policies have been correctly and consistently applied.	● Green
Judgements and estimates	Key estimates and judgements include: • Pension Fund Liability – present value of future retirement benefits • Valuation of investments - unquoted private equity and infrastructure investments.	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure ● Accounting policy appropriate and disclosures sufficient

Page 49

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with officers and members and have not been made aware of any incidents in the period. • No other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. • We have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund, which is included in the papers for the Audit and Governance Committee.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). • All of these requests have been returned with positive confirmation.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. • We have not identified any issues we wish to report.

Page 50

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 9 to 12 within this report.

The controls were found to be operating effectively and we have no matters to report..

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure changes & additional information	-	Note 14 Note 17 Note 18	A number of presentational and disclosure changes have been made as a response to issues identified during the course of the audit and to provide further clarity. However, these have had no impact on the financial position of the Fund as reported on the face of the Net Assets Statement.

Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no audit related or non-audit services provided

Fees

	Proposed fee £	Final fee £
Pension fund audit	34,169	34,169
IAS 19 fee variation	1,737	*1,737
Total audit fees (excluding VAT)	**35,906**	**35,906**

The Pension Fund audit fee for the year is in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

*The IAS 19 fee for our responsibilities in providing written assurance (on controls over information over information provided by the Pension Fund to the actuary) to PSAA appointed auditor of admitted bodies has yet to be approved by the PSAA for 2016/17.

Page 55

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the Assistant Manager of our team has a family member who works within the Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake and work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Page 57

Appendices

A: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL - LANCASHIRE COUNTY PENSION FUND

We have audited the pension fund financial statements of Lancashire County Pension Fund ("the pension fund") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Lancashire County Counciil "the Authority", as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of Responsibilities, the Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

July 2017

B: Audit opinion on the Annual Report

We anticipate we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE LANCASHIRE COUNTY PENSION FUND ANNUAL REPORT

The accompanying pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in Lancashire County Council's ('the authority')Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 31 July 2017

The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The Director of Financial Resources responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Financial Resources is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Management Structure, Foreword by the Chair of the Pension Fund Committee, Governance of the Fund, Administration of the Fund, Knowledge and Skills Framework, Investment Policy and Performance and Actuarial Valuation.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2017 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17and applicable law.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Grant Thornton

grant-thornton.co.uk

Agenda Item 6

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected: None

Lancashire Local Pension Board 2016/17 Annual Report
(Appendix 'A' refers)

Contact for further information: Mike Neville, 01772 533431
mike.neville@lancashire.gov.uk

Executive Summary

The Terms of Reference for the Lancashire Local Pension Board include the requirement for the Board to produce an Annual Report on its activities for consideration by the Pension Fund Committee.

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

Recommendation

The Committee is asked to consider and comment on the Lancashire Local Pension Board's Annual Report for 2016/17 as set out at Appendix 'A'.

Background and Advice

The Terms of Reference for the Lancashire Local Pension Board includes the requirement that the Board "shall produce an Annual Report on both the nature and effect of its activities for consideration by the Administering Authority". The report is required to include the following:

- Details of the attendance of members of the Board at meetings;
- Details of the training and development activities provided for members of the Board and attendance at such activities;
- Details of any recommendations made by the Board to the Scheme Manager and the Scheme Manager's response to those recommendations;
- Details of the costs incurred in the operation of the Board.

At the meeting on the 4th July 2017 the Board approved its Annual Report for 2016/17 for consideration by the Pension Fund Committee and a copy is set out at Appendix 'A'. The Chair of the Local Pension Board, Mr William Bourne, will attend the meeting to present the report.

Lancashire County Council

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
Lancashire Local Pension Board agenda and minutes	4th July 2017	Mike Neville (01772) 533431

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

Lancashire Local Pension Board – Annual Report 2016/17

A year ago, I wrote my first report as the Independent Chair of the Lancashire County Pension Fund's Local Pension Board (LPB). I commented then that we had successfully established the Board in accordance with the regulations, but were still finding our feet within the overall governance structure. This was particularly so given the changes taking place as a result of the formation of the Local Pensions Partnership Ltd (LPP) pool to manage the investments, liabilities and administration of the Fund. I ended my report by stressing the need for the LPB to add value to the Fund's governance and activities. Although still early days, I said then that I believed it was already fulfilling two important functions: offering challenge to the executive; and providing valuable Members' and Employers' perspectives to the Executive which they might otherwise struggle to obtain.

Twelve months on, as a Board we have a much clearer view of our role and where and how we can add value, and I shall devote some of this report to setting that out in more detail. First, however, I should report on the mechanics. The Board has nine members, four Employer representatives who were chosen to be representative of the Fund's Employers, four Member representatives elected in a public election, and myself as the Independent Chair. All members served throughout the year. My term comes to an end in March 2019, while members may serve for a maximum of two terms of four years. We have met four times during the year, and held one Working Group (comprising 3 Board members) to consider revised Terms of Reference.

The following table shows members attendance at Board meetings

Name	Representing	5th July 2016	18th Oct 2016	17th Jan 2017	11th Apr 2017
W Bourne	Chair	✓	✓	✓	✓
S Browne	Employer - LCC	✓	✓	apologies	✓
C Gibson	Employer - Others	✓	✓	✓	apologies
K Haigh	Active members	✓	✓	✓	✓
J Hall	Deferred members	apologies	✓	✓	✓
R Harvey	Pensioner members	✓	✓	✓	✓
County Councillor T Martin	Employer – LCC	✓	apologies	apologies	apologies
Y Moult	Active members	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	apologies	✓	✓

Information about the Board, including minutes and public papers are available on the Pension Fund website.

The Board has a small internal budget, which is used primarily to defray the cost of Members' attendance at training events or conferences. During the year £14,000 was spent.

The year has included a triennial actuarial valuation, a new set of investment regulations, as well as the FCA authorisation of LPP and the transfer of assets to it, so there has been no shortage of important subjects. In all of these, the Pension Fund Committee has primary responsibility for executive and strategic decisions, and the LPB's remit is one of scrutiny. We are there as a second pair of eyes on behalf of the Fund's stakeholders, especially the Employers who make contributions and the Members who both contribute and receive pensions, to ensure that good governance is in place. In practice this means that the legal and regulatory requirements are complied with, that due process is followed, that risks are considered beforehand, monitored, and where possible mitigated, and that all is done in an efficient manner. However, it is important to underline the fact that executive power resides with the Committee, and we can only make recommendations or note our concerns.

For our scrutiny role, we rely considerably on third party verification reports from various parties, whether it be from Officers, from internal service providers such as auditors, or from independent parties. These are presented at meetings, and we will normally discuss the background and if we are not comfortable, we will ask to see the original documents. For example during the year we noted our concerns to the Pension Fund Committee that although LPP had commenced operations, the formal governance structure for monitoring its activities had yet to be put in place. Since then, a formal review has been conducted by PWC, and recommendations put in place.

The second major focus of the LPB's activities is assisting the Pension Fund Committee in the efficient running of the Fund. Here the perspectives which Employer and Member representatives on the Board bring to bear are of undoubted value. Looking at ways to improve communication between the Fund and its stakeholders is a perpetual task, but one example is the tracing of Members whose addresses are missing. This was reviewed by the LPB in 2015, a policy of conducting a tracing exercise on a regular basis put in place by Officers, and as result over 3,000 deferred Members are now back in contact with the Fund, and will be able to receive the pensions they are entitled to.

Efficiency is also about keeping an eye on costs. The great majority of costs are now incurred by LPP, because investment and administration activities have been transferred to them. It is important that the Fund obtains good value for the money spent here, and we have made the Pension Fund Committee aware of the importance we place on monitoring the value achieved over a long period in order to demonstrate the benefits delivered to the Fund from the establishment of the pool.

As part of the process of pooling with LPP, there is scope to reduce costs by reviewing and consolidating the arrangements by which the Fund and the LPFA conduct administration. The LPB is supportive of this quite ambitious plan, but is aware that change brings risks with it. We accordingly recommended the Pension Fund Committee conduct an audit to confirm that the risks which transformation inevitably brings have been properly assessed and where possible mitigated. At the time of writing this is still work in process, but we believe our comments have been given due consideration to the benefit of stakeholders.

New investment regulations came into law during the year under consideration as part of the process of pooling. Among other things, they make it clear that the LPB is one of the bodies which need to be consulted in certain circumstances, underlining its status within the formal governance structure as the only body with stakeholder representation. We reviewed the proposed Investment Strategy Statement, required under the new regulations, outside our meeting cycle for time constraint reasons, and made known to the Pension Fund Committee a number of concerns. It is our understanding the Statement will be reviewed again later this year.

Governance is one of the keys to a well-run Fund, and it became apparent to the LPB during the year that in the course of the formation of LPP, the Fund itself had been left with too little resource in this area. We viewed this as particularly concerning at a time when the governance structures were becoming increasingly complex as a result of the pooling process. We therefore made a formal recommendation to the CEO of Lancashire County Council that the Head of the Fund be provided with more support. At the time of writing, I understand that a new hire has been made to achieve this.

The LPB also sees all breaches of law or regulations, and considers among other things whether there is a requirement to report a breach to the Pensions Regulator. During the year, no breach was sufficiently serious or systemic that this was necessary, but we will continue to keep a beady eye on the performance of LPP. After a full year of operation, we conducted an appraisal of the LPB, in accordance with our terms of reference. This exercise resulted in a number of recommendations, and considerably greater clarity how we should operate. Our remit is clearly one of scrutiny, and it is the Pension Fund Committee's role to manage the relationship with LPP. We will use our Member and Employer perspectives to assist the Fund in seeking better ways to do things. Where the LPB sees a proposed formal document or decision before it is ratified by the Committee, we will make known our concerns by means of a formal note. Where, as inevitably happens on occasion, we only see a decision after it has been taken, we will make a formal recommendation to the relevant body, usually the Committee.

As a result of the appraisal we also recommended some changes to our Terms of Reference, to bring them in line both with the public requirements for the LPB and the way we have defined our remit. The new Terms of Reference can be found on the Pension Fund website.

Training is also required under the Pensions Act 2013, and is covered by the Fund's Training Policy, which was refreshed during the year alongside that for the Pension Fund Committee. Members are invited to and have attended Training Workshops in Lancashire, and are encouraged to attend useful seminars and conferences which will help them to increase their knowledge levels.

The table below shows the number of training events each Board member attended during the year.

Name	Internal event attended	External events attended
W Bourne	Nil	1
S Browne	3	Nil
C Gibson	1	Nil
K Haigh	7	3
J Hall	3	Nil
R Harvey	7	3
County Councillor T Martin	3	Nil
Y Moult	3	1
S Thompson	2	1

In the next year, the LPB's focus is likely to be on continuing to scrutinise the governance arrangements around LPP as they settle down. We are likely to spend more time on the administration side, as that is where the biggest changes will be happening. We are also proposing to continue to look at engagement with employers and members. Lancashire County Pension Fund has one of the most effective engagement policies anywhere in the country, but that is not a reason for looking for further improvements. The LPB is the best placed body to promote that because it is representative. In both these areas, we will look to share best practice with the equivalent body on our LPP partner, the London Pension Fund Authority's Pension Board.

I will finally highlight the support we get from, first, the Pension Fund Committee and the Chair in particular, and secondly the Officers. The LPB's ultimate objective is the same as that of the Committee, but we also have a clear duty to challenge it on occasion. This can only function effectively if the relationship is a good one, so that when we note concerns or make comments, they are taken constructively. Even

when we have made the Committee's lives less than comfortable, the Chair has always been fully supportive of our interventions and comments. Without the assistance of the Officers running the fund, the LPB would simply not function.
I have no doubt that in this year the LPB has by acting as a scrutinising body been able to add value during this year now that it has bedded down.

We look forward to the next year with confidence, expecting to be able to make our contribution to making a well-run fund even better.

William Bourne
Independent Chair of the Lancashire Local Pension Board.
July 2017

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
None;

2016/17 Pension Fund Annual Report
Appendix A refers.

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

Executive Summary

This report sets out the Lancashire County Pension Fund Annual Report for the year ended 31 March 2017.

Recommendation

The Committee is asked to review the Lancashire County Pension Fund Annual Report for the year ended 31 March 2017 as set out at Appendix 'A', and approve it 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 the 1st December following the year end. The regulations prescribe that the following should be included in the annual report:

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

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

A copy of the Lancashire County Pension Fund Annual Report for the year ended 31

March 2017 is attached at Appendix ‘A’. The Annual Report includes the following sections:

An overview of the management and financial performance of the Fund
This highlights both the challenges and changes that have impacted on the Fund during the year 2016/17.

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

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

Knowledge and skills framework
A summary of the framework and approach used to ensure that the right knowledge and skills mix exists to meet the financial management needs of the pension fund.

Reference is made to the Lancashire County Pension Fund Training Plan agreed in 2015/16, complying with the Public Service Pensions Act 2013 and to the revised framework introduced in 2015, focussed on the knowledge requirements of Local Pension Board members.

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

The accounts and financial statements
The audited accounts and financial statements of the pension fund signed by the Director of Financial Resources at the LCC Audit & Governance Committee on 31 July 2017 are included in the County Council’s Statement of Accounts and also in the Pension Fund Annual Report.

Extracts from the draft accounts were reviewed by the Pension Fund Committee on 30 June 2017.

A number of presentational changes were made to the accounts between the draft extracts being reviewed on 30 June 2017 and the final version being signed on 31 July 2017. No adjustments were made to the face of the primary financial statements (the Fund Account and Statement of Net Assets) and no change was made to the overall financial performance or position of the Fund.

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

Actuarial valuation
A summary of the latest actuarial valuation carried out at March 2016 and applicable for the three years commencing 1 April 2017.

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

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

Consultations

Investment Panel are consulted on all investment policy issues.

Implications:

This item has the following implications, as indicated:

Risk management

Pension Fund risk policies are outlined in the Funding Strategy Statement and the Investment Strategy Statement.

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

Paper	Date	Contact/Tel
Appendix A: Lancashire County Pension Fund Annual Report 2016/17	22 August 2017	Abigail Leech 01772 530808

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

Appendix A

Lancashire County Pension Fund

Contents

A Management Structure

Scheme management and advisers

Administering authority

Lancashire County Council

Lancashire County Council Pension Fund Committee

Until 24 May 2017	Appointed 25 May 2017
M Barron	J Burrows
L Beavers	S Clarke
D Borrow	G Dowding
G Dowding	C Edwards
K Ellard (Chair)	K Ellard
G Gooch	J Fillis
J Oakes	T Martin
M Otter	J Mein
M Parkinson(Deputy chair)	E Pope (Chair)
C Pritchard	A Riggott
A Schofield	A Schofield (Deputy chair)
K Sedgewick	A Snowden
D Westley	
D Whipp	

Co-opted Pension Fund Committee representatives

P Crewe – Trade union	P Crewe – Trade union
J Tattersall – Trade union	J Tattersall – Trade union
P Rankin – District Leaders Group	D Borrow – District Leaders Group
E Pope – District Leaders Group	I Moran – District Leaders Group
M Smith – Blackpool Council	M Smith – Blackpool Council
R Whittle – Blackburn with Darwen Council	R Whittle – Blackburn with Darwen Council
A Milloy – FE/HE institutions	J Eastham – FE/HE institutions

Head of Fund

A Leech

Director of Financial Resources

N Kissock

Actuary

Mercers

Custodian

Northern Trust

External auditor

Grant Thornton

Tax advisers

KPMG

Independent investment advisers

A Devitt

E Lambert

Independent property valuer

Cushman & Wakefield
(until 13 November 2016)

GVA Grimley
(from 14 November 2016)

Bankers

NatWest

Svenska Handelsbanken

AVC providers

Prudential

Equitable Life

Property solicitors

Pinsent Masons

DWF

Lancashire Local Pension Board

W Bourne (Chair)
S Browne
C Gibson
K Haigh
J Hall
B Harvey
Y Moult
S Thompson
CC Wakeford

Legal advisers (non-property)

In-house

MacFarlanes

Eversheds

Clifford Chance

Allen and Overy

Taylor Wessing

Addleshaw Goddard

Performance measurement

Northern Trust

Corporate governance advisers

Institutional Shareholder Services (ISS)

Pension and Investment Research Consultants (PIRC)

Investment Managers

Arclight Capital Partners	HSBC Global Asset Management	Muzinich & Co
Bluebay Asset Management	I Squared Capital	Neuberger Berman
Capital Dynamics	Icon Investments	Permira Credit Solutions
Christofferson, Robb & Company	Investec Asset Management	Pictet Asset Management
EQT	Kames Capital	Pimco Bravo
Guild Investments Ltd	King Street Capital Management	Prima Capital Advisors
Gatefold Hayes LP	Knight Frank Investors	Standard Life Capital
GLIL Infrastructure	Kreos Capital	Stonepeak Infrastructure
Global Infrastructure Partners	Local Pensions Partnership	THL Credit
Hayfin Capital Management	Madrileña Red de Gas	Venn Partners
Heylo Housing Trust	M&G Investments	Westmill Solar Cooperative
Highbridge Capital Management	Monarch Alternative Capital	White Oak Global Advisors

B Foreword by County Councillor Eddie Pope, Chair of the Pension Fund Committee

Welcome to the 2016/17 Annual report of the Lancashire County Pension Fund which has had a very successful year during a time of constant change.

Some of the highlights of the year include:

- Delivering a 20.19% return on assets which outperformed the Lancashire Benchmark of 17.5% and resulted in the value of the fund, at 31 March 2017, increasing to £7.1bn.
- Maintaining the funds position as one of the leading LGPS funds in the country, funded to a level of 90%, thereby allowing some stability over employer contribution rates and giving increased assurance to all members.
- Going live in April 2016 with the partnership with the London Pension Fund authority with the Local Pensions Partnership (LPP) successfully transitioning the Fund's global equity portfolio into a single pooled vehicle – LPP I Global Equities ACS.

Funding

The 2016 valuation process concluded in March 2016. Investment returns exceeded the actuaries' assumptions by 15% which went towards reduced the deficit in the fund and increasing the funding level to 90%. The actuarial assumptions for assessing the funding position of the fund and individual employers are set out in the Funding Strategy Statement which is included as Appendix 6.

Investment

In the year to 31 March 2017, The Fund delivered 20.19% return on assets, maintaining Lancashire's investment performance alongside the best of the Local Authority Pension Scheme members. The value of the Fund's assets at 31 March 2017 was £7,168.4m, up from £6,036.2m at 31 March 2016.

During the year, LCPF appointed Local Pensions Partnership Investments Limited (LPP I) to manage all of its assets. LPP I is an FCA regulated investment company wholly owned by Local Pensions Partnership Limited, which is a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA).

LPFA has also appointed LPP I to manage all of its own assets, creating a larger pool (£12.5 billion as at 31 March 2017) which will be jointly invested. As well as combining the assets of both parties to create a larger investment pool, the investment teams of LCPF and LPFA have been combined, leading to access to more resources. The intention is to be able to make better quality investment decisions, leading to more robust investment performance; and to reduce costs through economies of scale and increased in-house management.

The Investment Team continued to be recognised for its leadership in the field, being awarded 'Best Use of Private Markets' in the Institutional Investor European Awards and 'Fixed Income Strategy of the Year' at the LAPF investment Awards.

Further details on investment performance is on page 19 of this report.

As part of the changes accompanying the launch of the Local Pensions Partnership we have reviewed our approach to responsible investment. This was in order to ensure that new investment management arrangements, introduced to accommodate asset pooling, would meet our stewardship requirements. Our reference points in confirming our approach were guidance provided by the UK Stewardship Code and the commitments of signatories to the Principles of Responsible Investment. These two external standards offered us an objective framework for confirming our Responsible Investment requirements and a benchmark for monitoring and holding LPP to account for delivery going forward.

The creation of the Partnership has involved the alignment and streamlining of stewardship processes and has gained both partners the joint benefit of a dedicated resource in the form of a Responsible Investment Manager who is available to provide support and advice on stewardship matters. The additional capacity to link into and learn from a wider network is producing broader insights and giving new opportunities for collaboration with other investors.

Administration

During the year the Fund's administration service, provided by LPP, processed around 25,000 items of work (ranging from changes of address to the calculation of pension benefits) on behalf of our 167,000 members of the Fund. Over the course of the year LPP's team, working with employers, have managed to reduce the time it takes to put a pension into payment by 9 days by providing an easy to use "final pay" calculator which reduces the time it takes employers to get information back to the Fund. Also as a result of work by employers the quality of data has improved meaning that Annual Benefit Statements for the year ended 31st March 2017 will be published earlier than ever before. The team has also been extremely successful in signing members up for the ‘My Pension on line’ service with around 30% already connected. Over the coming year LPP are looking to fundamentally change the way their administration team is structured in order both to improve productivity and to move more of the detailed support work they undertake to Preston providing further job opportunities for Lancashire.

County Councillor Eddie Pope
Chair of the Pension Fund Committee

C Governance of the Fund

Lancashire County Pension Fund Governance Policy Statement

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

Under regulation 55 of the LGPS Regulations 2013, all Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy Statement setting out whether the authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority.

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

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

The Fund’s Governance Policy Compliance Statement is shown on the following page, and the Governance Policy Statement is included as Appendix 1 to this report.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT - APRIL2017

A. Structure	(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council (b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1) (c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. (d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√ Partial (see Note 1) √ √
B. Representation	(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) independent professional observers (2) (iv) expert advisers (on an ad hoc basis)	Partial (see Notes 1 and 2)

C. Selection and Role of Lay Members	(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)	√
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 - Reasons for partial compliance

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

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

D Administration of the Fund

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

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

Pension administration services are provided to Lancashire County Pension Fund by the Local Pensions Partnership.

Review of the Year

Over the year Your Pension Service has achieved an overall performance level of 97% against the standards and targets set out within a Service Level Agreement.

During the year to 31 March 2017, 25,563 individual calculations/enquiries were completed, of which 24,807 met the performance standard; an overall performance of 97% was achieved.

Membership and employers

The Scheme is administered on behalf of over 400 organisations including local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector. Of these organisations, over 285 have active members.

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

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

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

Fund membership

	31 March 2016	31 March 2017
Active scheme members		
Lancashire County Council	27,106	26,416
Other employers	29,223	29,499
Total	56,329	55,915
Pensioners		
Lancashire County Council	22,414	23,141
Other employers	22,093	23,012
Total	44,507	46,153
Deferred members		
Lancashire County Council	33,253	34,668
Other employers	28,377	30,573
Total	61,630	65,241
Total membership	**162,466**	**167,309**

Performance

The Pension Fund Committee receives regular reports on the administration of the Fund ensuring that best practice standards are satisfied and met and to satisfy itself and justify to all stakeholders, including employers that the Fund is being run on an efficient and effective basis.

Specific service level standards and corresponding service level targets have been agreed between the Fund and the Local Pensions Partnership and an Annual Administration Report is presented to the Pension Fund Committee. A copy of the report for the year to 31 March 2017 is included as Appendix 2 to this annual report.

Since the administration service transferred to the Local Pensions Partnership, performance continues to exceed SLA targets and consistently exceeds its key performance indicator;

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

Overall achievement against SLA targets over the year was 97%.

The average time elapsed between retirement date and date of first pension payment has been reduced from 54 days in the year to 31 March 2016 to 45 days in the year to 31 March 2017.

Customer service

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

The second annual Fund Members meeting was held in Preston on 27 June 2017. This was hosted by Local Pensions Partnership and the event included a review of the financial year, a discussion around investments being made on behalf of the Fund and an update on investment pooling and other developments within the Local Pensions Partnership.

A dedicated helpdesk, AskPensions provides the first point of contact for members and employers. The helpdesk has a target to answer 90% of calls received. Between 1 April 2016 and 31 March 2017, 60,255 calls were received and 88% of them were answered. Additional resources are now in place to address the dip in performance.

During the year to 31 March 2017, the service received 29 compliments (17 in the previous year), relating to the good customer service provided by the staff within the pensions administration team. During the same period, 38 complaints were received (10 in the previous year). Almost all the complaints were from members relating to the late payment of pension and time taken to process pensions.

The service also received and responded to over 30,000 emails as at 31 March 2017.

Legislative changes

Very little change occurred during the year to 31 March 2017, compared to recent years.

However, a number of proposals were suggested throughout the year which could have significant impact in the world of pensions for the future.

Changes that took effect in the year

• At the Spring Budget 2017, the government introduced a new tax charge when a member transfers their pension benefits to an overseas pension scheme. The charge applies to transfers requested on or after 9 March 2017. Some members will be exempt from the charge, for instance, whether the member is living in the same country in which the overseas pension scheme is based.

• The Government Actuary's Department (GAD) amended the majority of the factors used to process pensions. This includes the factors used to calculate the reduction to pensions drawn early and the increase to pensions drawn late.

• The government reduced the Lifetime Allowance (LTA) from £1.25 million to £1 million and the Annual Allowance for high earners and members who expect the value of their savings to exceed £1 million can apply for protection against the LTA reduction.

Proposed Change

• The Government announced proposed reforms to the rules covering public sector exit payments, for example, introducing a cap of £95,000. The proposals will have an impact on the Scheme, particularly the level of pension benefits paid to certain members upon redundancy. Further information is awaited from the government.

• In May 2016, the government launched a consultation on amendments to the Scheme's rules. These included:

– offering members more freedom and choice as to when and how they may draw their additional voluntary contributions (AVC) fund;

– allowing members aged between 55 and 60 who left before 1 April 2014 to draw their deferred benefits at a reduced rate without needing their former employer's consent;

– changing the rules about what pension arrangements must be offered to LGPS employees whose employment is compulsorily transferred to a new employer.

• Certain members will have a pension that contains a Guaranteed Minimum Pension (GMP) element. In November 2016, the government launched a consultation in respect of members who attain their State Pension Age on after 6 December 2018. The consultation considers whether the element should be fully inflation proofed and, if so, how this should be done. The government response to the consultation is awaited.

Service developments

During the year the Fund's administration service processed around 25,000 items of work

An easy to use "final pay" calculator has recently been developed which reduces the time it takes employers to get information back to the Fund. Working closely with employers in this way helps to enhance the quality and timeliness of data meaning that Annual Benefit Statements for the year ended 31st March 2017 were published ahead of the statutory deadline of 31 August.

Pension surgeries are hosted throughout the county on an annual basis from October through to March. The sessions help members to understand their annual benefit statements.

Drop in sessions are also hosted during the year where members (including pensioners) can be helped through the process of registering to use the online self-service portal. Four drop in sessions have been held over the year.

Online Services

My Pension Online is an online facility allowing members to view their details and also securely update any changes in contact details.

Members who are registered can run various pension estimates assisting with planning for retirement. Members can also view their annual benefit statement via My Pension Online.

Other benefits of the system include: allowing members to view their nominated beneficiaries; access a host of forms and guides and also allows the administration service to communicate with registered members via email.

Currently around 30% of members are registered online.

Appeals

Fund Members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the Local Government Pension Scheme rules.

The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer appointed by the administering authority to review the disagreement.

Over the year 41 appeals have been received under stage 1 of the process. Of these 9 have been upheld in the members favour and 29 were dismissed. At the close of the year 3 stage 1 cases were outstanding.

In respect of appeal applications that progressed to stage 2 of the IDRP, 15 appeals have been received. Of these 4 have been upheld in the members favour and 4 were dismissed. At the close of the year 7 stage 2 cases were outstanding.

As in previous years the majority of appeals continue to relate to ill health.

Charges

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

Other information

For further information relating to the administration of the scheme please refer to the Communication Policy Statement and the Pensions Administration Strategy Statement included as Appendices 3 and 4 respectively.

Your Pension Service can be contacted at:

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

E Knowledge & Skills Framework

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

CIPFA Pensions Finance Knowledge and Skills Framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a code of practice on public sector pensions finance knowledge and skills in October 2011 which was revised in 2013 to reflect the provisions of the Public Service Pensions Act 2013 and remains a definitive guide to expected standards.

The Code of Practice works in conjunction with detailed Knowledge and Skills Frameworks (KSF) also published by CIPFA which support knowledge and skills development by all those involved in the management and oversight of public sector pension funds.

In 2015 a new KSF focussed on the knowledge requirements of Local Pension Board members was introduced to reflect the Pensions Regulator Code of Practice No 14 which came into force in April 2015. CIPFA has identified a syllabus of 8 core areas of knowledge across the KSFs it has published to date:

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

Training approach

Since its adoption of the CIPFA Code of Practice in February 2012 the Pension Fund Committee has reviewed the Fund's training approach at regular intervals. The current Training Policy for the Fund is aimed at ensuring the Fund is overseen by individuals who:

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

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

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

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via a secure online Library

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

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) during 2016/17 are given below:

Date	**Subject**	**Venue**	**Attendees**	
			PFC	**LLPB**
28 April 2016	Asset Management Conference	Royal London, London	0	1
29 April 2016	Virtual Reading Room	Workshop, County Hall, Preston	9	3
11 May 2016	Investment Trust Conference	Baillie Gifford, Edinburgh	0	1
16-18 May 2016	PLSA Local Authority Conference	Gloucestershire	1	1
25 May 2016	Traditional Assets	Workshop, County Hall, Preston	9	4
23-24 Jun 2016	LGA 13th Annual LGPS Trustees Conference,	Manchester	2	0
29 Jun 2016	Local Pension Boards - One Year On Seminar	Cheapside House, London	0	1
30 Jun 2016	Alternate Assets	Workshop, County Hall, Preston	9	5
7 July 2016	SPS Conference - Investing Mature Funds	London	0	1
22 July 2016	LGPIF Infrastructure Conference	London	0	1
10 Aug 2016	Q&A Session on Investment Reform for Local Pension Board Member and Employer Reps	Local Government House, London	0	1
31 Aug 2016	Section 13 Regional Workshop	Local Government House, London	0	1
2 Sept 2016	LGPS (England & Wales) Regional Workshop on Sec13 reports	Durham	1	0

8-9 Sept 2016	LGC Investment Summit - “Adapting to changing times"	Celtic Manor Resort, Newport, South Wales	1	0
21 Sept 2016	Role of the Depositary for LPPI	Workshop, County Hall, Preston	8	4
20 Sept 2016	UK Investment Seminar 2016	London	1	0
28 Sept 2016	Introduction to the LGPS	London	2	0
22 Nov 2016	Annual Northern Pension Investment Conference	Manchester Marriott V&A Hotel	1	1
6 Oct 2016	CPN Autumn Investment and Accounting Workshop	London	2	0
11 Oct 2016	Local Government Pension Investment Forum 2016	London	2	0
11 Oct 2016	CPN Autumn Investment and Accounting Workshop	Manchester	2	0
19 Oct 2016	PLSA Annual Conference and Exhibition 2016	Liverpool	3	0
28 Oct 2016	Investment Strategy	Workshop, County Hall, Preston	8	3
25 Nov 2016	Responsible Investment	Workshop, County Hall, Preston	11	4
28 Nov 2016	LGPS Pension Boards Seminar	PLSA offices London	0	1
7-9 Dec 2016	Annual Local Authority Pension Fund (LAPFF) Conference	Highcliffe Marriott Hotel, Bournemouth	1	1
25 Jan 2017	Global Custody Services	Workshop, County Hall, Preston	9	4
22 Feb 2017	Risk	Workshop, County Hall, Preston	7	4
1 Mar 2017	2016/17 LGPS Local Pension Board Seminar	Leeds	0	2
2-3 Mar 2017	LGC Investment Seminar	Carden Park Hotel, Cheshire	1	0
8-10 Mar 2017	PLSA Investment Conference 2017	EICC in Edinburgh	1	0
9 Mar 2017	Global Independent Research conference	London	0	1
23 Mar 2017	SPS Local Authority Investment & Pooling Issues Conference	London	1	0
27 Mar 2017	Local Pensions Partnership	Workshop, County Hall, Preston	8	5
30 Mar 2017	EPFIF conference	London	0	1

F Investment Policy and Performance

Performance

In the year to 31 March 2017, The Fund delivered 20.19% return on assets, outperforming the Lancashire Plan Benchmark of 17.25% and maintaining Lancashire's investment performance alongside the best of the Local Authority Pension Scheme members. The value of the Fund's assets at 31 March 2017 was £7,168.4m, up from £6,036.2m at 31 March 2016.

Whilst it is pleasing to be able to report strong performance once again, the Fund invests its assets to meet its own liabilities over the medium to long-term time frame and therefore performance should be judged against those objectives and over a corresponding period.

Annual returns can be volatile, as seen in 2008/09 (fund down 20%) and 2009/10 (fund up 35%); short term returns, however spectacular, do not necessarily indicate the underlying health of the Fund.

The Fund has been changing its asset allocation over the last few years to add diversification, which should help to dampen the volatility of returns. Nonetheless, the fund remains exposed to movements in the valuation of assets.

Investment Pooling and Asset Allocation

During the year, LCPF appointed Local Pensions Partnership Investments Limited (LPP I) to manage all of its assets. LPP I is an FCA regulated investment company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA).

LPFA has also appointed LPP I to manage all of its own assets, creating a larger pool (£12.5 billion as at 31 March 2017) which will be jointly invested. As well as combining the assets of both parties to create a larger investment pool, the investment teams of LCPF and LPFA have been combined, leading to access to more resources. The intention is to be able to make better quality investment decisions, leading to more robust investment performance; and to reduce costs through economies of scale and increased in-house management.

In line with new Local Authority Investment Regulations, the Pension Fund Committee adopted a new Investment Strategy Statement in 2016. LCPF maintains complete control over 'asset allocation' between a number of different asset class pools managed by LPPI. As at 31 March 2017, the Fund held investments in five asset classes.

Global Equities

Global public equity investments were transitioned during the year into a single pooled vehicle – LPP I Global Equities ACS. This fund combines the expertise of a variety of world-class external equity managers together with an in-house investment strategy. These different managers operate with differing and complementary styles of investment selection. LPP I Global Equities ACS publishes its own separate annual report and investment commentary.

Private Equity

Private equity investments are held through a variety of closed-ended limited partnerships, which are invested over a wide range of inception dates and managed by a diverse collection of different managers. The majority of LCPF's holdings were transferred into a collective vehicle at the end of the period. The strategy of the collective vehicle is to continue to be to invest in a diversified portfolio of third party managers, complimented by a small number of direct 'co-investments'.

Property

The Fund dedicates a large portion of its investment portfolio to directly owned UK commercial properties managed by Knight Frank. An allocation to local investment opportunities has been adopted, with further commitments made during the year to development of a student accommodation block in Lancaster and a Logistics hub near the M61. The Fund also has allocations to a European real estate investment fund managed by M&G, a healthcare property fund managed by Kames and private rented residential property.

Infrastructure

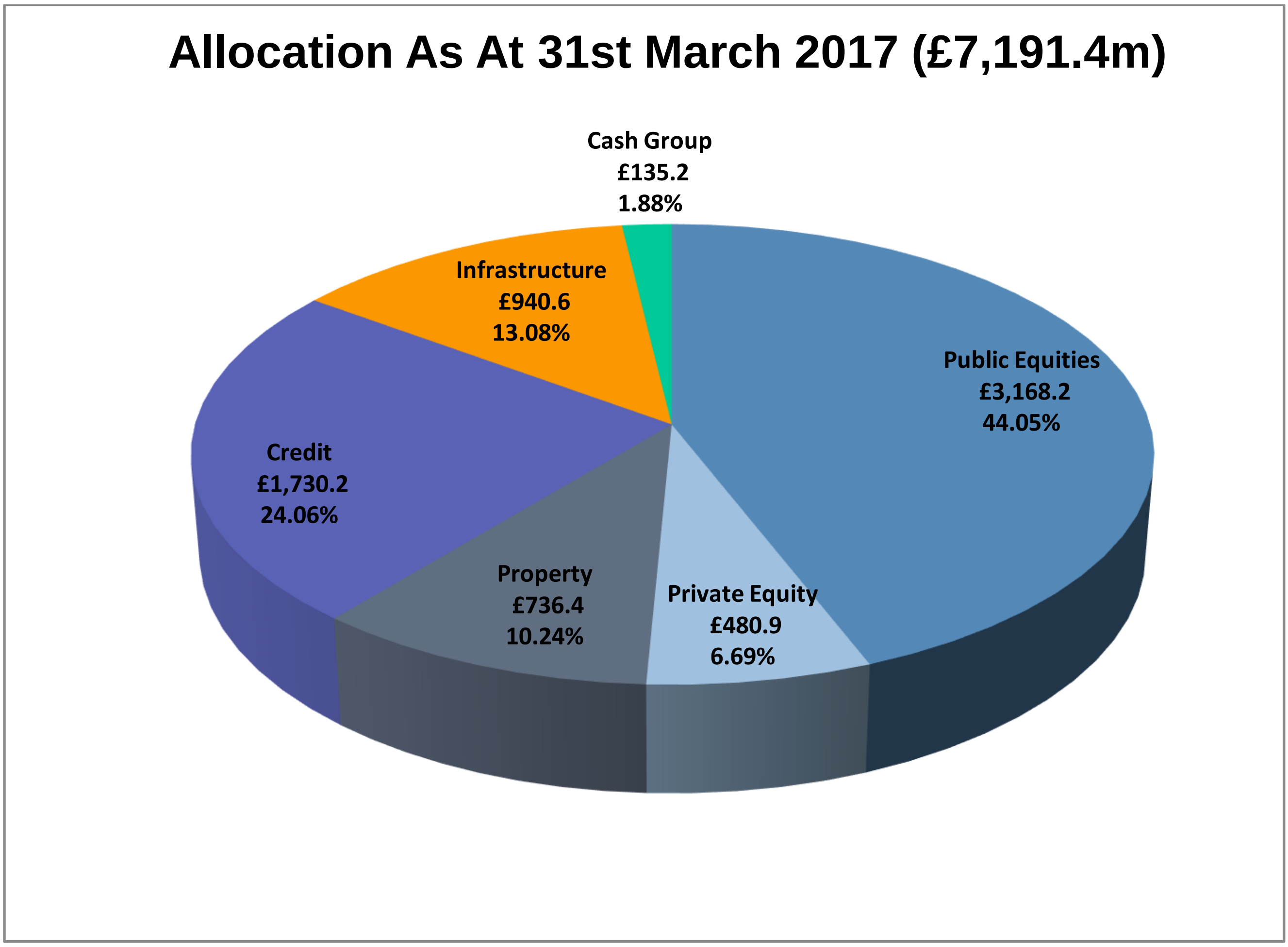
The Fund has allocations to a number of different global infrastructure funds, and also invests directly in global renewable energy infrastructure projects. In December 2016, LCPF joined GLIL, a £1.275 billion partnership between five local authority pension funds, which has a remit to invest in predominantly core UK infrastructure. The approach of bidding and investing alongside key strategic counterparties has continued and LCPF now owns interests in international gas and electricity distribution networks together with significant domestic and international investments in wind-powered electricity generation.

Credit

The Fund has an internally managed portfolio, split into four broad categories of credit investment: Emerging Markets sovereign debt, non-investment grade secured lending, cyclical credit opportunities, and debt secured on real assets. These investments include both direct loans made by the Fund and a variety of different externally managed funds. Steady deployment of investment commitments continued to be made throughout the year as loans made at the inception of these strategies started to repay. Experience of credit defaults in the portfolio remained very low.

The Investment Team continued to be recognised for its leadership in the field, being awarded 'Best Use of Private Markets' in the Institutional Investor European Awards and 'Fixed Income Strategy of the Year' at the LAPF investment Awards.

A summary of asset allocation, as at 31 March 2017, is shown below.



Future Investments

LCPF's investment strategies, particularly in relation to private investments, require commitments to be made which are then deployed over following periods. 2016/17 saw continued deployment of commitments made in previous periods as well as further commitments being made. It can be anticipated that these commitments will continue to be deployed in the coming years, whilst other investments start to mature and return cash.

As part of the exercise of transferring control of assets to LPP I and in order to maximise the benefits of pooling with LPFA, it is anticipated that the majority of investments in further asset classes including infrastructure and credit will be moved into single asset class pooled vehicles during the course of 2017/18.

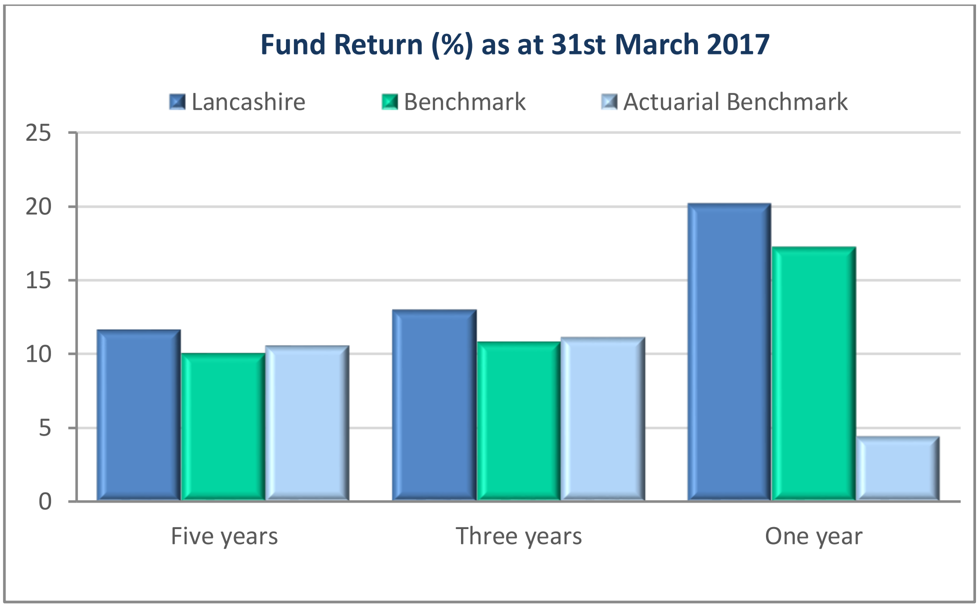
Performance Monitoring

Performance is measured against a number of specific benchmarks with individual managers being given performance targets which are linked to the expected market returns for the assets they manage; and direct investments being underwritten with an expectation of specific levels of benchmark return. The performance of investment managers is reviewed on a regular basis by LPPI and the LCPF Investment Panel. Any recommendations arising from those reviews are considered by the Investment Committee.

Benchmarks are an indication of how markets overall or individual assets might be expected to perform. The Fund's primary objective, however, is to have assets available to meet pension liabilities as they fall due; and this requires the Fund to consistently match or outperform the actuarial assumption of investment returns.

The actuarial assumption used until 31 March 2016 was UK gilts+1.6% - this was changed with effect from the actuarial valuation which took place in relation to that date and is now an inflation-linked measure of CPI + 2.2%.

The chart below shows the total return of the Fund compared to the overall Fund-specific benchmark and the actuarial Fund return assumption of gilts+1.6% to March 16 and CPI+2.2% from April 16 measured over 1, 3, and 5 years to 31 March 2017.



In the year to 31 March 2017, the total fund return amounted to 20.19% against a benchmark return of 17.25%. The CPI+2.2% actuarial return assumption for the same period was 4.4%.

The more important five-year performance of the Fund shows annualised returns for the Fund of 11.66% per annum versus the benchmark return of 10.05% and the actuarial measure of 10.53%. Readers should note that the five-year figures do not yet fully reflect the impact of the current investment strategy, which was put in place over a three year period through to 2014-15.

Currency Effects

The Fund's strategy is to seek out investments with the most favourable characteristics to generate yields in the long-run, wherever these may be situated globally. Currency fluctuations have an increased impact on short-term investment performance, but over the long-term this impact should be outweighed by the superior investment characteristics of the new strategy.

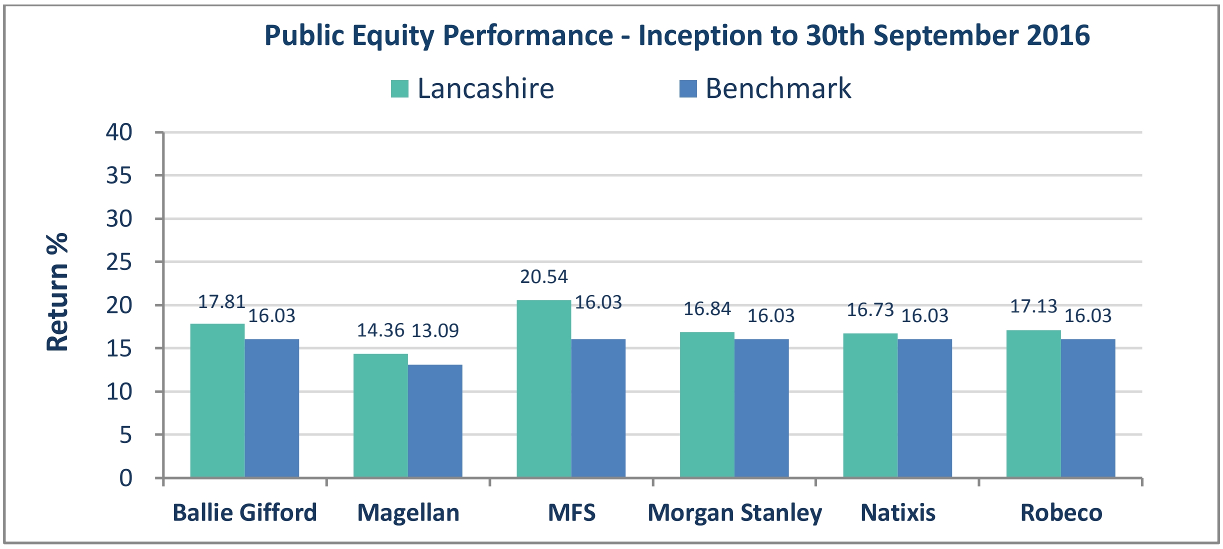
Over the course of the year, Sterling weakened significantly against the Dollar from a rate of $1.44 at 31 March 2016 to a rate of $1.25 on 31 March 2017 (with a dramatic devaluation associated with the 'Brexit' vote in June 2016). Sterling valuation of Dollar sensitive assets would therefore have increased by 15.2% (all other things being equal). In the same period, Sterling weakened against the Euro from €1.26 at 31 March 2016 to €1.17 on 31 March 2017, similarly increasing the value of Euro sensitive assets by 7.7%.

The fund has benefitted from a number of periods in which currency movements, notably the continued weakening of Sterling, have driven excess investment performance. It should be anticipated that there may be years in future during which a strengthening pound may dampen performance outcomes.

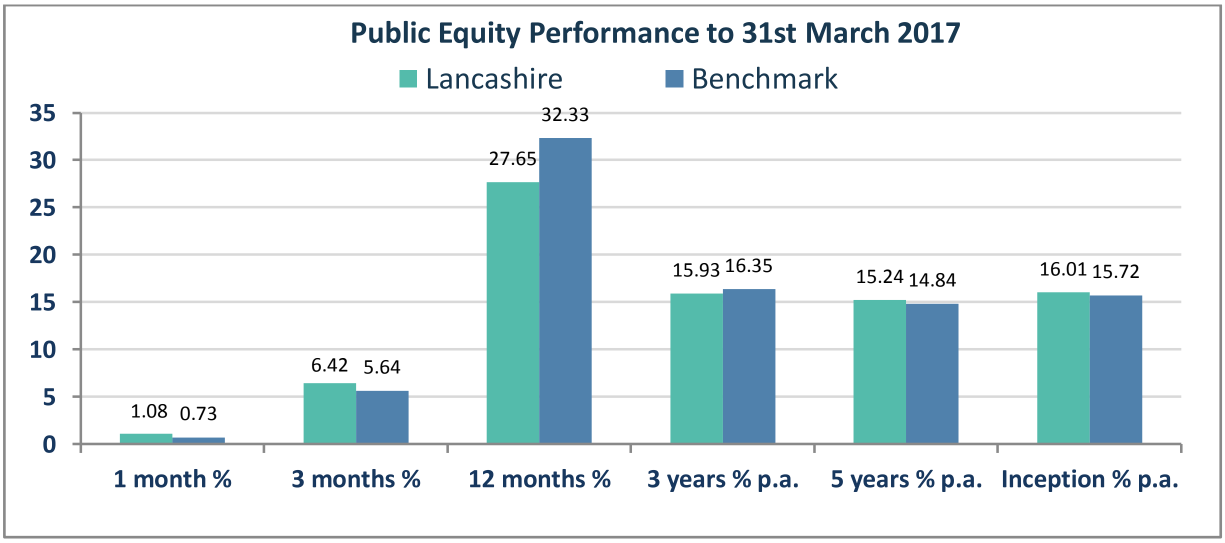
Despite these factors - which can make performance data hard to interpret - underlying investment performance remains strong, with local currency investment returns in line with, or ahead of, expectations.

Listed Equities

As noted above, the listed equities portfolio was transitioned during the course of the year replacing the seven existing global equities managers with a single investment in LPP I Global Equities ACS. Performance attribution to the outgoing managers since inception is set out in the chart below. Overall, the Fund was satisfied with the outgoing managers' performance over the whole period of their appointment, both individually and as a portfolio.



Performance during the year is difficult to accurately and fairly attribute to different managers, as there was an active transition process which created certain costs, led to periods during which the equity allocation was not fully deployed and impacted different managers at different times. Performance of the portfolio as a whole is therefore shown below. The period for the last three months reflects a period during which the equities were managed wholly within LPP I Global Equities ACS.



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

The outgoing managers were combined to give a strategy which would be robust across varying market conditions. The particular bias on 'quality' stocks which protected the portfolio is the poor market conditions of 2014/15 led to underperformance in a period during which the market grew strongly and favoured other factors. Costs of transition also created a negative drag on performance.

The LPP I Global Equities ACS will adopt a similar approach, combining external managers with an internally managed 'quality' based strategy to seek to create a portfolio which is robust across the investment cycle whilst at the same time driving cost savings though use of internal resources and rationalisation of the number of external providers used. Further details of investment strategy, portfolio make-up and a commentary on investment performance are published directly by LPP I Global Equities ACS. The first five months of operation, which also contains some further transition activity, is too short a period to merit any great discussion or analysis of performance, however.

It should be noted that the benchmark chosen, being a measure of global equity markets, rather than the performance of the UK stock market, showed significantly stronger performance during the year than the domestic measure.

The largest ten direct equity holdings of the Fund (via LPP I Global Equities ACS) as at 31 March 2017 were:

Equity	**Market value as at 31 March 2017 £m**	**Percentage of net assets of the Fund %**
Visa Inc.	120.9	1.69%
Accenture Plc	111.3	1.55%
Nestle SA	109.0	1.52%
Johnson & Johnson	87.8	1.22%
Medtronic Plc	79.7	1.11%
Honeywell International Inc.	79.5	1.11%
Colgate-Palmolive Co	78.2	1.09%
Reckitt Benckiser Group Plc	71.0	0.99%
3M CO	67.0	0.93%
Diageo Plc	65.5	0.91%
	869.9	**12.14%**

Private Markets

The fund holds an increasing allocation to assets with investment characteristics that diversify the risk associated with the core allocation to listed equities and which bring other beneficial characteristics, some having inflation-related return expectations, others designed to be significantly cash generating.

Private Equity

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

In 2016/17, Private equity investments performed strongly, buoyed by the strong increases in global equity markets. Valuation increases however, are based on sophisticated estimates rather than actual market prices; so it is wise to look at longer term performance during which investments are made and realised as a guide to performance. Since 31 December 2011, the Fund's private equity portfolio has delivered an annualised return of 12.4% versus a benchmark of 12%.

Property

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

Initial transaction and stamp duty costs associated with the continued increase in the allocation to property create negative headwinds to performance, as does the lag in valuation uplift likely to occur in relation to property development activity. As observed last year, the high quality of LCPF's core commercial real estate portfolio can perhaps be expected to perform worse than a broad benchmark during real estate boom periods, while providing a much more robust portfolio in a downturn.

The performance during the year of 6.7% versus a benchmark of 4.5% is a highly satisfactory outcome, therefore, reflecting the crystallisation of some development profits and some tactical asset disposals, as well as the strength of the portfolio.

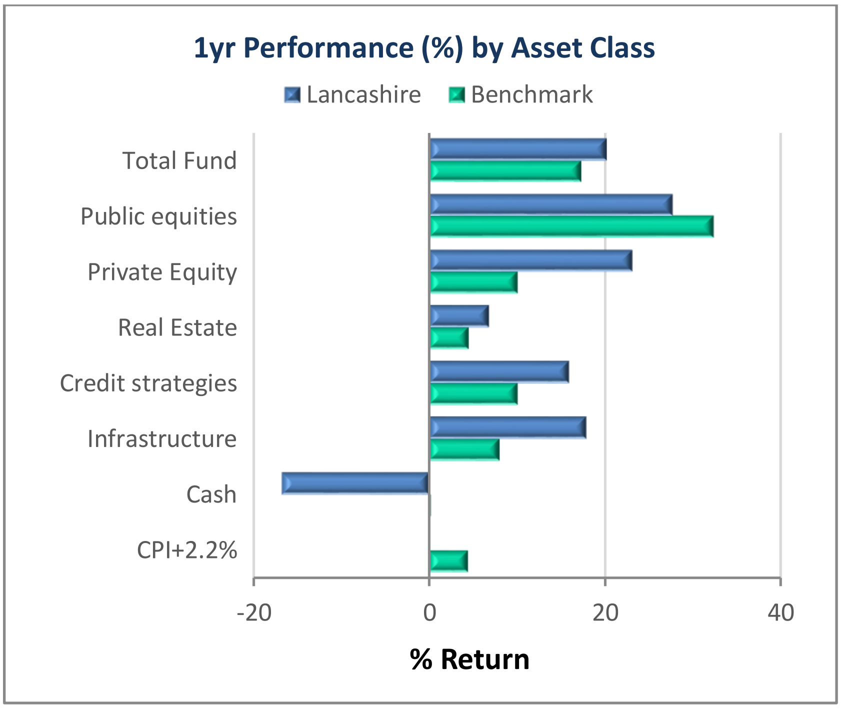
In the long term, real estate investment performance exceeds the benchmark return, having delivered 10.1% per annum versus a benchmark of 9.2% per annum since 30 September 2011.

Infrastructure

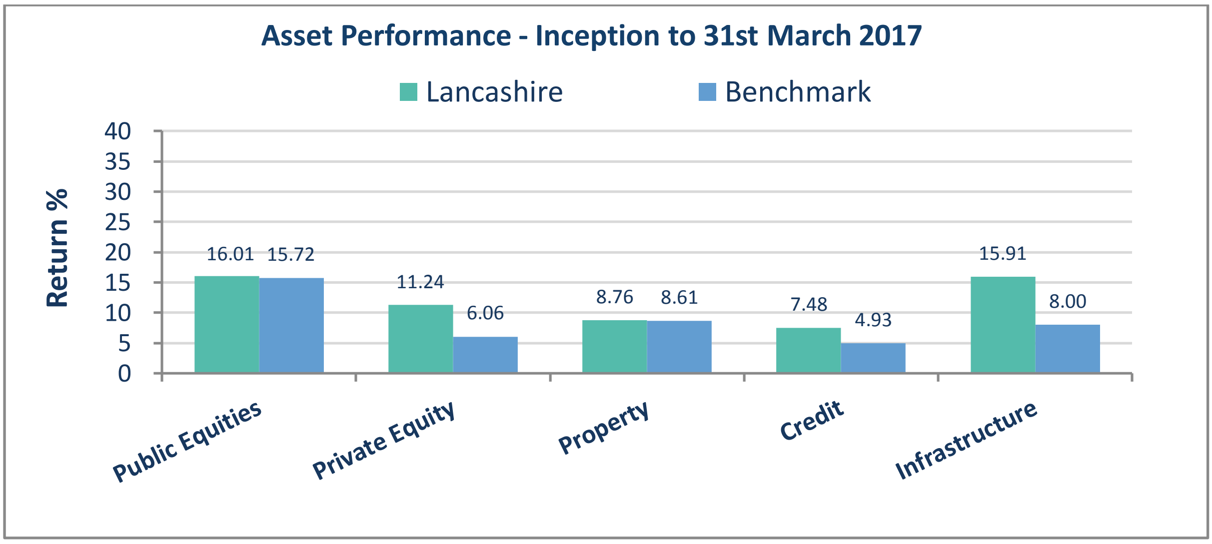
Infrastructure investments offer long-term returns that are expected to closely match the Fund's investment needs, and provide an important source of diversification. As well as investing in traditional infrastructure funds, the Fund has made a number of direct investments in global infrastructure, notably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

Similar to property, significant initial investment costs associated with the growth in the portfolio could be expected to act as a short term dampener of performance whilst the significant increase in strategic commitment to infrastructure is deployed. However, the infrastructure portfolio delivered a return of 17.8% during the year, helped by increases in global asset values generally but also by the fact that it is an international portfolio, so valuations are buoyed by the weakness of Sterling.

Over the longer term, infrastructure investments have delivered 15.9% per annum since 30 September 2011. The benchmark is 8% per annum.



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



Property investments accounted for 10.2% of the LCPF's total assets under management as at 31 March 2017. This is a slight decrease in percentage allocation – although the investment value, at £732.2m, represents a significant increase of £68.7m. The largest ten direct property holdings of the Fund were:

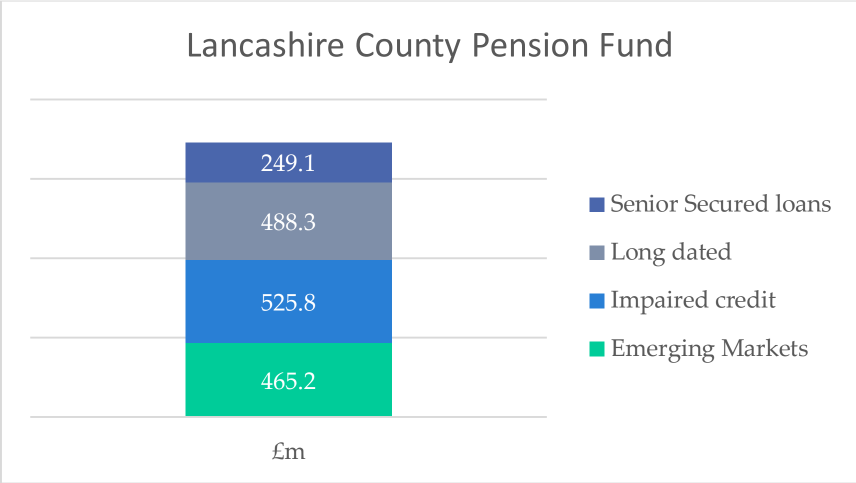
Property	Sector	Market Value as at 31 March 2017 £m
Helmont House, Cardiff	Multi-let commercial	35.6
1-3 Dufferin St, London	Offices	30.6
Princes Mead Shopping Centre, Farnborough	Shopping Centre	25.6
St Edmondsbury Retail Park, Bury St Edmunds	Retail / Warehouse	22.2
Weir Road, Wimbledon	Industrial / Warehouse	21.7
8-10 Lower James St, London	Offices	21.6
Unit H, Tuscany Park, Wakefield	Industrial / Warehouse	20.9
1 & 2 Woodbridge Meadows, Guildford	Multi let commercial	20.3
Oxonian Park, Oxford	Industrial / Warehouse	18.2
St Peter's Street, St Albans	Offices	18.2
		234.9

Credit strategies

Credit strategies follow four themes. Investments in emerging market debt amounted to £465.2 (6.5% of the Fund), £249.1m (3.5%) was invested in non-investment grade secured lending, £525.8 (7.3%) in cyclical credit opportunities and £488.3m (6.7%) in debt secured on real assets.

Overall, the fund's credit investments delivered a return of 15.9%, and the Fund was once again recognized by receipt of a number of industry awards, including the LAPF Fixed Income Strategy of the Year award.

The target level of investment was reduced slightly in 2016/17 to accommodate increased allocations to infrastructure and real estate. Investment levels are now close to target amounts. Continuing commitments were made to ensure that the fund remains fully invested in future.

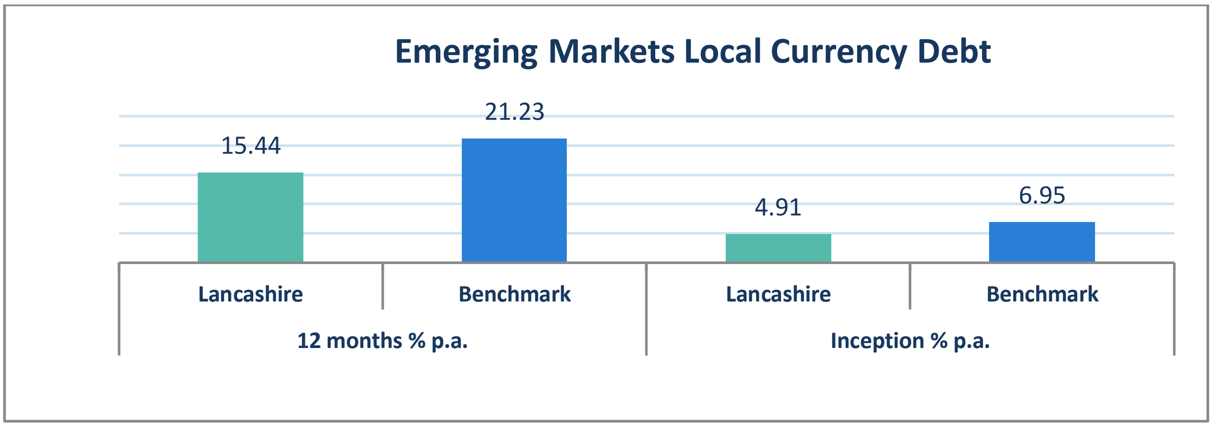


Emerging markets sovereign debt

After a very difficult year in 2015/16, emerging market debt performed solidly in 2016/17, delivering 15.4% in the year. This return lagged behind the benchmark significantly due to a more conservative portfolio construction and lower risk appetite of our managers.

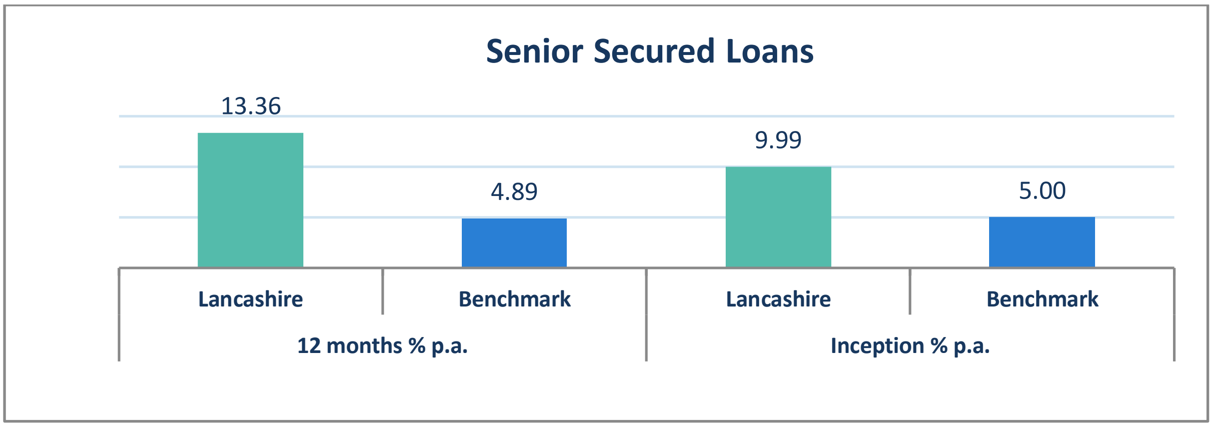
Since inception, the Fund's investments in emerging markets debt have achieved a satisfactory positive return of 4.91% per annum, again, lagging behind the more risky benchmark, which has delivered 6.95% annualized.

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



Senior secured loans

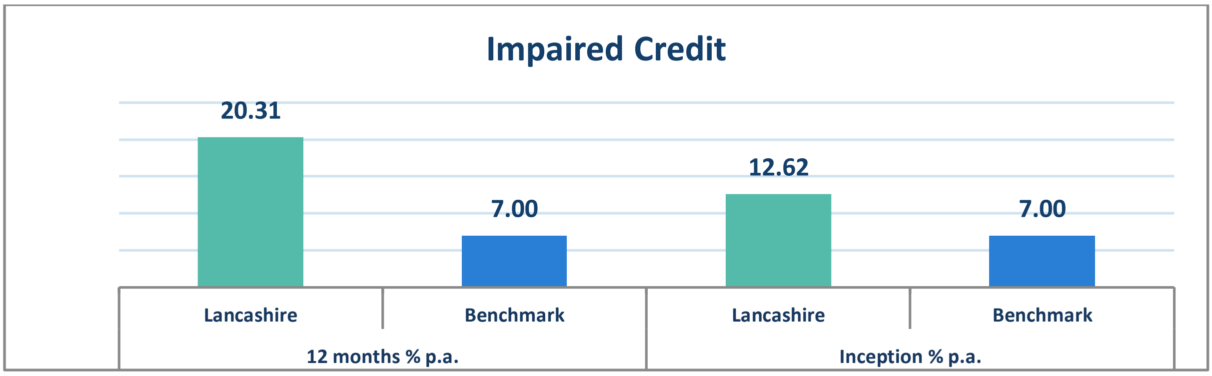
Investments in non-investment grade secured debt (i.e. lending to smaller companies) recorded a return of 13.4% during the period versus a benchmark of 4.9%. These investments deliver regular cash flows that are reinvested and the investment team believes that they provide an excellent risk/reward profile when compared to traded bonds. The international nature of the portfolio, which includes lending to US and European smaller companies, helped generate an excess return this period due to the weakness of sterling.



Credit opportunities

Investments in cyclical credit opportunities delivered 20.3% during the year versus a benchmark of 7.00%. These investments seek to take advantage of specific opportunities where 'technical' factors mean that assets can be acquired at a discount to their long-term economic value.

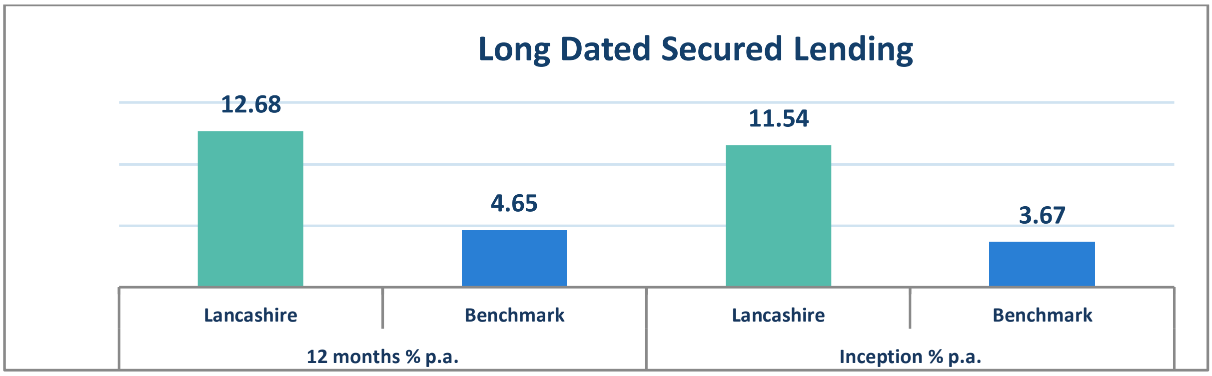
Generating returns in this credit category requires manager skill in identifying investment opportunities and in managing investments to achieve maximum value. The investments may be illiquid, meaning they have to be held to maturity in order to realise gains. They provide a diversification benefit and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



Loans secured on real assets

These showed significant returns during the period: 12.7% versus a benchmark of 4.7%. The current environment continues to provide an excellent backdrop for good quality investments to be made, with higher expected returns than might be achievable in the longer-term.

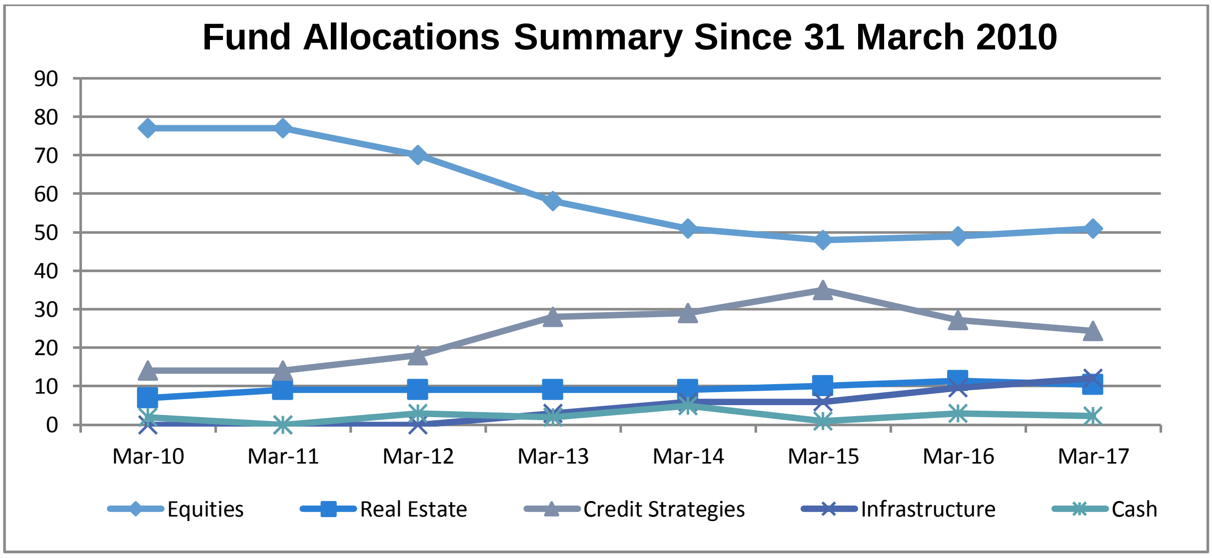
These investments are generally provide a very low-risk profile, being secured, typically, on real estate. Properly underwritten and managed, there is a very low expectation of loss. While carrying a lower expectations of long-term return, these investments should provide a very good match for the long-term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



Trend

The Fund's investment strategy focuses on reducing reliance on assets such as listed equities, whose values can be volatile and unpredictable. Increased allocations in favour of other growth asset classes with predictable cash returns such as infrastructure, real estate and credit have been made with the intention of diversifying assets to create a more robust portfolio.

This move towards a diverse range of asset classes has resulted in listed equity accounting for 44.2% of the Fund at 31 March 2017, compared with 77% at 31 March 2010. During the same period, infrastructure investments have increased from 5.6% to 13.0% in line with the Fund's target allocation of 10-15%.



At 31 March 2017, the fund's holdings in different asset classes, policy allocations and ranges were as follows:

Asset Class	Actual Allocation*	Policy Allocation	Range
Global Equities	44.1%	42.5%	40%-50%
Private Equity	8.6%	7.5%	0%-10%
Infrastructure	12.9%	12.5%	10%-12.5%
Real Estate	10.1%	15%	10%-20%
Credit	24.0%	20%	10%-25%
Fixed Income	0%	2.5%	0%-5%
Cash	0.5%	0%	0%-5%

**Totals do not add to 100% due to rounding.*

Future Commitments

As at 31 March 2017, the Fund had committed to invest a further £324.3m in infrastructure investments, £393.1m in private equity funds, £25.2m in property developments, and £390.7m in various credit strategies. These commitments will be met from the holdings of cash and cash equivalents that the Fund holds, distributions of income, maturity of existing investments and rebalancing of positions in other asset classes.

Cash flow

During 2016-17, cash inflows during the year totaled £369.5m and cash outflows were £329.4m, representing a net cash inflow of £40.1m (compared with an inflow of £39.6m in the previous year). Benefits payable amounted to £261.1m and were partially offset by net investment income of £113.0m, contributions of £245.6m and transfers in of £10.9m.

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

Governance

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

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

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

- The Investment Management Team of Local Pensions Partnership Investments Limited undertake day-to-day investment fund selection, monitoring and due-diligence;

- Where LPP I have chosen to make allocations to third party investment managers or to invest in third party unitised investment vehicles, those managers fix precise weightings and select the individual investments within their particular remit;

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

Social, Environmental, and Ethical Considerations

LCPF is committed to responsible asset ownership and became a signatory to the Principles of Responsible Investment (PRI) in March 2015.

All PRI Signatories' make the following commitment:

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1 We will incorporate ESG issues into investment analysis and decision-making processes;

Principle 2 We will be active owners and incorporate ESG issues into our ownership policies and practices;

Principle 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest;

Principle 4 We will promote acceptance and implementation of the Principles within the investment industry;

Principle 5 We will work together to enhance our effectiveness in implementing the Principles;

Principle 6 We will each report on our activities and progress towards implementing the Principles.

The Fund reported against the principles for the first time in March 2017 and a copy of the

Transparency Report is publicly available from the PRI website. PRI Reporting Framework

We have agreed investment arrangements with the Local Pensions Partnership which reflect our commitments and ensure ownership rights conferred by our investments will be used to support corporate governance best practice in the companies we invest in. Shareholder voting and engagement activities are the main routes for exercising this ownership influence.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which exists to represent the specific investment interests of Local Government Pension Schemes in the UK. 73 like-minded local authority pension funds are members of the Forum and they come together to share insight, discuss priorities and engage collectively on Responsible Investment and Corporate Governance issues.

Policy on Voting

2016/17 has been a transitionary year in which new voting arrangements have been put in place to accommodate the pooling of the Fund's listed equity investments.

Since November 2016, LCPF has owned units in a Global Equities Fund managed by LPP I rather than shares in underlying companies. As a beneficial co-owner in the fund LCPF is not entitled to direct shareholder voting but has confirmed voting arrangements with LPP I which reflect responsible investment beliefs and the commitments of signatories to the Principles of Responsible Investment.

Shareholder voting for the Global Equities Fund is managed centrally by LPP I rather than being delegated to individual portfolio managers. This enables a consistent approach across the equities within the fund in accordance with a single voting policy. LPP I employs Institutional Shareholder Services (ISS) to oversee ballot management and vote execution and to provide information, analysis, voting recommendations, and reporting facilities via an online voting platform.

ISS voting recommendations are in accordance with an agreed voting policy which is actively reviewed on an annual basis and updated to reflect emerging issues and trends. The recommendations for forthcoming meetings are reviewed by LPP I and where there is a case for departing from the ISS recommendation this is considered carefully as part of making a final decision on voting direction. Where LPP I decides to depart from the ISS voting recommendation the rationale is recorded online and captured in reporting. There were no occurrences of this during the period from 1st November 2016 to 31st March 2017.

A record of voting activity is provided to the Pension Fund Committee quarterly as part of Responsible Investment reporting by LPP I.

Risk Management

The Lancashire County Pension Fund recognise the importance of managing risks effectively. To this end, the fund have appointed a new officer to manage all risks through effective risk management processes. A central risk register is maintained to identify, record and mitigate all risks under the following four main group headings:

- Investment and Funding;
- Member;
- Operational;
- Transition.

Risk reporting is carried out each quarter to the Lancashire Pension Fund Committee. Additional oversight is also undertaken by the Lancashire Pension Board.

Compliance with Myners Principles

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

G Accounts of the Fund

Responsibilities for the Statement of Accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Director of Financial Resources, who is also the Director of Financial Resources to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

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

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

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

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

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

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

The Statement of Accounts relate to the financial year ended 31 March 2017 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Neil Kissock

Director of Financial Resources

31 July 2017

Lancashire County Pension Fund – Annual Governance Statement 2016/17

Introduction

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

At 31st March 2017 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 167,309 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

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

The Pension Fund's Responsibilities

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

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

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

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

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the principles that should underpin the governance of each local authority.

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

The Purpose of the Governance Framework

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2017.

The Fund's Governance Framework

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

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

The Fund has an established planning process focussed around the triennial actuarial review. Both the Fund and Local Pensions Partnership (LPP) have Strategic Plans which are incorporated into annual service plans for the various teams.

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

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

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

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

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

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. Many of these functions are now performed under contract by LPP and the Strategic Plan forms part of their business objectives. The overall strategic plan will continue to be monitored by the Head of Fund

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

The administration service is now undertaken by LPP. As part of its responsibility for the Governance of the Fund the Pension Fund Committee are responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPP. This includes amongst other things, performance against the Key performance indicators set out in the legal agreements.

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

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

Much of the investment and administration functions are to be performed by LPP. These are to be provided in accordance with several legal agreements between Lancashire County Council and LPP and are to be undertaken in accordance of decisions made by the Pension Fund Committee. Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely in the County Council's Constitution.

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

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

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

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, was reviewed in 2015/16 as part of the production and approval of the new governance policy. Revisions were made to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

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

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

The management of risk is central to the Fund's activities and progress on the Fund's risk register especially in light of the relationship with LPP is subject to regular reports to the Committee. The work on risk is increasing the awareness of risk in various contexts including:

- Investment and Funding Risk
- Member risk
- Operational risk
- Transition risk

Fulfilling the core functions of an Audit Committee

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

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

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

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

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both either the Fund's or LPP's custodian. LPP is a FCA registered company and therefore has to follow strict rules over compliance and has a compliance Team which is independent from the Investment Management.

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

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

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

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

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

Whistle blowing and receiving and investigating complaints from the public

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

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

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

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

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

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

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

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

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

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the pension fund is LPP. This is a collaboration with the London Pensions Fund Authority with Lancashire County Council holding half of the shareholding in the company. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the County Council's functions as administering authority rests with the Head of Fund.

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

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

Review of Effectiveness

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

The key planned activities of the Fund during 2016/17 were:

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

The Committee has overseen each of these processes and has continued the Governance arrangements whereby it will delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the Pension Fund Committee which are set out in the Governance Policy Statement.

The Investment Panel ensures that the Investment Strategy is delivered and that performance is in line with expectations. The Panel is chaired by the Head of the Pension Fund and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee and it submits a quarterly report to the Committee.

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

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

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

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

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

The Head of Internal Audit's Annual Report for 2016/17 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

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

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

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

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

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

Actions Planned for 2017/18

The following specific actions are proposed for completion during 2017/18.

- To support the new Committee especially by providing appropriate training for new members.
- Review and amend as necessary the Terminations Policy.
- To produce a new 3 year Strategic Plan.
- The Investment Panel undertake a full review of the Fund's investment strategy following the triennial funding valuation.

County Councillor Eddie Pope	Abigail Leech
Chair of the Pension Fund Committee	Head of Fund, Lancashire County Pension Fund

Date: 30 June 2017

Independent Auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Lancashire County Pension Fund Annual Report

The accompanying pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in Lancashire County Council's ('the authority')Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 10th August 2017

The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The Director of Financial Resources' responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Financial Resources is responsible for the preparation of the pension fund financial statements which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Management Structure, Foreword by the Chair of the Pension Fund Committee, Governance of the Fund, Administration of the Fund, Knowledge and Skills Framework, Investment Policy and Performance, Local Pension Board Annual Report and Actuarial Valuation.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2017 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

[TO BE SIGNED]

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

4 Hardman Square

Spinningfields

Manchester

M3 3EB

[TO BE DATED]

LANCASHIRE COUNTY PENSION FUND

Fund account

2015/16		Note	2016/17
£m			£m
	Dealing with members, employers and others directly involved in the Fund		
238.6	Contributions	6	245.5
5.5	Transfers in from other pension funds	7	10.9
244.1			**256.4**
(245.8)	Benefits	8	(261.1)
(12.5)	Payments to and on account of leavers	9	(15.7)
(258.3)			**(276.7)**
(14.2)	**Net withdrawals from dealings with members**		**(20.4)**
(45.3)	Management expenses	10	(49.6)
(59.5)	**Net withdrawals including fund management expenses**		**(70.0)**
	Returns on investments		
99.1	Investment income	11	109.9
165.9	Profit and losses on disposal of investments and changes in the market value of investments	14	1,133.2
265.0	**Net return on investments**		**1,243.1**
205.5	**Net increase / (decrease) in the net assets available for benefits during the year**		**1,173.1**
5,830.7	**Opening net assets of the scheme**		**6,036.2**
6,036.2	**Closing net assets of the scheme**		**7,209.3**

Net assets statement as at 31 March 2017

31 March 2016		Note	31 March 2017
£m			£m
6,108.0	Investment assets	14	7,135.1
210.3	Cash deposits	14	56.3
(291.0)	Investment liabilities	14	-
6,027.3	**Total net investments**		**7,191.4**
27.7	Current assets	20	30.7
(18.8)	Current liabilities	21	(12.8)
6,036.2	**Net assets of the Fund available to fund benefits at the at the period end**		**7,209.3**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 26.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2017 and its income and expenditure for the year then ended.

Neil Kissock
Director of Financial Resources

County Councillor Alan Schofield
Chair of Audit and Governance Committee

NOTES TO THE FINANCIAL STATEMENTS

1. PENSION FUND OPERATIONS AND MEMBERSHIP

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

The published accounts show that in 2016/17 cash inflows during the year were £366.3 million and cash outflows were £326.4 million, representing a net cash inflow of £39.9 million (compared with an inflow of £39.6million in the previous year). Benefits payable amounted to £261.1 million and were offset by net investment income of £109.9 million, contributions of £245.5 million and transfers in of £10.9 million.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at Your Pension Service - Lancashire Fund Information

The investments of the Fund are managed by external investment managers, including the Local Pensions Partnership (LPP), a joint venture established with effect from 8 April 2016 and owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP manages the administration and investment functions on behalf of the two partner authorities.

The administration and investment management staff involved in the operation of the two funds transferred to the new organisation on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April 2016.

1.2 Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

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

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

There are 413 employer organisations (2015/16: 369 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 287 have active members (2015/16: 261) as detailed below:

31 March 2016	Lancashire County Pension Fund	31 March 2017
369	Total number of employers	413
261	Number of employers with active members	287
	Number of active scheme members	
27,106	County Council	26,416
29,223	Other employers	29,499
56,329	**Total**	**55,915**
	Number of pensioners	
22,414	County Council	23,141
22,093	Other employers	23,012
44,507	**Total**	**46,153**

	Number of deferred pensioners	
33,253	County Council	34,668
28,377	Other employers	30,573
61,630	**Total**	**65,241**
162,466	**Total membership**	**167,309**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017.

1.4 Benefits

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

	Service Pre 1 April 2008	Service post 31 March 2008	Service post 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2016/17* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 26 to these accounts.

2.1 Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2017 but not yet adopted by the Code.

The Fund has adopted CIPFA guidance on management expenses since 2014/15 when the guidance was introduced. The *2017/18 Code* is expected to mandate the current guidance and no material change to the Fund accounts is expected.

The Fund provides a breakdown of pension fund management expenses across three categories: investment management expenses, pension scheme administration costs and oversight and governance expenses. This information can be found in note 10 and further information is provided in accounting policies 3.2.3 to 3.2.6.

The *2017/18 Code of Practice* will also amend the reporting of investment asset concentration for pension funds and will require disclosure of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security. This is consistent with the approach taken in the *Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015'*. No material impact on the accounts of the Fund is expected.

3. ACCOUNTING POLICIES

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary. Any receipts in advance are accounted for as accrued income.

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

3.1.2 Transfers to and from other schemes

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme Regulations 2013.

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

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

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

3.1.3 Investment income

3.1.3.1 Interest income

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

3.1.3.2 Dividend income

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

3.1.3.3 Distribution from pooled funds

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

3.1.3.4 Property related income

Property-related income consists primarily of rental income.

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

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

3.1.3.5 Movement in the net market value of investments

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

3.2 Fund account – expense items

3.2.1 Benefits payable

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

3.2.2 Taxation

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

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)".*

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

3.2.4 Administrative expenses

Administration expenses consist of the following:

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

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

All administrative expenses are accounted for on an accruals basis.

3.2.5 Oversight and governance costs

Oversight and governance expenses include the following costs:

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

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

3.2.6 Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

All investment management expenses are accounted for on an accruals basis.

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

The fund has negotiated with a number of managers that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2016/17, £7.1m of fees is based on such estimates (2015/16: £4.7m).

3.3 Net assets statement

3.3.1 Financial assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

3.3.2 Freehold and leasehold properties

The properties were valued at open market value at 31 March 2017 by independent property valuers GVA Grimley Limited in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.3 Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

3.3.4 Derivatives

The Fund has used derivative financial instruments to manage its exposure to specific risks arising from its investment activities. These have been valued using appropriate market information. The Fund does not hold derivatives as at 31 March 2017. Derivatives were previously held in relation to the equity portfolio which is no longer a direct investment of the Fund. Any derivatives in respect of the pooled equity investments will sit within the pools and are not recorded as separate assets or liabilities of the Fund.

Until the transition of equities to the LPPI Global Equity Fund, derivative contract assets were fair valued at bid prices and liabilities were fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

As at 31 March 2016, the future value of forward currency contracts was based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

3.3.5 Loans and receivables

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

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

3.3.6 Cash and cash equivalents

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

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

3.3.7 Financial liabilities

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

3.3.8 Actuarial present value of promised retirement benefits

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

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

3.3.9 Additional voluntary contributions

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

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 19).

3.3.10 Securities lending

During the year, all equities were transitioned into the LPP Global Equities Pool. Securities lending by Northern Trust, the Fund's custodian, effectively ended on transition. Until this date, Northern Trust were authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity.

Any income from securities lending within the LPP Global Equities Pool will be reinvested within the pool.

Note 13 provides details of stock lending income and average on loan value during the period to transition of equities.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 Unquoted private equity and infrastructure investments

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

4.2 Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £1,421.8 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements (excluding the loan to Heylo Housing listed separately below) totals £1,591.6m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority loans to Heylo Housing totals £138.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £99.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £150m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £240m.

6. CONTRIBUTIONS RECEIVABLE

2015/16		2016/17
£m	**By category**	**£m**
54.9	Members	**55.5**
	Employers:	
122.4	Normal contributions	124.5
49.0	Deficit recovery contributions	48.5
12.3	Augmentation contributions	17.0
183.7	Total employers contributions	**190.0**
238.6		**245.5**
	By authority	
104.2	County Council	109.5
113.2	Scheduled bodies	114.7
21.2	Admitted bodies	21.3
238.6		**245.5**

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

Within the employee contributions figure for 2016/17, £0.3m is voluntary and additional regular contributions (2015/16: £0.4m).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£m		**£m**
5.5	Individual transfers in from other schemes	10.9
5.5		**10.9**

8. BENEFITS PAYABLE

2015/16		2016/17
£m	**By category**	**£m**
200.2	Pensions	207.3
40.5	Commutation and lump sum retirement benefits	48.2
5.1	Lump sum death benefits	5.6
245.8		**261.1**
	By authority	
107.2	County Council	113.3
120.4	Scheduled bodies	128.6
18.2	Admitted bodies	19.2
245.8		**261.1**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£m		**£m**
0.7	Refunds to members leaving service	0.7
11.2	Individual transfers	14.4
0.6	Group transfers	0.6
12.5		**15.7**

10. MANAGEMENT EXPENSES

2015/16		2016/17
£m		**£m**
4.1	Fund administrative costs	3.2
32.5	Investment management expenses[1]	42.7
8.7	Oversight and governance costs[2]	3.7
45.3		**49.6**

[1]Included within investment management expenses for the year ended 31 March 2017 are costs of the transition of equities to the LPP Global Equities Fund, paid to the transition manager and amounting to £2.0m.

[2]Oversight and governance costs above include external audit fees which amounted to £34,169 (2015/16: £34,169)

10.1 Investment management expenses

2015/16		2016/17
£m		**£m**
1.5	Transaction costs	1.6
27.9	Fund value based management fees[1]	31.8
-	Cost of global equities transition	2.0
2.9	Performance related fees	7.1
0.2	Custody fees	0.2
32.5		**42.7**

[1] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA 2016 guidance on accounting for local government pension scheme management expenses. Fees are charged as a percentage of the value of assets held by each manager.

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

12. INVESTMENT INCOME

2015/16		2016/17
£m		**£m**
3.3	Fixed interest securities	1.4
41.6	Equity dividends	32.0
1.1	Index linked securities	1.5
15.2	Pooled investment vehicles	34.1
7.1	Pooled property investments	11.2
29.2	Net rents from properties	28.2
0.5	Interest on cash deposits	0.7
1.1	Other	0.8
99.1	**Total before taxes**	**109.9**

13. PROPERTY INCOME

2015/16		2016/17
£m		£m
32.3	Rental income	31.3
(3.1)	Direct operating expenses	(3.1)
29.2	**Net income**	**28.2**

14. STOCK LENDING

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity.

Stock lending by Northern Trust ceased when all directly held equities were transitioned into the LPP Global Equities Pool. Stock lending income to the date of transition was £0.8m (2015/16: £1.5m). There were no directly held securities on loan at 31 March 2017. The average on loan value, wholly comprised of equities, for the period to transition was £67.8m. Assets on loan at 31 March 2016 consisted of £76.2m equities.

Any income from securities lending within the LPP Global Equities Pool will be reinvested within the pool.

14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2016/17

	Market value as at 1 April 2016	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value[3]	Market value as at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	123.1	189.5	(190.5)	10.1	132.2
Equities[1]	2,069.9	1,867.8	(4,358.0)	420.3	-
Index linked securities	63.7	125.1	(66.7)	5.0	127.1
Pooled investment vehicles[2]	2,855.0	3,396.3	(780.0)	665.4	6,136.7
Pooled property investments[2]	80.6	13.2	0.0	5.6	99.4
Direct property	608.1	95.2	(104.5)	38.2	637.0
	5,800.4	**5,687.1**	**(5,499.7)**	**1,144.6**	**7,132.4**
Derivatives contracts:					
Forward currency contracts asset value	294.5				-
Forward currency contracts liability value	(291.0)				-
Forward currency contracts	**3.5**	**47.7**	**(13.2)**	**(38.0)**	-
Other investment balances:					
Cash deposits	210.3				56.3
Investment accruals	13.1				2.7
Net Investment assets	**6,027.3**				**7,191.4**

[1]All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.
[2]The value of pooled property investments was previously included within total pooled investment vehicles. Pooled investment vehicles includes the LPP Global Equities Pool.
[3]The change in market value of net investment assets disclosed above is included in the total profit and loss on disposal of investments and change in market value of investments reported on the face of the Fund account. £1,133.2m on the face of the Fund account also includes profits and losses on disposals and the change in market value of derivative contracts.

2015/16

	Market value as at 1 April 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value as at 31 March 2016
	£m	£m	£m	£m	£m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities[1]	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles[2]	2,697.1	918.5	(842.6)	82.0	2,855.0
Pooled property investments[2]	43.0	31.9	-	5.7	80.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,738.9	**2,380.7**	**(2,485.1)**	**165.9**	**5,800.4**
Derivative Contracts:					
Forward currency contracts asset value	632.4				294.5
Forward currency contracts liability value	(629.6)				(291.0)
Forward currency contracts	**2.8**	**24.9**	**(12.6)**	**(11.6)**	**3.5**
Other investment balances:					
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Net investment assets	**5,813.5**				**6,027.3**

[1]All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.

[2]The value of pooled property investments was previously included within total pooled investment vehicles.

Investments analysed by manager

31 March 2016			31 March 2017	
£m	**%**		**£m**	**%**
Public equity				
733.3	12.1%	Baillie Gifford	-	-
350.1	5.8%	MFS	-	-
324.6	5.4%	Morgan Stanley	-	-
209.7	3.5%	NGAM	-	-
496.0	8.2%	Robeco	-	-
234.5	3.9%	AGF	-	-
251.2	4.2%	MFG (Magellan)	-	-
2,599.4	**43.1%**		**-**	**-**
Private equity				
336.5	5.6%	Capital Dynamics	452.7	6.3%
11.7	0.2%	Standard Life	28.2	0.4%
348.2	**5.8%**		**480.9**	**6.7%**
Long term credit investments				
56.0	0.9%	Ares Institutional	-	-
74.5	1.2%	Babson	-	-
73.0	1.2%	Hayfin	52.4	0.7%
0.0	0.0%	Highbridge	0.0	0.0%
4.9	0.1%	Kreos	33.8	0.5%
5.9	0.1%	Muzinich Private Debt Fund	17.6	0.2%
47.3	0.8%	Permira Credit Solutions	76.6	1.1%
57.0	0.9%	THL	-	-
18.4	0.3%	White Oak	68.8	1.0%
83.6	1.4%	Heylo Housing	138.6	1.9%
214.6	3.5%	Prima	256.8	3.6%

83.0	1.4%	Venn Commercial Real Estate	83.7	1.2%
11.4	0.2%	Westmill	10.9	0.2%
125.0	2.1%	Bluebay	132.5	1.8%
60.0	1.0%	HSBC	71.5	1.0%
83.1	1.4%	Investec	101.7	1.4%
134.0	2.2%	Pictet	159.6	2.2%
89.2	1.5%	CRC	152.5	2.1%
53.0	0.9%	EQT	51.2	0.7%
109.9	1.8%	MFO King Street	128.4	1.8%
52.4	0.9%	Monarch	67.0	0.9%
54.0	0.9%	Neuberger Berman	61.9	0.9%
47.6	0.8%	Pimco Bravo	64.8	0.9%
1,537.8	**25.5%**		**1,730.2**	**24.1%**
Liquid credit (cash and bonds)				
283.8	4.7%	Local Pensions Partnership and LCC Treasury Management	135.2	1.9%
283.8	**4.7%**		**135.2**	**1.9%**
Global equity funds				
-	-	Local Pensions Partnership	3,168.2	44.1%
-	**-**		**3,168.2**	**44.1%**
Infrastructure				
62.6	1.0%	Arclight Energy	95.7	1.3%
66.4	1.1%	Capital Dynamics Cape Byron	85.7	1.2%
31.7	0.5%	Capital Dynamics Clean Energy	31.1	0.4%
76.0	1.3%	Capital Dynamics Red Rose	60.5	0.8%
0.7	0.0%	Capital Dynamics US Solar	-	-
9.6	0.2%	EQT Infrastructure	26.6	0.4%

34.3	0.6%	Global Infrastructure Partners	60.3	0.8%
70.4	1.1%	Guild Investments Ltd	130.1	1.8%
0.0	0.0%	GLIL Infrastructure	42.6	0.6%
35.2	0.6%	Highstar Capital	61.5	0.9%
34.0	0.6%	Icon Infrastructure	69.8	1.0%
7.5	0.1%	ISQ Global Infrastructure	101.3	1.4%
135.9	2.3%	Madrilena Red de Gas (MRG)	146.6	2.0%
5.2	0.1%	Stonepeak Infrastructure	28.9	0.4%
569.5	**9.5%**		**940.6**	**13.1%**
Property				
608.1	10.1%	Knight Frank	637.0	8.9%
30.4	0.5%	Gatefold Hayes	33.4	0.5%
14.0	0.2%	Kames Target	25.0	0.4%
36.1	0.6%	M&G Europe fund	41.0	0.6%
688.6	**11.4%**		**736.4**	**10.2%**
6,027.3	**100.0%**		**7,191.4**	**100.0%**

Fixed interest securities

31 March 2016		**31 March 2017**
£m		**£m**
85.3	UK corporate bonds quoted	20.9
0.0	Overseas public sector	13.6
37.8	Overseas corporate bonds quoted	97.7
123.1		**132.2**

Equities

31 March 2016		31 March 2017
£m		**£m**
191.3	UK quoted	-
1,878.6	Overseas quoted	-
2,069.9		-

Index linked securities

31 March 2016		31 March 2017
£m		**£m**
63.7	UK quoted	127.1
63.7		**127.1**

Direct property investments

31 March 2016		31 March 2017
£m		**£m**
515.7	UK – freehold	538.8
92.4	UK – long leasehold	98.2
608.1		**637.0**

Pooled investment vehicles

31 March 2016		31 March 2017
£m	**UK managed funds:**	**£m**
60.0	Fixed income funds	71.5
88.6	Private equity	79.5
107.7	Infrastructure	136.1
173.1	Long term credit investments	189.6
44.5	Property funds	58.3
	Overseas managed funds:	
1,097.3	Fixed income funds	1,125.1
259.6	Private equity	401.4

461.8	Infrastructure	761.8
120.6	Long term credit investments	204.1
485.7	Equity funds	3,168.2
0.6	Cash funds	0.0
36.1	Property funds	41.0
2,935.6		**6,236.1**

Property holdings

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

Details of these directly owned properties are as follows.

31 March 2016*		31 March 2017
£m		**£m**
531.4	**Opening balance**	**608.1**
	Additions:	
66.4	Purchases	27.6
15.7	New construction	23.1
2.3	Subsequent expenditure	44.5
(52.6)	Disposals	(104.5)
44.9	Net increase in market value	38.2
608.1	**Closing balance**	**637.0**

*Comparatives as at 31 March 2016 have been restated to disclose new construction and subsequent expenditure separately rather than include within the purchases figure.

Operating leases

The Fund leases out property under operating leases.

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

2015/16		2016/17
£m		£m
29.5	Leases expiring in the following year	32.3
87.0	Leases expiring in 2 to 5 years	101.5
87.6	Leases expiring after 5 years	106.0
204.1	**Total future minimum lease payments receivable under existing non-cancellable leases**	**239.8**

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

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

Cash deposits

31 March 2016		31 March 2017
£m		£m
114.9	Sterling	18.2
95.4	Foreign currency	38.1
210.3		**56.3**

15. FINANCIAL INSTRUMENTS CLASSIFICATION

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. Directly held property is excluded from this note.

31 March 2017	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	132.2		
Index linked securities	127.1		
Pooled investment vehicles	6,136.8		
Pooled property investments	99.4		
Cash deposits		56.3	
Investment accruals	2.6		
Debtors		30.7	
Total financial assets	**6,498.1**	**87.0**	
Financial liabilities			
Creditors			12.8
Total financial liabilities			**12.8**

31 March 2016	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	123.1		
Equities	2,069.9		
Index linked securities	63.7		
Pooled investment vehicles	2,935.6		
Derivative contracts	294.5		
Cash deposits		210.3	

Investment accruals	13.1		
Debtors		27.7	
Total financial assets	**5,499.9**	**238.0**	
Financial liabilities			
Derivative contracts	291.0		
Creditors			18.8
Total financial liabilities	**291.0**		**18.8**

16. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain on financial assets at fair value through profit and loss was £1,133.2 (2015/16: £165.9m after adjusting for directly owned property).

17. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY

17.1 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

17.1.1 Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPP I Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

17.1.2 Level 2

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

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

17.1.3 Level 3

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

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

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

17.1.4 Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2017	**Quoted market price Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Financial assets at fair value through profit and loss	3,549.9	158.7	2,789.5	6,498.1
Non-financial assets at fair value through profit and loss (property holdings)		637.0		637.0
Net investment assets	**3,549.9**	**795.7**	**2,789.5**	**7,135.1**

31 March 2016*	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,341.1	245.6	1,913.2	5,499.9
Non-financial assets at fair value through profit and loss (property holdings)*		608.1		608.1
Financial liabilities at fair value through profit and loss	(291.0)			(291.0)
Net investment assets	**3,050.1**	**853.7**	**1,913.2**	**5,817.0**

*The information for 2015/16 has been restated from the audited 2015/16 accounts to include investments in directly held property as a result of changes to the Code.

17.1.5 Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Equity funds	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers GVA Grimley in accordance with RICS	Comparable recent market transactions on arm's length terms;	Not required.

		valuation standards (9th edition).	general changes in property market prices; rental growth; vacant properties.	
Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

17.1.6 Reconciliation of fair value measurements within level 3

	Financial assets at fair value through profit and loss
	£m
Market value 1 April 2016	**1,913.2**
Purchases during the year and derivative payments	878.4
Sales during the year and derivative receipts	(364.2)
Unrealised gains	290.8
Realised gains	71.3
Market value 31 March 2017	**2,789.5**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

18.1 Risk and risk management

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

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

18.2 Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

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

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

18.3 Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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

18.3.1 Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2016/17 reporting period.

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

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

Asset type	31 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,433.1	6.4%	1,524.8	1,341.4
Total equities	3,649.1	9.6%	3,999.4	3,298.8
Alternatives	1,313.8	6.4%	1,397.9	1,229.8
Total property	736.4	2.4%	746.7	726.1
Total assets available to pay benefits	**7,132.4**		**7,676.2**	**6,588.6**

Asset type	31 March 2016	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				

Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

18.4 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2016	Asset type	31 March 2017
£m		£m
210.3	Cash and cash equivalents	56.3
210.3	**Total**	**56.3**

18.4.1 Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type		Change in year in net assets available to pay benefits	
	31 March 2017	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	56.3	0.6	(0.6)
Total change in assets available	**56.3**	**0.6**	**(0.6)**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2016	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	210.3	2.1	(2.1)
Total change in assets available	**210.3**	**2.1**	**(2.1)**

18.5 Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than £.

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

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

31 March 2016	Currency exposure – asset type	31 March 2017
£m		£m
850.9	Overseas bonds (including index linked)	1,071.4
2,622.9	Overseas equities	3,569.6
868.0	Overseas alternatives	1,101.9
36.1	Overseas property	41.0
4,377.9	**Total overseas assets**	5,783.9

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1%.

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant (2015/16 6.1%).

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

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31 March 2017	+6.1%	-6.1%
	£m	£m	£m
Overseas bonds (including index linked)	1,071.4	3,787.3	3,351.8
Overseas equities	3,569.6	1,136.7	1,006.0
Overseas alternatives	1,101.9	1,169.1	1,034.6
Overseas property	41.0	43.5	38.5
Total change in assets available	**5,783.9**	**6,136.6**	**5,431.0**

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31 March 2016	+6.1%	-6.1%
	£m	£m	£m
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

18.6 Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £56.3m (31 March 2016: £210.3m.) This was held with the following institutions:

31 March 2016	Summary	Rating	31 March 2017
£m			**£m**
	Bank deposit accounts		
154.8	Northern Trust	A1+	47.9
55.4	Svenska Handelsbanken	A1+	8.4
	Bank current accounts		
0.1	NatWest	A3	-
210.3	**Total**		**56.3**

18.7 Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2017 are due within one year.

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

Members participating in 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 2016 to 31 March 2017 for Prudential and 1 September 2015 to 31 August 2016 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.8**	**22.0**	**22.8**
Income (incl. contributions, bonuses, interest & transfers in)	0.0	7.0	7.0
Expenditure (incl. benefits, transfers out & change in market value)	(0.1)	(4.7)	(4.8)
Value at the end of the year	**0.7**	**24.3**	**25.0**

20. CURRENT ASSETS

31 March 2016		31 March 2017
£m		£m
13.9	Contributions due – employers	14.1
4.6	Contributions due – members	4.6
9.2	Debtors	12.0
27.7		**30.7**

31 March 2016	Analysis of debtors	31 March 2017
£m		£m
14.9	Other local authorities	14.6
12.8	Other entities and individuals	16.1
27.7		**30.7**

21. CURRENT LIABILITIES

31 March 2016		31 March 2017
£m		£m
1.1	Unpaid benefits	5.7
17.7	Accrued expenses	7.1
18.8		**12.8**

31 March 2016	Analysis of creditors	31 March 2017
£m		£m
2.1	Other local authorities	5.0
16.7	Other entities and individuals	7.8
18.8		**12.8**

22. CONTRACTUAL COMMITMENTS

As at 31 March 2017 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £663.4m (2016: £665.3m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £390.7m (2016: £497.2m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £24.6m (2016: £19.9m). These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £0.6m (2016: £13.8m). These amounts are expected to be drawn down over the next few months.

23. RELATED PARTY TRANSACTIONS

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

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

23.1 Lancashire County Council

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

The Council incurred costs of £0.4 m (2015/16: £3.7m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £87.0m to the fund in 2016/17 (2015/16: £81.4m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2017 amount to £8.2m (2015/16: nil).

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2017 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2016/17 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2017.

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

24. KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund are the Lancashire County Council Director of Financial Resources and the Head of Fund. Total remuneration payable to key management personnel is set out below:

2016/17	Employment period	Salary[1]	Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/16 – 31/03/17	52,175	6,664	58,839
Director of Financial Resources (Section 151 officer)	01/04/16 – 31/03/17	4,732	563	5,295

2015/16	Employment period	Salary[1]	Pension contributions[1]	Total including pension contributions[1]
		£	£	£
*Director of Lancashire Pension Fund	01/04/15 - 31/03/16	86,199	10,800	96,999
**Head of Fund	01/12/15 – 31/03/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/02/16 – 31/03/16	401	25	426
****Chief Investment Officer	01/04/15 - 31/03/16	120,150	13,230	133,380

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

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

**The Head of Fund took up this new post on 1 December 2015

***The Director of Financial Resources was appointed on 29 February 2016. This position was previously held by an interim consultant.

****The Chief Investment Officer position transferred to the Local Pensions Partnership on 7 April 2016.

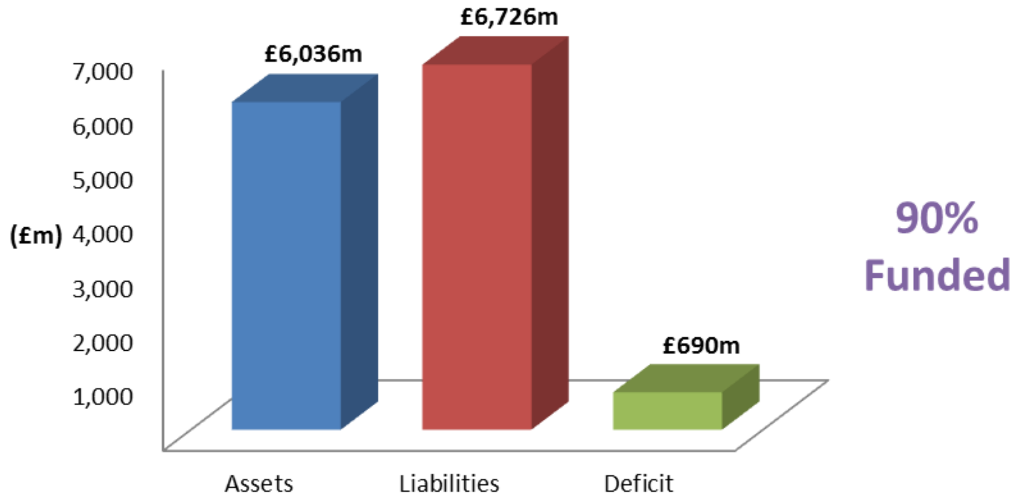
25. FUNDING ARRANGEMENTS

Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary

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

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary 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.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £41.5 million. The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years' contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* Allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

26. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint, which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £8,106 million. Interest over the year increased the liabilities by c£291million, and allowing for net benefits accrued/paid over the period also increased them by c£6 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,662 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £10,065 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2017

H Lancashire Local Pension Board Annual Report - 2016/17

A year ago, I wrote my first report as the Independent Chair of the Lancashire County Pension Fund's Local Pension Board (LPB). I commented then that we had successfully established the Board in accordance with the regulations, but were still finding our feet within the overall governance structure. This was particularly so given the changes taking place as a result of the formation of the London Pensions Partnership Ltd (LPP) pool to manage the investments, liabilities and administration of the Fund. I ended my report by stressing the need for the LPB to add value to the Fund's governance and activities. Although still early days, I said then that I believed it was already fulfilling two important functions: offering challenge to the executive; and providing valuable Members' and Employers' perspectives to the Executive which they might otherwise struggle to obtain.

Twelve months on, as a Board we have a much clearer view of our role and where and how we can add value, and I shall devote some of this report to setting that out in more detail. First, however, I should report on the mechanics. The Board has nine members, four Employer representatives who were chosen to be representative of the Fund's Employers, four Member representatives elected in a public election, and myself as the Independent Chair. All members served throughout the year. My term comes to an end in March 2019, while members may serve for a maximum of two terms of four years. We have met four times during the year, and held one Working Group (comprising 3 Board members) to consider revised Terms of Reference.

The following table shows members attendance at Board meetings

Name	Representing	5th July 2016	18th Oct 2016	17th Jan 2017	11th Apr 2017
W Bourne	Chair	✓	✓	✓	✓
S Browne	Employer - LCC	✓	✓	apologies	✓
C Gibson	Employer - Others	✓	✓	✓	apologies
K Haigh	Active members	✓	✓	✓	✓
J Hall	Deferred members	apologies	✓	✓	✓
R Harvey	Pensioner members	✓	✓	✓	✓
County Councillor T Martin	Employer – LCC	✓	apologies	apologies	apologies
Y Moult	Active members	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	apologies	✓	✓

Information about the Board, including minutes and public papers are available on the Pension Fund website.

The Board has a small internal budget, which is used primarily to defray the cost of Members' attendance at training events or conferences. During the year £14,000 was spent.

The year has included a triennial actuarial valuation, a new set of investment regulations, as well as the FCA authorisation of LPP and the transfer of assets to it, so there has been no shortage of important subjects. In all of these, the Pension Fund Committee has primary responsibility for executive and strategic decisions, and the LPB's remit is one of scrutiny. We are there as a second pair of eyes on behalf of the Fund's stakeholders, especially the Employers who make contributions and the Members who both contribute and receive pensions, to ensure that good governance is in place. In practice this means that the legal and regulatory requirements are complied with, that due process is followed, that risks are considered beforehand, monitored, and where possible mitigated, and that all is done in an efficient manner. However, it is important to underline the fact that executive power resides with the Committee, and we can only make recommendations or note our concerns.

For our scrutiny role, we rely considerably on third party verification reports from various parties, whether it be from Officers, from internal service providers such as auditors, or from independent parties. These are presented at meetings, and we will normally discuss the background and if we are not comfortable, we will ask to see the original documents. For example during the year we noted our concerns to the Pension Fund Committee that although LPP had commenced operations, the formal governance structure for monitoring its activities had yet to be put in place. Since then, a formal review has been conducted by PWC, and recommendations put in place.

The second major focus of the LPB's activities is assisting the Pension Fund Committee in the efficient running of the Fund. Here the perspectives which Employer and Member representatives on the Board bring to bear are of undoubted value. Looking at ways to improve communication between the Fund and its stakeholders is a perpetual task, but one example is the tracing of Members whose addresses are missing. This was reviewed by the LPB in 2015, a policy of conducting a tracing exercise on a regular basis put in place by Officers, and as result over 3,000 deferred Members are now back in contact with the Fund, and will be able to receive the pensions they are entitled to.

Efficiency is also about keeping an eye on costs. The great majority of costs are now incurred by LPP, because investment and administration activities have been transferred to them. It is important that the Fund obtains good value for the money spent here, and we have made the Pension Fund Committee aware of the importance we place on monitoring the value achieved over a long period in order to demonstrate the benefits delivered to the Fund from the establishment of the pool.

As part of the process of pooling with LPP, there is scope to reduce costs by reviewing and consolidating the arrangements by which the Fund and the LPFA conduct administration. The LPB is supportive of this quite ambitious plan, but is aware that change brings risks with it. We accordingly recommended the Pension Fund Committee conduct an audit to confirm that the risks which transformation inevitably brings have been properly assessed and where possible mitigated. At the time of writing this is still work in process, but we believe our comments have been given due consideration to the benefit of stakeholders.

New investment regulations came into law during the year under consideration as part of the process of pooling. Among other things, they make it clear that the LPB is one of the bodies which need to be consulted in certain circumstances, underlining its status within the formal governance structure as the only body with stakeholder representation. We reviewed the proposed Investment Strategy Statement, required under the new regulations, outside our meeting cycle for time constraint reasons, and made known to the Pension Fund Committee a number of concerns. It is our understanding the Statement will be reviewed again later this year.

Governance is one of the keys to a well-run Fund, and it became apparent to the LPB during the year that in the course of the formation of LPP, the Fund itself had been left with too little resource in this area. We viewed this as particularly concerning at a time when the governance structures were becoming increasingly complex as a result of the pooling process. We therefore made a formal recommendation to the CEO of Lancashire County Council that the Head of the Fund be provided with more support. At the time of writing, I understand that a new hire has been made to achieve this.

The LPB also sees all breaches of law or regulations, and considers among other things whether there is a requirement to report a breach to the Pensions Regulator. During the year, no breach was sufficiently serious or systemic that this was necessary, but we will continue to keep a beady eye on the performance of LPP.

After a full year of operation, we conducted an appraisal of the LPB, in accordance with our terms of reference. This exercise resulted in a number of recommendations, and considerably greater clarity how we should operate. Our remit is clearly one of scrutiny, and it is the Pension Fund Committee's role to manage the relationship with LPP. We will use our Member and Employer perspectives to assist the Fund in seeking better ways to do things. Where the LPB sees a proposed formal document or decision before it is ratified by the Committee, we will make known our concerns by means of a formal note. Where, as inevitably happens on occasion, we only see a decision after it has been taken, we will make a formal recommendation to the relevant body, usually the Committee.

As a result of the appraisal we also recommended some changes to our Terms of Reference, to bring them in line both with the public requirements for the LPB and the way we have defined our remit. The new Terms of Reference can be found on the Pension Fund website.

Training is also required under the Pensions Act 2013, and is covered by the Fund's Training Policy, which was refreshed during the year alongside that for the Pension Fund Committee. Members are invited to and have attended Training Workshops in Lancashire, and are encouraged to attend useful seminars and conferences which will help them to increase their knowledge levels.

The table below shows the number of training events each Board member attended during the year.

Name	Internal event attended	External events attended
W Bourne	Nil	1
S Browne	3	Nil
C Gibson	1	Nil
K Haigh	7	3
J Hall	3	Nil
R Harvey	7	3
County Councillor T Martin	3	Nil
Y Moult	3	1
S Thompson	2	1

In the next year, the LPB's focus is likely to be on continuing to scrutinise the governance arrangements around LPP as they settle down. We are likely to spend more time on the administration side, as that is where the biggest changes will be happening. We are also proposing to continue to look at engagement with employers and members. Lancashire County Pension Fund has one of the most effective engagement policies anywhere in the country, but that is not a reason for looking for further improvements. The LPB is the best placed body to promote that because it is representative. In both these areas, we will look to share best practice with the equivalent body on our LPP partner, the London Pension Fund Authority's Pension Board.

I will finally highlight the support we get from, first, the Pension Fund Committee and the Chair in particular, and secondly the Officers. The LPB's ultimate objective is the same as that of the Committee, but we also have a clear duty to challenge it on occasion. This can only function effectively if the relationship is a good one, so that when we note concerns or make comments, they are taken constructively. Even when we have made the Committee's lives less than comfortable, the Chair has always been fully supportive of our interventions and comments. Without the assistance of the Officers running the fund, the LPB would simply not function.
I have no doubt that in this year the LPB has by acting as a scrutinising body been able to add value during this year now that it has bedded down.

We look forward to the next year with confidence, expecting to be able to make our contribution to making a well-run fund even better.

William Bourne
Independent Chair of the Lancashire Local Pension Board.
July 2017

I Actuarial Valuation

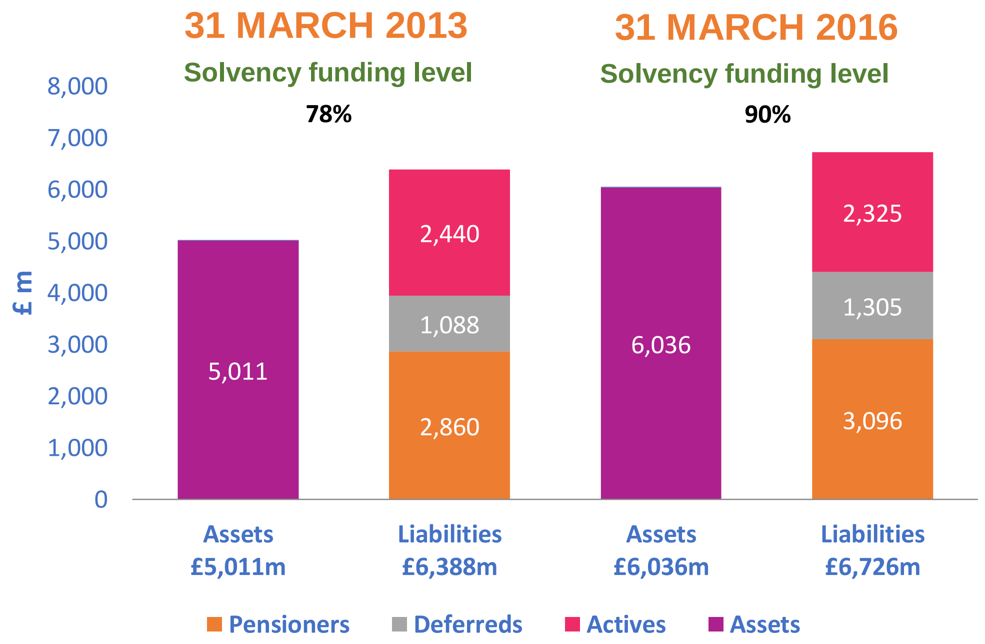
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2016 which determines contribution rates effective from 1 April 2017 to 31 March 2020.

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

The FSS specifies an average period for achieving full funding of 16 years. The FSS sets out the circumstances in which this may vary from one employer to another Where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put into place which requires additional contributions to correct the shortfall.

The valuation (effective from 1 April 2017) revealed a funding level of 90% and an average employer's contribution rate of 14.9% plus a deficit contribution in 2017/18 of £41.5m. For most employers the deficit contribution will increase at 3.7% per annum for 16 years.

The chart below, taken from the certified actuarial valuation as at 31 March 2016, compares the assets and liabilities of the Fund at 31 March 2016. Figures are also shown for the last valuation as at 31 March 2013 for comparison.



The employer contributions for 2017/18 are based on the 2016 valuation and the recommended employer contributions for the period 1 April 2017 to 31 March 2020 are set out in the Schedule to the Rates and Adjustments of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Appendix 1 of the Funding Strategy Statement. Your Pension Service - Lancashire Fund Information

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 62

NAME OF FUND	Lancashire County Pension Fund

PRIMARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2017 is 14.9% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2017 is set out in the attached schedule.

SECONDARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2017 is as follows:

2017/18	£36.0 million plus 0.6% of pensionable pay
2018/19	£37.1 million plus 0.7% of pensionable pay
2019/20	£38.1 million plus 0.9% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2017 is set out in the attached schedule.

CONTRIBUTION AMOUNTS PAYABLE

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in the schedule.

FURTHER ADJUSTMENTS

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

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

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

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

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

REGULATION 62(8)

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

Signature:		**Signature:**	
Name:	John Livesey	**Name:**	Mark Wilson
Qualification:	Fellow of the Institute and Faculty of Actuaries	**Qualification:**	Fellow of the Institute and Faculty of Actuaries
Date of signing:	31 March 2017		

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE DATED 31 MARCH 2017

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Major authorities							
Blackburn with Darwen Borough Council	14.8%	-2.4% plus £4,773,000	-1.4% plus £4,773,000	£4,857,500	12.4% plus £4,773,000	13.4% plus £4,773,000	14.8% plus £4,857,500
Blackpool Borough Council	14.8%	*£3,315,200	*£4,087,500	*£4,501,400	14.8% plus *£3,315,200	14.8% plus *£4,087,500	14.8% plus *£4,501,400
Burnley Borough Council	15.4%	*£1,379,800	*£1,370,600	*£1,361,400	15.4% plus *£1,379,800	15.4% plus *£1,370,600	15.4% plus *£1,361,400
Chorley Borough Council	14.4%	£790,500	£840,500	£966,300	14.4% plus £790,500	14.4% plus £840,500	14.4% plus £966,300
Fylde Borough Council	15.2%	*£583,800	*£579,900	*£576,000	15.2% plus *£583,800	15.2% plus *£579,900	15.2% plus *£576,000
Hyndburn Borough Council	15.3%	12.7%	12.7%	12.7%	28%	28%	28%
Lancashire Chief Constable	14.0%	**£1,791,700	**£1,858,000	**£1,926,700	14% plus **£1,791,700	14% plus **£1,858,000	14% plus **£1,926,700
Lancashire County Council - excluding schools	15.1%	*£9,534,200	*£9,470,300	*£9,406,900	15.1% plus *£9,534,200	15.1% plus *£9,470,300	15.1% plus *£9,406,900
Lancashire County Council schools	15.1%	4.7%	4.8%	4.9%	19.8%	19.9%	20.0%
Lancashire Fire & Rescue Service	14.7%	***(£312,700)	***(£324,300)	***(£336,300)	14.7% less ***£312,700	14.7% less ***£324,300	14.7% less ***£336,300
Lancaster City Council	15.5%	*£945,900	*£939,600	*£933,300	15.5% plus *£945,900	15.5% plus *£939,600	15.5% plus *£933,300
Pendle Borough Council	15.5%	*£1,219,900	*£1,211,700	*£1,203,600	15.5% plus *£1,219,900	15.5% plus *£1,211,700	15.5% plus *£1,203,600

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Preston City Council	15.4%	*£1,409,100	*£1,399,700	*£1,390,300	15.4% plus *£1,409,100	15.4% plus *£1,399,700	15.4% plus *£1,390,300
Ribble Valley Borough Council	16.5%	**£173,500	**£179,900	**£186,500	16.5% plus **£173,500	16.5% plus **£179,900	16.5% plus **£186,500
Rossendale Borough Council	15.6%	*£996,900	*£990,200	*£983,600	15.6% plus *£996,900	15.6% plus *£990,200	15.6% plus *£983,600
South Ribble Borough Council	14.9%	**£547,200	**£567,500	**£588,400	14.9% plus **£547,200	14.9% plus **£567,500	14.9% plus **£588,400
West Lancashire District Council	16.3%	*£985,600	*£979,000	*£972,400	16.3% plus *£985,600	16.3% plus *£979,000	16.3% plus *£972,400
Wyre Borough Council	15.8%	*£707,700	*£702,900	*£698,200	15.8% plus *£707,700	15.8% plus *£702,900	15.8% plus *£698,200

Other scheme employers							
Accrington & Rossendale College	15.1%	£269,300	£279,200	£289,600	15.1% plus £269,300	15.1% plus £279,200	15.1% plus £289,600
Blackburn College	14.2%	£82,800	£85,900	£89,000	14.2% plus £82,800	14.2% plus £85,900	14.2% plus £89,000
Blackburn St Mary's College	14.6%	£9,100	£9,400	£9,800	14.6% plus £9,100	14.6% plus £9,400	14.6% plus £9,800
Blackpool & The Fylde College	14.4%	£192,600	£199,700	£207,100	14.4% plus £192,600	14.4% plus £199,700	14.4% plus £207,100
Blackpool Coastal Housing	13.9%	-1.9%	-1.9%	-1.9%	12%	12%	12%
Blackpool Housing Company Ltd	13.4%	-0.1%	-0.1%	-0.1%	13.3%	13.3%	13.3%
Blackpool Sixth Form College	12.1%	-0.3%	-0.3%	-0.3%	11.8%	11.8%	11.8%
Burnley College	13.2%	£124,900	£129,500	£134,300	13.2% plus £124,900	13.2% plus £129,500	13.2% plus £134,300
Cardinal Newman College	13.9%	£49,400	£51,200	£53,100	13.9% plus £49,400	13.9% plus £51,200	13.9% plus £53,100
County Councils Network	5.2%	£700	£700	£800	5.2% plus £700	5.2% plus £700	5.2% plus £800

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Edge Hill University	14.3%	£780,300	£809,200	£839,100	14.3% plus £780,300	14.3% plus £809,200	14.3% plus £839,100
Lancaster & Morecambe College	15.3%	£121,300	£125,800	£130,400	15.3% plus £121,300	15.3% plus £125,800	15.3% plus £130,400
Myerscough College	14.2%	£165,800	£171,900	£178,300	14.2% plus £165,800	14.2% plus £171,900	14.2% plus £178,300
Nelson and Colne College	14.0%	£50,700	£52,500	£54,500	14% plus £50,700	14% plus £52,500	14% plus £54,500
Police & Crime Commissioner	13.9%	£3,800	£3,900	£4,100	13.9% plus £3,800	13.9% plus £3,900	13.9% plus £4,100
Preston College	13.3%	£259,900	£269,500	£279,500	13.3% plus £259,900	13.3% plus £269,500	13.3% plus £279,500
Runshaw College	15.7%	£86,000	£89,200	£92,500	15.7% plus £86,000	15.7% plus £89,200	15.7% plus £92,500
University of Central Lancashire	14.3%	£949,800	£984,900	£1,021,400	14.3% plus £949,800	14.3% plus £984,900	14.3% plus £1,021,400

Designated / Resolution body							
Blackpool Transport Services Ltd	23.1%	-23.1%	-23.1%	-23.1%	0%	0%	0%
Catterall Parish Council	25.3%	Nil	Nil	Nil	25.3%	25.3%	25.3%
Darwen Town Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Garstang Town Council	17.5%	Nil	Nil	Nil	17.5%	17.5%	17.5%
Habergham Eaves Parish Council	15.8%	Nil	Nil	Nil	15.8%	15.8%	15.8%
Kirkland Parish Council	25.2%	-0.7%	-0.7%	-0.7%	24.5%	24.5%	24.5%
Lancs Sports Partnership Ltd	10.9%	-0.6%	-0.6%	-0.6%	10.3%	10.3%	10.3%
Marketing Lancashire Ltd	12.6%	-1.1%	-1.1%	-1.1%	11.5%	11.5%	11.5%
Morecambe Town Council	19.2%	-1.2%	-1.2%	-1.2%	18%	18%	18%
Old Laund Booth Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Penwortham Town Council	15.8%	-3.4%	-3.4%	-3.4%	12.4%	12.4%	12.4%
Pilling Parish Council	27.6%	£100	£100	£100	27.6% plus £100	27.6% plus £100	27.6% plus £100
Preesall Town Council	23.2%	£100	£100	£100	23.2% plus £100	23.2% plus £100	23.2% plus £100
Rossendale Transport Ltd.	25.6%	Nil	Nil	Nil	25.6%	25.6%	25.6%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
St Anne's on Sea Town Council	17.0%	£1,100	£1,100	£1,200	17% plus £1,100	17% plus £1,100	17% plus £1,200
The Lancashire Colleges Ltd	17.8%	-3.7%	-3.7%	-3.7%	14.1%	14.1%	14.1%
Whittle-le-woods Parish Council	17.0%	Nil	Nil	Nil	17%	17%	17%
Whitworth Town Council	12.8%	£2,200	£2,200	£2,300	12.8% plus £2,200	12.8% plus £2,200	12.8% plus £2,300

Academies / schools							
Academy at Worden	14.6%	£13,400	£13,900	£14,400	14.6% plus £13,400	14.6% plus £13,900	14.6% plus £14,400
Accrington Academy	14.3%	-2.9%	-2.9%	-2.9%	11.4%	11.4%	11.4%
Albany Science College (Academy)	16.2%	£23,800	£24,700	£25,600	16.2% plus £23,800	16.2% plus £24,700	16.2% plus £25,600
All Saints CE Primary School (Academy)	14.1%	£16,200	£16,800	£17,400	14.1% plus £16,200	14.1% plus £16,800	14.1% plus £17,400
Anchorsholme Academy	16.0%	£34,900	£36,200	£37,500	16% plus £34,900	16% plus £36,200	16% plus £37,500
ANWET - Darwen Aldridge Community Academy	14.3%	-2%	-2%	-2%	12.3%	12.3%	12.3%
ANWET - Darwen Vale Academy	15.1%	£64,600	£67,000	£69,500	15.1% plus £64,600	15.1% plus £67,000	15.1% plus £69,500
ANWET - Sudell PS Academy	19.1%	£18,300	£19,000	£19,700	19.1% plus £18,300	19.1% plus £19,000	19.1% plus £19,700
Bacup and Rawtenstall Grammar School (Academy)	14.8%	£22,600	£23,400	£24,300	14.8% plus £22,600	14.8% plus £23,400	14.8% plus £24,300
Belthorn Primary Academy	18.6%	£7,300	£7,600	£7,900	18.6% plus £7,300	18.6% plus £7,600	18.6% plus £7,900
BFET (Marton Primary Academy)	16.3%	£22,800	£23,600	£24,500	16.3% plus £22,800	16.3% plus £23,600	16.3% plus £24,500
BFET (South Shore Academy)	14.9%	£48,200	£50,000	£51,800	14.9% plus £48,200	14.9% plus £50,000	14.9% plus £51,800
Bishop Rawstorne C of E High Academy	17.5%	£28,500	£29,600	£30,600	17.5% plus £28,500	17.5% plus £29,600	17.5% plus £30,600
Blackpool MAT (Revoe)	14.6%	£47,500	£49,300	£51,100	14.6% plus £47,500	14.6% plus £49,300	14.6% plus £51,100

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Blessed Edward MAT (Christ)	16.3%	£11,900	£12,300	£12,800	16.3% plus £11,900	16.3% plus £12,300	16.3% plus £12,800
Blessed Edward MAT (St Cuthbert)	15.3%	£24,900	£25,800	£26,800	15.3% plus £24,900	15.3% plus £25,800	15.3% plus £26,800
Blessed Edward MAT (St Mary's)	15.5%	£46,500	£48,200	£50,000	15.5% plus £46,500	15.5% plus £48,200	15.5% plus £50,000
Bowland High Academy Trust	17.6%	£29,000	£30,100	£31,200	17.6% plus £29,000	17.6% plus £30,100	17.6% plus £31,200
Cidari Ed Ltd (Marsden St John)	17.0%	£9,600	£10,000	£10,400	17% plus £9,600	17% plus £10,000	17% plus £10,400
Cidari Edu Ltd (Baines Endowed)	12.7%	£39,300	£40,800	£42,300	12.7% plus £39,300	12.7% plus £40,800	12.7% plus £42,300
Cidari Education Trust	8.8%	£2,400	Nil	Nil	8.8% plus £2,400	8.8%	8.8%
Cidari Education Ltd (St Aidans)	14.0%	£17,100	£17,700	£18,400	14% plus £17,100	14% plus £17,700	14% plus £18,400
Cidari Education Ltd (St Barnabas)	16.2%	£20,100	£20,800	£21,600	16.2% plus £20,100	16.2% plus £20,800	16.2% plus £21,600
Cidari Education Ltd (St James)	13.8%	£17,300	£17,900	£18,600	13.8% plus £17,300	13.8% plus £17,900	13.8% plus £18,600
Clitheroe Royal Grammar School (Academy)	16.7%	£58,000	£60,100	£62,400	16.7% plus £58,000	16.7% plus £60,100	16.7% plus £62,400
CSCST (Burnley High Free School)	13.6%	£300	£300	£300	13.6% plus £300	13.6% plus £300	13.6% plus £300
Devonshire Academy	15.7%	£36,900	£38,300	£39,700	15.7% plus £36,900	15.7% plus £38,300	15.7% plus £39,700
Education Partnership Trust (Coal Clough)	17.6%	£20,000	£20,700	£21,500	17.6% plus £20,000	17.6% plus £20,700	17.6% plus £21,500
Education Partnership Trust (Eden School)	10.7%	£1,400	£1,500	£1,600	10.7% plus £1,400	10.7% plus £1,500	10.7% plus £1,600
Education Partnership Trust (Pleckgate HS)	15.9%	£66,200	£68,600	£71,200	15.9% plus £66,200	15.9% plus £68,600	15.9% plus £71,200
FACT (Unity Academy)	13.5%	£59,500	£61,700	£64,000	13.5% plus £59,500	13.5% plus £61,700	13.5% plus £64,000
FCAT (Aspire Academy)	17.1%	£48,500	£50,300	£52,200	17.1% plus £48,500	17.1% plus £50,300	17.1% plus £52,200
FCAT (Montgomery HS Academy)	14.3%	£55,000	£57,000	£59,100	14.3% plus £55,000	14.3% plus £57,000	14.3% plus £59,100
Fulwood Academy	15.2%	-3.9%	-3.9%	-3.9%	11.3%	11.3%	11.3%
Fylde Coast Academy Trust	13.4%	£1,500	£1,600	£1,600	13.4% plus £1,500	13.4% plus £1,600	13.4% plus £1,600
Garstang Community Academy	17.9%	£27,900	£28,900	£30,000	17.9% plus £27,900	17.9% plus £28,900	17.9% plus £30,000
Hambleton Primary Academy	13.6%	£6,800	£7,100	£7,300	13.6% plus £6,800	13.6% plus £7,100	13.6% plus £7,300
Hawe Side Primary School	15.6%	£17,500	£18,100	£18,800	15.6% plus £17,500	15.6% plus £18,100	15.6% plus £18,800
Hodgson Academy	17.5%	£43,400	£45,000	£46,700	17.5% plus £43,400	17.5% plus £45,000	17.5% plus £46,700
Lancashire Care Foundation	20.1%	-5%	-5%	-5%	15.1%	15.1%	15.1%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Lancaster Girls Grammar School (Academy)	15.5%	£41,900	£43,400	£45,000	15.5% plus £41,900	15.5% plus £43,400	15.5% plus £45,000
Lancaster Royal Grammar School (Academy)	17.9%	£66,500	£69,000	£71,500	17.9% plus £66,500	17.9% plus £69,000	17.9% plus £71,500
Langdale Free School	15.4%	Nil	Nil	Nil	15.4%	15.4%	15.4%
Lostock Hall Academy Trust	17.2%	£30,100	£31,200	£32,400	17.2% plus £30,100	17.2% plus £31,200	17.2% plus £32,400
Maharishi School (Free School)	18.4%	-0.1%	-0.1%	-0.1%	18.3%	18.3%	18.3%
Moorside Community PS Academy	14.8%	£10,800	£11,200	£11,600	14.8% plus £10,800	14.8% plus £11,200	14.8% plus £11,600
Norbreck Primary Academy	15.0%	£18,400	£19,100	£19,800	15% plus £18,400	15% plus £19,100	15% plus £19,800
Parbold Douglas CE Academy	16.1%	£9,700	£10,100	£10,400	16.1% plus £9,700	16.1% plus £10,100	16.1% plus £10,400
Park Academy	13.2%	£55,300	£57,300	£59,500	13.2% plus £55,300	13.2% plus £57,300	13.2% plus £59,500
Parklands High School (Academy)	14.6%	£25,900	£26,800	£27,800	14.6% plus £25,900	14.6% plus £26,800	14.6% plus £27,800
Pendle Education Trust (Colne Primet)	17.5%	£14,200	£14,700	£15,300	17.5% plus £14,200	17.5% plus £14,700	17.5% plus £15,300
Pendle Education Trust (Castercliff)	17.2%	£24,900	£25,800	£26,800	17.2% plus £24,900	17.2% plus £25,800	17.2% plus £26,800
Pendle Education Trust (Walter Street Primary School)	15.5%	£14,700	£15,200	£15,800	15.5% plus £14,700	15.5% plus £15,200	15.5% plus £15,800
Penwortham Priory Academy	15.4%	£17,100	£17,700	£18,300	15.4% plus £17,100	15.4% plus £17,700	15.4% plus £18,300
Queen Elizabeth's Grammar School	16.1%	£67,100	£69,600	£72,200	16.1% plus £67,100	16.1% plus £69,600	16.1% plus £72,200
Ripley St Thomas C of E Academy	17.6%	£43,000	£44,600	£46,200	17.6% plus £43,000	17.6% plus £44,600	17.6% plus £46,200
Roseacre Primary Academy	15.3%	£23,100	£24,000	£24,800	15.3% plus £23,100	15.3% plus £24,000	15.3% plus £24,800
St Christopher's C of E high School (Academy)	16.1%	£88,000	£91,300	£94,600	16.1% plus £88,000	16.1% plus £91,300	16.1% plus £94,600
St Georges Academy	15.1%	£39,200	£40,700	£42,200	15.1% plus £39,200	15.1% plus £40,700	15.1% plus £42,200
St Luke and St Philip (Academy)	14.7%	£28,100	£29,100	£30,200	14.7% plus £28,100	14.7% plus £29,100	14.7% plus £30,200
St Michael's C of E High School (Academy)	16.5%	£45,600	£47,200	£49,000	16.5% plus £45,600	16.5% plus £47,200	16.5% plus £49,000
St Wilfrid's C of E Academy	13.9%	£91,900	£95,300	£98,800	13.9% plus £91,900	13.9% plus £95,300	13.9% plus £98,800
Tarleton Academy	14.9%	£29,400	£30,500	£31,600	14.9% plus £29,400	14.9% plus £30,500	14.9% plus £31,600
Tauheedul Education Trust	11.2%	-1.1%	-1.1%	-1.1%	10.1%	10.1%	10.1%
Tauheedul ET (Eden BS Preston)	10.8%	£900	Nil	Nil	10.8% plus £900	10.8%	10.8%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Tauheedul ET (Eden GS Birmingham)	10.1%	Nil	Nil	Nil	10.1%	10.1%	10.1%
Tauheedul ET (Eden GS Slough)	12.2%	£100	Nil	Nil	12.2% plus £100	12.2%	12.2%
Tauheedul ET (Olive Blackburn)	8.5%	-1%	-1%	-1%	7.5%	7.5%	7.5%
Tauheedul ET (Olive London)	8.3%	-1.1%	-1.1%	-1.1%	7.2%	7.2%	7.2%
Tauheedul ET Eden BS Bolton FS	14.2%	£100	£100	£100	14.2% plus £100	14.2% plus £100	14.2% plus £100
Tauheedul ET Eden GS Coventry	8.6%	-0.3%	-0.3%	-0.3%	8.3%	8.3%	8.3%
Tauheedul ET Eden GS Waltham	11.6%	£1,300	£1,300	£1,400	11.6% plus £1,300	11.6% plus £1,300	11.6% plus £1,400
Tauheedul ET Islam Girls HS	16.1%	£17,900	£18,600	£19,200	16.1% plus £17,900	16.1% plus £18,600	16.1% plus £19,200
Tauheedul Islam Boys High School (Free School)	10.5%	£900	£900	£1,000	10.5% plus £900	10.5% plus £900	10.5% plus £1,000
Thames Primary Academy	14.2%	£29,100	£30,200	£31,300	14.2% plus £29,100	14.2% plus £30,200	14.2% plus £31,300
The Heights Free School	14.0%	£22,600	£23,400	£24,300	14% plus £22,600	14% plus £23,400	14% plus £24,300
Tower MAT (Blackpool Gateway Academy)	12.0%	£4,400	£4,600	£4,700	12% plus £4,400	12% plus £4,600	12% plus £4,700
Waterloo Primary School (Academy)	14.2%	£30,900	£32,000	£33,200	14.2% plus £30,900	14.2% plus £32,000	14.2% plus £33,200
Wensley Fold CE Primary Academy	14.1%	£29,900	£31,000	£32,200	14.1% plus £29,900	14.1% plus £31,000	14.1% plus £32,200
Westcliff Primary School (Academy)	15.3%	£12,600	£13,100	£13,500	15.3% plus £12,600	15.3% plus £13,100	15.3% plus £13,500
Witton Park Academy Trust	15.8%	£55,900	£58,000	£60,100	15.8% plus £55,900	15.8% plus £58,000	15.8% plus £60,100

Admitted bodies (community)							
Arnold Schools Ltd.	19.4%	£26,200	£27,100	£28,100	19.4% plus £26,200	19.4% plus £27,100	19.4% plus £28,100
Blackpool Fylde Wyre Blind Society	21.6%	-20.6%	-20.6%	-20.6%	1%	1%	1%
Blackpool Zoo	19.6%	-4.4%	-4.4%	-4.4%	15.2%	15.2%	15.2%
Blackpool, Fylde and Wyre Credit Union	21.2%	-1.6%	-1.6%	-1.6%	19.6%	19.6%	19.6%
Calico Housing Limited	13.8%	£209,200	£216,900	£224,900	13.8% plus £209,200	13.8% plus £216,900	13.8% plus £224,900
Catholic Caring Services	16.6%	£65,500	£67,900	£70,400	16.6% plus £65,500	16.6% plus £67,900	16.6% plus £70,400

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Chorley Community Housing	16.4%	-3.9%	-3.9%	-3.9%	12.5%	12.5%	12.5%
Community and Business Partners CIC	14.8%	-2%	-2%	-2%	12.8%	12.8%	12.8%
Community Council of Lancashire	19.5%	£26,000	£27,500	£28,500	19.5% plus £26,000	19.5% plus £27,500	19.5% plus £28,500
Community Gateway Association	16.1%	-1.5%	-1.5%	-1.5%	14.6%	14.6%	14.6%
Contour Housing Group	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
Fylde Community Link	16.8%	£11,200	£11,700	£12,100	16.8% plus £11,200	16.8% plus £11,700	16.8% plus £12,100
Galloways Society for Blind	20.2%	£16,600	£17,200	£17,800	20.2% plus £16,600	20.2% plus £17,200	20.2% plus £17,800
Hyndburn Homes Ltd	18.4%	-2.8%	-2.8%	-2.8%	15.6%	15.6%	15.6%
Kirkham Grammar School (Independent)	19.9%	£29,300	£30,400	£31,500	19.9% plus £29,300	19.9% plus £30,400	19.9% plus £31,500
Lancashire County Branch Unison	18.2%	-18.2%	-18.2%	-18.2%	0%	0%	0%
Lancaster University	13.4%	£504,700	£523,400	£542,700	13.4% plus £504,700	13.4% plus £523,400	13.4% plus £542,700
Leisure in Hyndburn	13.0%	£47,800	£49,600	£51,400	13% plus £47,800	13% plus £49,600	13% plus £51,400
Local Pensions Partnership Ltd	12.4%	Nil	Nil	Nil	12.4%	12.4%	12.4%
Lytham Schools Foundation	18.0%	-4.4%	-4.4%	-4.4%	13.6%	13.6%	13.6%
North West & North Wales Sea Fisheries Committee	16.6%	£25,500	£26,500	£27,500	16.6% plus £25,500	16.6% plus £26,500	16.6% plus £27,500
Pendle Leisure Trust	12.6%	£20,600	£21,400	£22,200	12.6% plus £20,600	12.6% plus £21,400	12.6% plus £22,200
Preston Care and Repair	13.7%	£3,600	Nil	Nil	13.7% plus £3,600	13.7%	13.7%
Progress Housing Group Ltd	17.9%	-2.3%	-2.3%	-2.3%	15.6%	15.6%	15.6%
QEGS Blackburn Ltd	16.5%	-0.3%	-0.3%	-0.3%	16.2%	16.2%	16.2%
Ribble Valley Homes Ltd	18.9%	-10.2%	-10.2%	-10.2%	8.7%	8.7%	8.7%
Rossendale Leisure Trust	13.6%	-2.1%	-2.1%	-2.1%	11.5%	11.5%	11.5%
Surestart Hyndburn	13.8%	£22,400	£23,200	£24,100	13.8% plus £22,400	13.8% plus £23,200	13.8% plus £24,100
The Ormerod Home Trust Ltd.	21.2%	£145,100	£150,400	£156,000	21.2% plus £145,100	21.2% plus £150,400	21.2% plus £156,000
Together Housing	14.7%	£87,700	£90,900	£94,300	14.7% plus £87,700	14.7% plus £90,900	14.7% plus £94,300
University of Cumbria	14.0%	£608,700	£631,200	£654,600	14% plus £608,700	14% plus £631,200	14% plus £654,600

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Wyre Housing Association	19.3%	£257,600	£267,100	£277,000	19.3% plus £257,600	19.3% plus £267,100	19.3% plus £277,000
Admitted bodies (contractor)							
Alternative Futures Group Ltd	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
Andron (formerly Solar)	21.3%	-21.3%	-21.3%	-21.3%	0%	0%	0%
Bootstrap Enterprises Ltd	18.8%	-17.9%	-17.9%	-17.9%	0.9%	0.9%	0.9%
Bulloughs (Carr Head PS)	25.6%	£500	Nil	Nil	25.6% plus £500	25.6%	25.6%
Bulloughs (Lytham Hall)	21.0%	Nil	Nil	Nil	21%	21%	21%
Bulloughs (Our Lady)	16.8%	-7.3%	-7.3%	-7.3%	9.5%	9.5%	9.5%
Burnley Leisure	13.6%	-2%	-2%	-2%	11.6%	11.6%	11.6%
Capita (Rossendale BC Transfer)	20.7%	-20.7%	-20.7%	-20.7%	0%	0%	0%
Catering Academy Ltd	20.1%	-20.1%	-20.1%	-20.1%	0%	0%	0%
Caterlink (Mount Pleasant School)	16.8%	-1.9%	-1.9%	-1.9%	14.9%	14.9%	14.9%
CG Cleaning (Kennington Rd)	22.7%	-17.4%	Nil	Nil	5.3%	22.7%	22.7%
CG Cleaning (St Augustine)	22.1%	-3%	Nil	Nil	19.1%	22.1%	22.1%
Churchill (Holy Family)	21.4%	-16%	Nil	Nil	5.4%	21.4%	21.4%
Churchill (St Anne St Joseph)	18.5%	-2.8%	Nil	Nil	15.7%	18.5%	18.5%
Cofely FM Ltd (Blake/Cross)	26.7%	-26.7%	-26.7%	-26.7%	0%	0%	0%
Cofely FM Ltd (Lend Lease)	21.9%	-5.4%	-5.4%	-5.4%	16.5%	16.5%	16.5%
Cofely FM Ltd (Pleckgate)	18.8%	-10.8%	-10.8%	-10.8%	8%	8%	8%
Cofely FM Ltd (Witton Park)	23.2%	-3.2%	-3.2%	-3.2%	20%	20%	20%
Compass Contract Services	23.4%	-0.4%	-0.4%	-0.4%	23%	23%	23%
Compass Contract Services (UK) Ltd (Preston College)	20.9%	-0.9%	-0.9%	-0.9%	20%	20%	20%
Consultant Caterers Ltd	22.5%	-17.8%	-17.8%	-17.8%	4.7%	4.7%	4.7%
Creative Support Limited (Midway Mental health)	18.2%	-4.2%	-4.2%	-4.2%	14%	14%	14%
Creative Support Ltd	21.0%	-21%	-21%	-21%	0%	0%	0%
Elite CES Ltd (Fulwood Cadley)	19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
Elite CES Ltd (Moor Nook PS)	23.1%	Nil	Nil	Nil	23.1%	23.1%	23.1%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Elite Cleaning and Environmental Services Ltd	16.7%	-9.8%	-9.8%	-9.8%	6.9%	6.9%	6.9%
Eric Wright Facilities Management Ltd (Highfield High School)	20.2%	-19.5%	-19.5%	-19.5%	0.7%	0.7%	0.7%
FCC Environment	20.6%	Nil	Nil	Nil	20.6%	20.6%	20.6%
Fylde YMCA	16.5%	-16.5%	-16.5%	-16.5%	0%	0%	0%
I CARE	26.1%	-26.1%	-26.1%	-26.1%	0%	0%	0%
Ind Living Fund (Blackpool BC)	19.7%	-2%	Nil	Nil	17.7%	19.7%	19.7%
Lend Lease Cons.(EMEA) ICT	18.8%	-5.3%	-5.3%	-5.3%	13.5%	13.5%	13.5%
Lend Lease Cons.(EMEA) ph3	13.9%	-3%	-3%	-3%	10.9%	10.9%	10.9%
Lend Lease Construction (EMEA) Limited (Fulwood Academy)	16.9%	-1.9%	-1.9%	-1.9%	15%	15%	15%
Liberata (UK) Ltd (Burnley)	18.7%	-1.4%	-1.4%	-1.4%	17.3%	17.3%	17.3%
Liberata UK Ltd (Pendle)	19.2%	-6.5%	-6.5%	-6.5%	12.7%	12.7%	12.7%
Mack Trading Int. (Ltd)	21.1%	-21.1%	-21.1%	-21.1%	0%	0%	0%
May Gurney Fleet and Passenger Services Limited	21.7%	-21.7%	-21.7%	-21.7%	0%	0%	0%
Mellor's (Bishop Rawstorne)	21.2%	-6%	-6%	-6%	15.2%	15.2%	15.2%
Mellors (Brinscall St John)	18.9%	-0.1%	-0.1%	-0.1%	18.8%	18.8%	18.8%
Mellor's (Hambleton PS)	27.6%	-1.7%	-1.7%	-1.7%	25.9%	25.9%	25.9%
Mellors (Queens Drive)	20.5%	Nil	Nil	Nil	20.5%	20.5%	20.5%
Mellors (Trinity, St Michael)	24.7%	Nil	Nil	Nil	24.7%	24.7%	24.7%
Mellor's (Worden SC)	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Mellor's Catering (Belthorn Academy)	21.1%	Nil	Nil	Nil	21.1%	21.1%	21.1%
NCP Services Ltd	23.6%	-23.6%	-23.6%	-23.6%	0%	0%	0%
RCCN (Basnett Nursery)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Ridge Crest Clean Nrth Sacred	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Service Alliance (Barnoldswick)	21.3%	Nil	Nil	Nil	21.3%	21.3%	21.3%
Service Alliance (Whalley PS)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Service Alliance Ltd (Altham)	25.7%	-3.1%	Nil	Nil	22.6%	25.7%	25.7%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Service Alliance Ltd (RCC)	26.6%	£500	Nil	Nil	26.6% plus £500	26.6%	26.6%
South Ribble Community Leisure (Serco)	13.5%	£80,400	£83,400	£86,500	13.5% plus £80,400	13.5% plus £83,400	13.5% plus £86,500
Urbaser Ltd	23.9%	£400	£400	£400	23.9% plus £400	23.9% plus £400	23.9% plus £400
West Lancashire Community Leisure (Serco)	14.9%	-14.9%	-14.9%	-14.9%	0%	0%	0%

Other employers confirmed post valuation							
Freckleton Parish Council	18.6%	Nil	Nil	Nil	18.6%	18.6%	18.6%
PET (West Craven)	17.2%	£18,100	£18,800	£19,500	17.2% plus £18,100	17.2% plus £18,800	17.2% plus £19,500
Andron Heyhouses	23.3%	Nil	Nil	Nil	23.3%	23.3%	23.3%
Blessed Edward Trust	10.7%	Nil	Nil	Nil	10.7%	10.7%	10.7%
Churchill Moorside	25.1%	-4.3%	-4.3%	-4.3%	20.8%	20.8%	20.8%
Clayton-le-Woods Parish Council	17.8%	-0.9%	-0.9%	-0.9%	16.9%	16.9%	16.9%
Cliviger Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Compass HHC	21.6%	Nil	Nil	Nil	21.6%	21.6%	21.6%
Education Partnership Trust	11.2%	-0.4%	-0.4%	-0.4%	10.8%	10.8%	10.8%
FCAT Mereside Primary Academy	16.3%	£27,600	£28,600	£29,700	16.3% plus £27,600	16.3% plus £28,600	16.3% plus £29,700
Mellors Lostock	21.9%	Nil	Nil	Nil	21.9%	21.9%	21.9%
PET	15.5%	£700	£700	£700	15.5% plus £700	15.5% plus £700	15.5% plus £700
Tauheedul Highfield Humanities	16.4%	£57,700	£59,800	£62,000	16.4% plus £57,700	16.4% plus £59,800	16.4% plus £62,000
Tauheedul Olive Birmingham	7.6%	Nil	Nil	Nil	7.6%	7.6%	7.6%
Tauheedul Olive Bolton	11.1%	Nil	Nil	Nil	11.1%	11.1%	11.1%
Tauheedul Olive Preston	9.7%	Nil	Nil	Nil	9.7%	9.7%	9.7%
Taylor Shaw (Parklands HS)	22.4%	-3%	-3%	-3%	19.4%	19.4%	19.4%
Tor View	12.6%	£57,300	£59,400	£61,600	12.6% plus £57,300	12.6% plus £59,400	12.6% plus £61,600
Vision Learning Trust	13.3%	-0.1%	-0.1%	-0.1%	13.2%	13.2%	13.2%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Employers grouped with Council							
Andron Fearns Sport College	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Bulloughs (St Patrick)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Churchill (Clayton Brook)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Churchill (Morecambe Bay)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Consultant Cleaners (St James)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (St Annes)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (Carr Hill)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
I Care (Ind)	14.8%	-2.4%	-1.4%	Nil	12.4%	13.4%	14.8%
Maxim (Acorns PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (Newton Bluecoat)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (St Matthews CE PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Delph Side PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Holy Cross)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Little Hoole)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (White Ash PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Premiserv (St Peter)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Burscough)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Our Ladys Catholic HS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (St Johns)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Whitefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Clitheroe Pendle Primary)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Mary Magdalene)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Marys RCP)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Wilfred)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Whittlefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Other interested bodies with no pensionable employees

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

Notes:

1. Cash payments in respect of £ lump sums marked * are payable by 30 April 2017. Cash payments in respect of £ lump sums marked ** are payable by 30 April of the year in which they are due. Cash payments in respect of £ lump sums marked *** are payable by the end of the year in which they are due Where applicable these amounts have been reduced to reflect this early payment;

2. With the agreement of the Administering Authority employers may also opt to pay any other element of their employer contributions early, with either all three years being paid in April 2017 or payment being made in the April of the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - Payments made in the April of the certified year will be reduced by 2.1% (i.e. the above amounts will be multiplied by 0.979)
   - 2018/19 payments made in April 2017 will be reduced by 6.3% (i.e. the above amounts will be multiplied by 0.937)
   - 2019/20 payments made in April 2017 will be reduced by 10.2% (i.e. the above amounts will be multiplied by 0.898)

For these cases the employer will need to estimate in advance the pensionable pay for the entire period, and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 19th April or 22nd April as appropriate following the year-end).

3. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014;

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

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

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

7. The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The employers (both existing and new) that will be included in the captive are those with less than 150 active members (excluding major Councils). New employers entering the Fund who fall into this category will also be included. For those employers in the ill-health captive arrangement, allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

J 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: 0300 123 6717
E-mail: AskPensions@localpensionspartnership.org.uk

Pensions Administration

Diane Lister

Head of Your Pension Service

Telephone: 0300 123 6717

E-mail: AskPensions@localpensionspartnership.org.uk

George Graham

Managing Director, Administration Business

Telephone: 01772 538102

Pension Fund Accounts

Abigail Leech

Head of Pension Fund

Telephone: 01772 530808

E-mail: abigail.leech@lancashire.gov.uk

Investment Management

Local Pensions Partnership

Telephone: 0300 123 6717

E-mail: info@localpensionspartnership.org.uk

K Glossary

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

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

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

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

Actuarial Valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the fund actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits.

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

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

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

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

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

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

Assumed pensionable pay

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

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

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

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

Bid price
The price a buyer pays for a stock.

Bonds
Loans, with a fixed rate of interest, made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date.

Career average revalued earnings (CARE) scheme.
With effect from 1 April 2014, the benefits accrued by members of the LGPS will be in the form of CARE benefits. Every year a member accrues a pension benefit equivalent to $1/49^{th}$ of their pensionable pay in that year. The pension accrued will increase in line with the annual change in the consumer prices index over the period to retirement.

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

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

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

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

used in RPI. The basket of goods and services on which CPI is based is expected to provide lower, less volatile, inflation increases.

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

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

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

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

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

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

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

Deficit
The extent to which the Fund's past service liabilities exceed the value of the Fund's assets.

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

Discount rate
The rate of interest used to convert a future cash amount to a present day value. It is a measure of the 'time value' of money.

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

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

ESG (environmental, social and corporate governance)
Responsible Investors understand that ESG characteristics are financially material to investment decision-making if they are likely to have an impact on a company and its performance within the period of their ownership. Long term investors such as pension funds which aim to hold assets for an extended period of time need to assess the impact of a variety of potential influences, some of which are systemic risks which are not possible to predict with certainty (such as climate change).

Investors who integrate the consideration of ESG characteristics are seeking insight into future risks and opportunities which may be financially material to the investments they are already holding or those that are under consideration.
Environmental criteria look at how a company performs as a steward of the natural environment both as a consumer of resources and a producer of goods, services and waste.
Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates.
Governance criteria examine a company's management and decision-making framework, the corporate culture this creates and the quality of corporate leadership offered.
ESG is often used as a catch-all term for the approach to assessing these various criteria as part of being an informed and responsible investor.

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

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

Future service contribution rate
The contribution rate payable by an employer, expressed as a % of pensionable pay. This rate is the rate which will be sufficient to meet the costs of new benefits being accrued by active members in the future.

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

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

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

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

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

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

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

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

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

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

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

Past service liability
The value, in present day terms, of the benefits accrued by members up to the valuation date. Calculated on the basis of a set of assumptions agreed between the administering authority and the actuary.

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

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

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

Private equity
Shares in un-quoted companies.

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

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

Responsible investment
An approach to investment which recognises that the consideration of environmental, social and governance factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

Pension funds invest the retirement savings of scheme members in order to fund the benefits they are entitled to receive in the future. There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

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

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

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

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

50:50 scheme
In the LGPS, active members are given an option to accrue a lower benefit in return for paying a lower level of contribution.

Pension Fund Committee
Meeting to be held on 15 September 2017

Electoral Division affected: None

Responsible Investment
(Appendix 'A' refers)

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

Executive Summary

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

The report at Appendix 'A' provides the Pension Fund Committee with an update on Responsible Investment matters.

Recommendation

The Committee is asked to note the report set out at Appendix 'A' and to delegate responsibility for undertaking a review of the Fund's current approach to RI and establishing its ongoing reporting requirements in this area to the Working Group on Responsible Investment due to meet in September 2017.

Background and Advice

The report at Appendix 'A' has been prepared by the Responsible Investment Manager at LPP Investments Ltd and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach it has set out within its Investment Strategy Statement.

For the purposes of reporting on voting, engagement and litigation monitoring activities, the information provided within the report relates to the second quarter of 2017/18 and focusses on the period from 1st April to 30th June 2017.

The Pension Fund Committee has been receiving a narrative report on RI-related matters on a quarterly basis for a number of years. Reports were originally designed to update the Committee on the stewardship priorities identified within its Statement of Investment Principles, enabling oversight of the activities undertaken and providing insight on upcoming issues and themes.

RI reporting has continued, largely in the same format, as part of the investment management services LCPF receives from the Local Pensions Partnership (LPP).

However, this was with acceptance that the Fund's stewardship approach is the responsibility of the Administering Authority and that LCPF's priorities and requirements of LPP in this area might require review in light of changes introduced under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement from the Department for Communities and Local Government, and also in light of the investment pooling context.

Following the local government election in May 2017 it was proposed to establish a Working Group comprising four members (on the basis of one representative from each political group on the Committee together with a single voting co-opted member) with Terms of Reference to be determined by the Chair.

At its meeting on 30 June 2017 the Committee agreed the Working Group would comprise the following members;

County Councillor S Clarke - Conservative
County Councillor K Ellard - Labour
County Councillor G Dowding - Green
Councillor R Whittle – co-opted member representing Trade Unions.

The Working Group is due to meet on the 20th September 2017 and Frances Deakin, the Responsible Investment Manager for Local Pensions Partnership Investment Ltd, has been invited to attend to provide support.

The Working Group will consider the Fund's approach to stewardship and RI and requirements for monitoring information from LPP I going forward. The Working Group will then present its recommendations to the Pension Fund Committee for consideration.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

As an LGPS Fund, LCPF is required to be a signatory to the UK Stewardship Code and to uphold the principles espoused by the code.

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

Responsible investment practices underpin the fulfilment of LCPF's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by LPP I.

Quarterly RI Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by LPP I and enable the committee to monitor the activities undertaken.

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

Paper	Date	Contact/Tel
N/A		

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

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

LPP
Local Pensions Partnership

Lancashire County Pension Fund

Appendix A

Pension Fund Committee
Responsible Investment Report

15 Sept 2017

Title of Paper	Quarterly Report on Responsible Investment
Lead Officer:	Frances Deakin Responsible Investment Manager Local Pensions Partnership Investments Ltd frances.deakin@localpensionspartnership.org.uk
Appendices	None

1. Executive Summary

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

2. Introduction

The Fund's approach to RI has been articulated within an Investment Strategy Statement which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code. The Fund's preferred approach to RI encompasses four main areas of activity:

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

Responsibility for practical implementation of the Fund's approach to RI is devolved to Local Pensions Partnership Investments Ltd (LPP I) as LCPF's provider of investment management services. The report which follows provides the committee with an update on RI activity during the period 1st April to 30th June 2017 plus insight on current and emerging issues.

3. Voting Globally

Through its investment in the LPP I Global Equities Fund (GEF) LCPF owns units in a pooled fund which invests in listed companies globally. Investors in the GEF delegate the control and exercise of shareholder voting to LPP I as part of arrangements which accommodate a pooled fund structure and associated ownership arrangements. This reflects that clients who hold units in the GEF are beneficial owners in common but do not directly own underlying securities. LPP I exercises shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers. Decisions are taken in line with protecting the collective best interests of client pension funds as institutional investors. LPP I employs an external provider of proxy voting and governance research services. Institutional Shareholder Services (ISS) provide voting recommendations in line with an agreed voting policy and oversee administration and vote execution on behalf LPP I.

Voting headlines for the GEF in the second quarter of 2017 were as follows:

Total company meetings taking place	164	
Total resolutions (management and shareholder proposals)	2764	
Total company proposals in the period	2616	
Total shareholder proposals in the period	148	
Votes in line with Management recommendations	2603	94%
Votes opposing Management recommendations	161	6%
Shareholder proposals supported by LPP I	89	60%

Votes opposing management proposals reflected concerns over;

- the election (or re-election) of board nominees lacking adequate independence.
- the re-election of Board members dedicating insufficient time (over-boarding).
- compensation and remuneration policies without appropriate performance targets and robust measurement criteria or which were out of step with comparable norms.
- proposals on share issuance or buyback not in the interests of shareholders.

LPP I supported 89 shareholder resolutions in Q2. These continued to reflect what have become familiar Governance themes of importance to shareholders including proxy access, an independent Board Chairman, rights of shareholders to call Special Meetings, adequate reporting on lobbying payments and policy and information on political contributions.

Shareholder resolutions on ESG themes arose at a number of AGMs and were supported by LPP as follows:

Climate Change

Ameren Corporation	Assess Impact of a 2 Degree Scenario
Ameren Corporation	Report on Coal Combustion Residual and Water Impacts
DTE Energy Company	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
Duke Energy Corporation	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
Duke Energy Corporation	Report on the Public Health Risk of Dukes Energy's Coal Use
PPL Corporation	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario
The Southern Company	Report on Strategy for Aligning with 2 Degree Scenario
Entergy Corporation	Report on Distributed Renewable Generation Resources

Environmental

McDonald's Corporation	Assess Environmental Impact of Polystyrene Foam Cups
Dr Pepper Snapple Group, Inc.	Report on Plans to Minimize Pesticides' Impact on Pollinators

Social/Governance

The Home Depot, Inc.	Prepare Employment Diversity Report and Report on Diversity Policies
The Travelers Companies, Inc.	Prepare Employment Diversity Report and Report on Diversity Policies
Alphabet Inc.	Report on Gender Pay Gap

As reported to the Committee's last meeting, LPP has begun to publish quarterly voting information for the GEF on its website from where further detail on voting activity is now accessible.
https://www.localpensionspartnership.org.uk/what-we-do/investment-management

4. Engagement through Partnerships

As a responsible asset manager LPP I regularly participates in collaborations which represent the collective interests of institutional investors and seek to make progress on issues which impact shareholder value. Key partners include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) and the Institutional Investor Group on Climate Change (IIGCC).

LAPFF
LAPFF has historically been LCPF's preferred engagement partner and LCPF has been a Forum member of long standing.

On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf. The engagement programme reflects an assessment of key priorities from across the collective equity holdings of LAPFF members. The annual holdings survey was undertaken in Q2 and LPP I submitted data on LCPF's behalf indicating the Fund's interests in listed companies via the Global Equities Fund.

A copy of LAPFF's Q2 2017 Engagement Report has been placed in the Member's Reading Room for reference. Highlights from the report include the following matters:

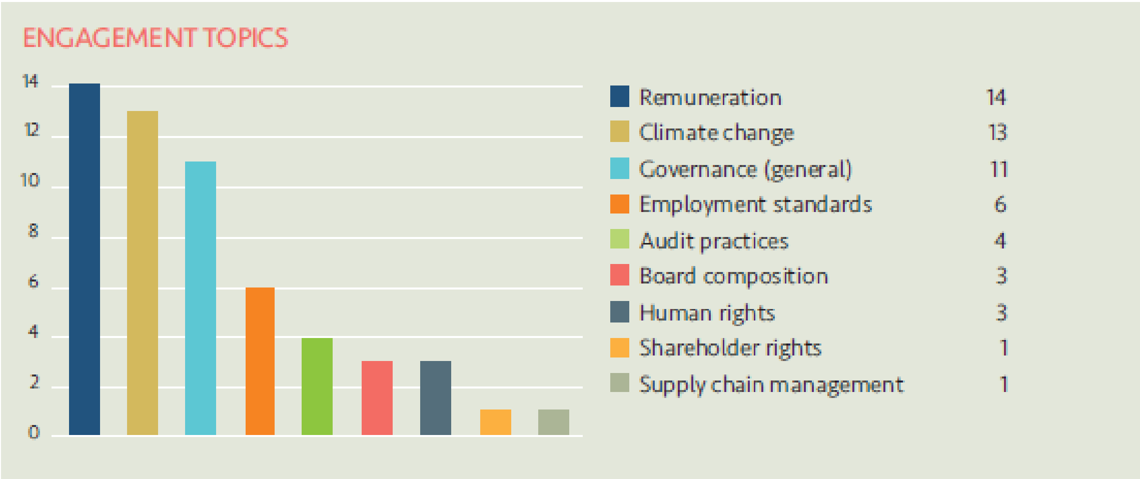
- Executive pay
  Following the introduction of new regulations in 2014 requiring a binding vote on companies' pay policies at least every three years, a majority of companies held votes on their pay policies at their 2017 AGMs. LAPFF issued voting alerts for seven companies where it judged inadequate progress had been made on executive pay arrangements.

- Environmental and Carbon risk
  LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms. During the quarter, LAPFF also held several meetings with companies about their strategies for the low carbon transition.

- Reliable Accounts
  LAPFF continues to have detailed involvement in a campaign addressing inaccuracy within company accounts as a result of the misinterpretation of certain aspects of the Companies Act and the approach to requirements set out within accounting guidance.

Quantified across thematic topics, Q2 engagement activity by LAPFF was as follows:

Company Engagement



LAPFF's most recent quarterly Business Meeting took place on 27th June 2017 and was attended by the RI Manager. Headlines from the meeting included the following matters:

- Membership
  The number of member funds now stands at 72 following one fund's decision not to renew its membership in 2017/18. The decision apparently reflected a perception of a broadening of the focus of LAPFF outside the ESG/engagement area.
- Retirement
  Geik Driver will retire from her role at West Midlands Pension Fund in September 2017 and consequently from her role as LAPFF Honorary Treasurer and as a LAPFF Executive member.
- LAPFF Constitution
  LAPFF's Constitution Sub-Committee will meet in September 2017 to consider any new issues/proposals brought forward by member funds. Member funds are invited to contact the LAPFF Executive with their thoughts on any areas requiring review by the end of August.
- LGPS Pools
  The LAPFF Chair and members of the LGPS Cross Pool Collaboration Group's Responsible Investment Sub-Group will meet to discuss how pools might liaise and work with LAPFF going forward. This recognises that the LAPFF constitution does not currently recognise the pools within its membership. Pool representatives are only permitted to be observers at present. It is recognised that the future financial viability of LAPFF depends on arrangements which recognise and integrate pools (to the degree appropriate) whilst continuing to ensure that Funds remain members in their own right.

Principles of Responsible Investment (PRI)

As detailed in the last report to the committee, the PRI is co-ordinating an engagement on Cyber Risk. The project will aim to improve risk management from the Board’s perspective and is to be targeted from a governance point of view. Cyber Risk is recognised as an area of technical complexity and Boards need to be fully aware of the risks this brings, and have the knowledge to proactively question management, and ensure the risks are being actively monitored across the organisation.

LPP I has been in discussion with PRI to explore options for joining the engagement as a supporting investor acting on behalf of LCPF and LPFA (as PRI signatories). After reflection the PRI have recently confirmed that whilst this is unorthodox (since LPP is not a PRI member in its own right) it will be permitted on this occasion. Further information will be provided to the committee on this collaborative engagement once details have been agreed and activity commences.

Pensions and Lifetime Savings Association

LPP I has produced and submitted a response to the PLSA's Annual Survey of Local Government Pension Schemes 2017 on behalf of LCPF. The survey provides PLSA with up to date information about the pension industry that helps it to campaign effectively with the Government and regulators on behalf of members.

ShareAction Workforce Disclosure Initiative (WDI)

LPP has become a named supporter of WDI which is an initiative that aims to "bring together institutional investors behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains". Supporting the initiative offers an opportunity for LPP to demonstrate collaboration in line with the UK Stewardship Code and encouragement for corporate disclosure in line with investor needs.

WDI is modelled on the Carbon Disclosure Project in being survey based and focussed on collecting data to aid investor analysis. Data requested from companies will cover employees in companies' global operations and workers in their supply chains. The data will cover workforce composition, workforce development, and worker engagement. The first year's pilot survey will go to the FTSE 50 and an additional 25 mega-cap firms on other global exchanges.

ShareAction is being funded by the UK's Department for International Development (DFID) to pilot two rounds of a survey of companies, prepare analysis for investors based on the resulting data, and support collaborative engagements with surveyed companies.

5. Shareholder Litigation

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

IPS provide LPP I with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report provided for Q2 2017 confirmed that no new cases have been detected in the period April to June 2017 where the Fund has an entitlement to join an action.

6. Active Investing

This section of the RI report is dedicated to updating the Committee on new developments within stewardship and RI and interpreting these within the context of the Fund's responsibilities and interests.

Pension Funds and Social Investment

The Law Commission has published the outcome of its review of the law governing how far pension funds may or should consider issues of social impact when making investment decisions. The Commission was asked to consider whether there are legal or regulatory barriers to using pension funds for social impact (including investment in social enterprises) and to set out options for reform if appropriate. https://www.lawcom.gov.uk/project/pension-funds-and-social-investment/

The report confirms that the barriers identified to social investment by pension funds are, in most cases, structural and behavioural rather than legal or regulatory. Where the possibility of a reform of the law has been identified as a way to address current barriers the changes suggested would align regulations for trust-based and contract-based pension funds with those already in place for the LGPS and reflected within guidance on Preparing and Maintaining Investment Strategy Statements from the Department for Communities and Local Government issued in September 2016.

Climate Change Reporting

The Task Force on Climate related Financial Disclosures (TCFD) released its Final Recommendations report on 29 June 2017. The Taskforce's objective has been to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The work and recommendations of the Task Force will help firms understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs. https://www.fsb-tcfd.org/

New Guidance on Responsible Investment

The LGPS Scheme Advisory Board is due to make recommendations to DCLG on issuing new guidance on Responsible Investment to LGPS funds. The guidance will be in addition to the requirements already set out within the DCLG's guidance on investment strategy statements which was issued in September 2016 but amended in July 2017 to comply with a High court judgement on the part of regulation 7(2)(e) relating to policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries which was deemed unlawful.

When further details about the content of the new guidance become available these will be shared with the Committee.

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
None;

Lancashire County Pension Fund - 2017/18 Q1 Budget Monitoring Report
Appendix A refers.

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

Executive Summary

This report sets out the income and expenditure of the Fund for the period 1 April to 30 June 2017 with comparison to the budget for the same period.

Recommendation

The Committee is asked to note the analysis of variances between actual results and the budgeted income and expenditure for the period 1 April to 30 June 2017.

Background and Advice

The 2017/18 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through LPP.

The one year budget for the year ending 31 March 2018 was approved by the Pension Fund Committee at its meeting on 17 March 2017.

It was noted in the report to Committee in March that it is difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy but it was agreed that a quarterly review of variances against the budget would provide useful management information for the monitoring of the financial position of the Fund.

Referring to the key income and expenditure items outlined in the budget, a comparison of actual results to budget is set out below. Please note that the budget has been phased evenly throughout the year – that is, the budget for the first quarter is 25% of the full year budget.

For some budget headings (for example property expenditure) this is a simple approach which will result in variances attributable to timing / phasing of spend.

Lancashire County Council

INCOME

Contribution income (Q1 budget £61.6m, Q1 actual £61.9m)
Contribution income from both employers and employees is broadly in line with budget and expectations. Deficit contributions of £11.6m and pension strain of £1.9m are included within these contribution figures.

Transfers in (Q1 budget £1.7m, Q1 actual £3.4m)
The budget for transfers in is based upon average income over the previous two years and an assumption that the income will begin to reduce in line with the number of employees within the member organisations. The income is not linear throughout the year but the budget assumes it is received on an evenly spread basis.

Investment income (Q1 budget £27.3m, Q1 actual £29.0m)
The key variance between budget and actual investment income is attributable to income from pooled investments – this providing a £2.7m favourable budget variance. Market movements play a role in this but also contributing is the reinvestment of equity dividends.

EXPENDITURE

Benefits payable (Q1 budget £63.7m, Q1 actual £60.5m)
The under-spend against budget for the quarter is due to the timing of payment of lump sum benefits. Pensions paid are in line with budget and expectations.

Transfers out (Q1 budget £3.4m, Q1 actual £2.2m)
As for transfers in, the budget for transfers out is based upon historic trend and the expenditure will not be incurred on a regular basis throughout the year.

Administrative expenses (Q1 budget £0.9m, Q1 actual £0.8m)
Administrative expenses payable to LPP are £0.1m lower than budgeted. Core administration functions, employer risk services and liability modelling are all included within administrative costs and are in line with budget. An additional £400k for the full year is budgeted for support and other services and no costs have yet been incurred in this area which is being reviewed and discussed with LPP.

Investment management expenses (Q1 budget £8.4m, Q1 actual £8.2m)
Included within investment management expenses are amounts payable to LPP, amounts payable to transition managers and amounts payable to other investment managers – for example to Capital Dynamics for non-pooled private equity and to Knight Frank for the management of the directly-owned property portfolio.

When the budget was presented to Committee in March 2017, it was noted that an overall saving on investment management expenses (after transition costs) of £5.5m was anticipated. The results for quarter 1 are in line with expectations.

Investment management fees payable to LPP are £0.4m higher than budgeted for the first quarter. This adverse variance is partially mitigated by a favourable variance of £0.2m on costs paid to other investment managers and is considered to be a function of the phasing of the transition from directly held investments to pooled investments. Also contributing to the movement in fees is the value of the Fund. The most significant element of investment management expenses are fund-value based fees which are calculated as a percentage of the market value of funds under management. The budget assumed assets under management with LPP by 31 March 2018 of approximately £7.3bn. As at 30 June 2017, the value of the Fund as reported was £7.4bn.

The budget assumes £1.6m of transition costs will be incurred during 2017/18 and attributes £0.4m to the first quarter. No transition costs have been incurred in the first quarter but costs are anticipated in Q2 in respect of the first tranche of transition of private equity and infrastructure.

Oversight and governance costs (Q1 budget £2.1m, Q1 actual £1.7m)
The under-spend against this category of costs is considered to be due to timing and no overall saving for the full year has been identified at this point. The Fund is yet to be recharged for some LCC budgeted costs in respect of democratic services and finance functions. Property expenditure is also running slightly behind budget as are legal and professional fees.

Net surplus before realised and unrealised profits on investments (Q1 budget £11.8m, Q1 actual £20.8m)
The budget variances discussed above contribute to the overall favourable surplus of £9.0m.

Consultations

Variances between actual results and budget, where relevant to LPP, have been discussed with the LPP finance team as appropriate.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget of the fund will provide an explanation of key variances, better inform future budget setting and forecasting. It will also ensure that the Committee has oversight of the costs of LPP and that the planned savings are being realised as in the approved business plan.

Budget monitoring for the period to 30 September 2017 will be presented to Committee at the meeting on 1 December 2017.

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

Paper	Date	Contact/Tel
2017/18 Q1 budget monitoring	3 August 2017	Abigail Leech 01772 530808

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

APPENDIX 'A'

Lancashire County Pension Fund				
Fund Account Budget Monitoring - year ended 31 March 2018				
	Budget 2017.18	**Actual 2017.18**	**Budget variance**	**Comments**
	Q1	**Q1**	**Q1**	
	£'000	**£'000**	**£'000**	
			(Favourable) / Adverse	
INCOME				
Contributions Receivable				
From Employers	(47,438)	(47,829)	(391)	
From Employees	(14,180)	(14,067)	113	
Total contributions receivable	**(61,619)**	**(61,896)**	**(278)**	
Transfers In	**(1,663)**	**(3,409)**	**(1,746)**	
Investment Income	**(27,307)**	**(28,961)**	**(1,655)**	
TOTAL INCOME	**(90,588)**	**(94,267)**	**(3,679)**	
EXPENDITURE				
Benefits Payable				
Pensions	52,220	53,048	828	
Lump Sum Benefits	11,438	7,422	(4,016)	
Total benefits payable	**63,658**	**60,470**	**(3,188)**	

Transfers out	**3,438**	**2,224**	**(1,213)**	
Refund of Contributions	**145**	**123**	**(22)**	
Contributions Equivalent Premium	**0**	**(11)**	**(11)**	
Fund administrative expenses				
LPP administrative expenses	894	809	(85)	Favourable variance against support and additional services (£400k p.a.)
Other administrative expenses	35	8	(27)	Awaiting invoice for BTLS EPIC system enhancements for contribution collection.
Write off of bad debts	4	2	(1)	
Total administrative expenses	**933**	**819**	**- 114**	
Investment management expenses				
LPP investment management fees	1,536	1,915	380	Mitigated in part by favourable variance against 'other investment manager' fees. Phasing of transition of investments.
Transition costs	433	0	(433)	No transition costs incurred in year to date (£2.0m recognised in 16/17 for global equities transition).
Other investment management fees	6,520	6,282	(238)	
Total investment management expenses	**8,489**	**8,198**	**(292)**	
Oversight and Governance expenses				
Performance measurement fees (including Panel)	23	(10)	(32)	
IAS19 advisory fees	25	54	29	
Other advisory fees (including abortive fees)	1,050	1,002	(48)	
Actuarial fees	13	4	(8)	

Custody fees	25	20	(5)	
Audit fees	13	(29)	(42)	
Legal & professional fees	150	51	(99)	
LCC recharges	161	72	(90)	Actuals include recharge of corporate finance and legal staff. Budgeted democratic services invoice not yet received or recognised. £300k other income to be recharged by LCC is under review.
Bank charges	2	0	(2)	
Property expenses	625	517	(108)	
Total oversight and governance expenses	**2,086**	**1,681**	**(405)**	
TOTAL EXPENDITURE	**78,748**	**73,505**	**(5,244)**	
(SURPLUS) / DEFICIT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(11,840)**	**(20,762)**	**(8,922)**	

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
None;

Local Pensions Partnership Annual Report 2016/17
Appendix A refers

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

Executive Summary

This report sets out the Annual report and accounts for the Local Pensions Partnership (LPP) for the period ended 31 March 2017.

The Annual report and accounts were approved by LPP's board on the 24th July 2017.

Recommendation

The Committee is asked to note the content of LPP's annual report as attached at Appendix 'A'.

Background and Advice

The Pension Fund Committee are charged with overall governance of the Fund and overseeing the investment and administration functions operated within the Local Pensions Partnership (LPP). The shareholders agreement with LPP and the governance policy documents for the fund state that Pension Fund Committee should receive the annual accounts for LPP. The Annual Report for LPP attached at Appendix 'A' includes the accounts.

LPP started operation in April 2016 and this is the first Annual Report and accounts. The report covers some of the key achievements in the year, future aspirations and the financial statements.

Some of the achievements outlined in the report are:

- Assets under management have increase by £2billion to £12.5billion since the launch of the company
- The launch of LPP I Global Equities Fund in November 2016 and a Private Equity Pool in March 2017
- The creation of a governance structure which meets FCA and legal requirements

Lancashire County Council

- The creation of a stable workforce with excellent knowledge established from staff from both shareholders organisations and recruitment in key areas.

Future Plans identified

- Creation of a new administration operating model
- Expansion of client base on the administration services
- Creation of new pools to complete the transition to pooled funds.
- To work with partners to expand Infrastructure class
- Enhance asset and liability management tools

Financial

The results of the LPP group for the period is a profit after tax of £3.443m. Where the group makes a profit that is not required to be reinvested in the business, refunds will be passed back to clients through an annual rebate mechanism. A rebate has not been made to date due to the £8.4m of expected transformation costs in the next two years.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The shareholders agreement with LPP and the governance policy documents for the fund state that the Pension Fund Committee should receive the annual accounts for LPP.

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

Paper	Date	Contact/Tel
N/A		

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

LPP
Local Pensions Partnership

A Leader in Pension Services

Annual Report
2016 – 2017

LPP is a pension services business operating on a ‘not-for-profit’ philosophy. LPP aims to help clients improve investment outcomes, reduce risks, costs and pension deficits, and achieve stable employer contribution rates.

localpensionspartnership.org.uk

Please visit
localpensionspartnership.org.uk
for more information

About us

Local Pensions Partnership Ltd (LPP) started operation in April 2016 following the coming together of two local government pension scheme (LGPS) funds – Lancashire County Pension Fund (LCPF) and London Pensions Fund Authority (LPFA).

Reduce deficits

Improve investment returns

Lower costs

Deliver wider social benefit through continuing investments in infrastructure and housing

Both funds recognised an opportunity to fulfil their responsibilities more effectively and efficiently by working together, and to provide a pension services organisation for wider collaboration across the pensions industry. In particular, there was a shared objective to reduce pension deficits for the benefit of our clients, members and employers.

LPP's founders set out to create a pension services business, delivering a comprehensive range of services across liability and risk management, pension administration and investment management, which would operate to the highest standards of governance, be a regulated investment business authorised by the Financial Conduct Authority (FCA), and deliver the resulting benefits of scale to members and employers.

This is the start of the journey and LPP has spent the first year embedding its business processes. We have already exceeded all the objectives set in year one and are confident that we will continue to demonstrate that collaboration and best in class governance is the key to a secure retirement for the members of our client pension funds. We are confident that there are more benefits in the years to come.

Key facts

Assets under management

£12.5bn

Group employees

245

of which investment and risk professionals

23

Provided pension administration services to

7

LGPS funds

7

emergency service pension schemes, representing approximately

1,200

employers, with over

517,000

members

as at 31 March 2017

Our first year has been one of monumental effort and change

Chairman's welcome

I'm delighted to present LPP's first Annual Report. This report represents our first full year of operation, having launched in April 2016, and I'm pleased to report on a successful year.

Much of my career has been spent in and around pensions, from academic life and the Organisation for Economic Co-operation and Development (OECD) to The Pensions Regulator. In this time, I've learnt that for pension funds to be successful for their members, they need to focus on deficit reduction, risk management and look at both sides of the balance sheet, not just the assets. When I learned about the formation of LPP, a new organisation which encapsulated these beliefs, I wanted to be involved.

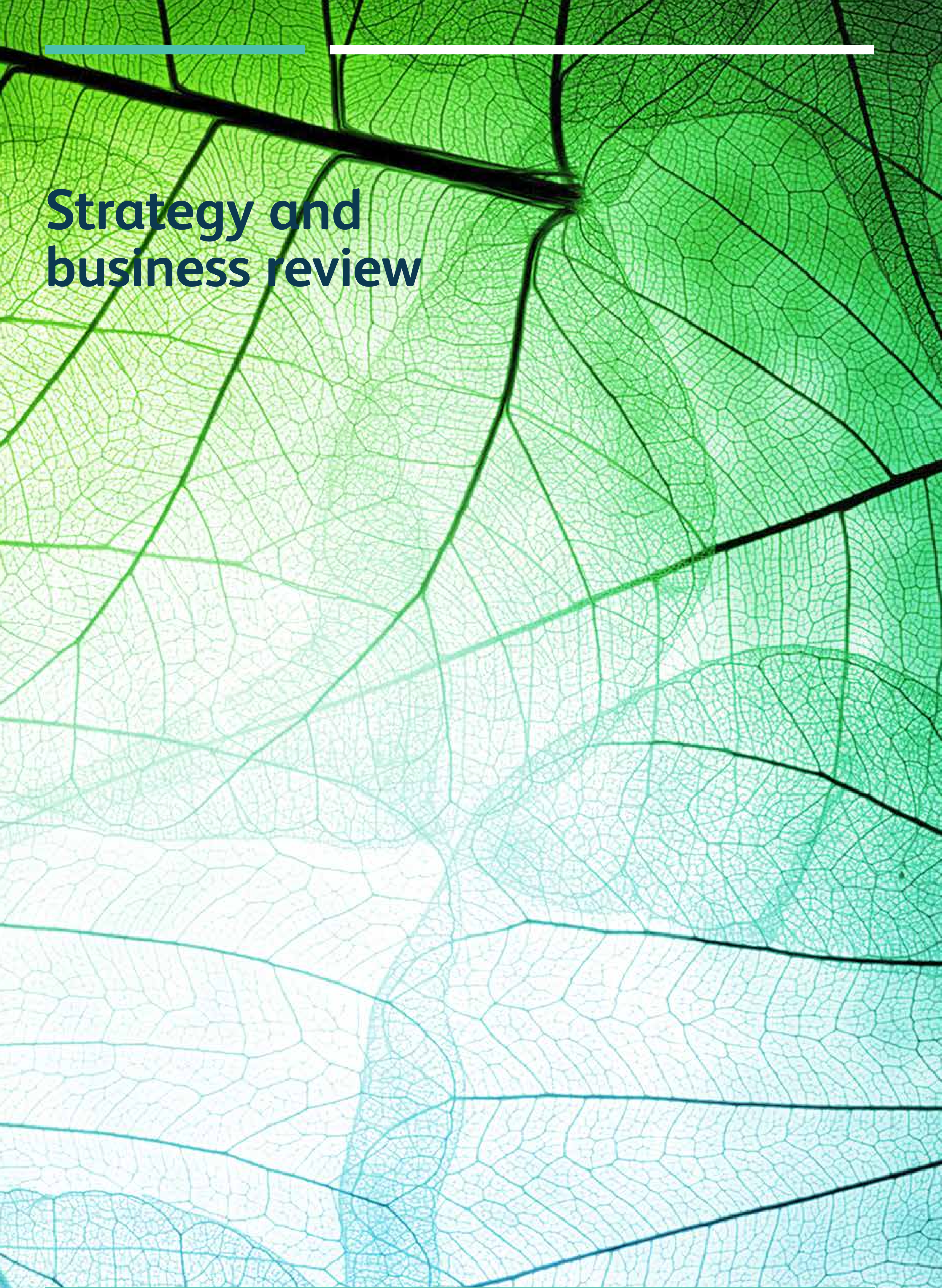
LPP is a unique proposition: a pension services business operating on a 'not-for-profit' philosophy, and offering a full suite of industry-leading pension services covering liability and risk management, pension administration and investment management. Through aggregating assets and expertise, refining governance, and sharing costs, we can help our clients improve investment outcomes, reduce risks, costs and pension deficits, and achieve stable employer contribution rates.

We operate within the wider context of Government's reform agenda for pension funds. We share and support the Government's vision and objectives on the pooling of public sector pension fund assets, infrastructure investing, improved risk management and private sector consolidation. Amongst the LGPS, LPP has taken a lead on infrastructure investing and it is positive to see pension fund assets being put to good use while also generating returns for members. We have allocated c.9.5% of LPP's assets under management to global infrastructure investments. These include historical allocations of infrastructure assets by our full-service clients – LCPF and LPFA. Exposure to direct UK infrastructure investments is made via GLIL Infrastructure, a £1.3 billion infrastructure investment joint-venture between Greater Manchester Pension Fund, LCPF, LPFA, Merseyside Pension Fund and West Yorkshire Pension Fund.

Our first year has been one of monumental effort and change. I would like to thank my Board colleagues and the staff for their support and hard work. My personal and special thanks to Councillor David Borrow, former Deputy Leader of Lancashire County Council, who is stepping down from the Board, for being instrumental in supporting the development and launch of LPP. We are delivering in line with our business strategy and our full-service clients have already identified a reduction in costs on the pre-pooling position. We are building LPP into a successful pension services business and I look forward to what we will achieve in the coming years.

Michael O'Higgins

Michael O'Higgins
Chairman



Strategy and business review

LPP's first year of operation provides a solid foundation for growing our business

Chief Executive's statement

LPP's first year of operation has been one of positive change and provides a solid foundation for growing our business. We have continued to build on the successes our two full-service clients achieved in running in-house investment portfolios, risk management and pension administration.

We provide to clients our in-house investment capabilities, risk management and pension administration service. From day one, we have set ourselves an ambitious business plan to deliver improved returns, effective liability and risk management, and savings in investment management and pension administration costs for our clients.

In our initial business planning, we estimated an on-going reduction in investment fees of £6 million per annum for our two full-service clients. We now expect to deliver an on-going reduction in investment fees of approximately £7.5 million per annum in our global equities pooled fund. We expect this level of reduction to increase in the future once all pooling vehicles and target operating models are established. It is important to note that these fee reductions have not been sought at the expense of performance. We have increased our assets under management from £10.5 billion to £12.5 billion, and worked with other LPGS funds to expand the GLIL infrastructure joint venture to enable a wider collaboration and scale in infrastructure investing.

LPP is much more than an investment pool – we are aiming to deliver broader improvements across liability and risk management, employer and member pension administration. The creation of LPP gives us a unique opportunity. Through aligning administration, investment and risk operations we have created an organisation which serves approximately 1,200 employers with more than 517,000 members across seven LGPS funds and seven emergency service pension schemes. The scale, the structure, the wealth of knowledge and expertise we have at LPP can help our clients achieve fully-funded pensions over the long term.

Through cross-pool initiatives, we have shared our experience and best practice with other LGPS funds and collaborations. We have also worked collaboratively with others on issues such as responsible investing and stewardship initiatives. Additionally, we have shared our learning on consolidation in the public sector with the Government as part of its review of private sector pension arrangements.

Like all good businesses, the key to our success is our people. As part of our strategic business plan, we have significantly increased resources in key functions, including finance, governance, legal, compliance and investment operations. This has been possible due in part to reduced fees paid to external fund managers, and an increased allocation to internally managed funds.

As we enter our second phase of development, we look forward to delivering on the challenges we have set ourselves. We have a comprehensive three-year business plan taking us to 2020.

Delivery of benefits for our clients and their members and employers is our key objective. Growth opportunities will be pursued in order to achieve additional reduction in deficit levels, access to a broader range of investment opportunities, or dilution of overheads for the benefit of all stakeholders. It will play an important role and we will maximise the advantages it provides.

I would like to thank our clients for their trust and confidence in us, and our staff for their dedication and hard work.

Susan Martin
Chief Executive

LPP business model

LPP started operation in April 2016 as a pension services business. LPP aims to be 'a leader in pension services'; delivering sustainable pensions and sharing savings with clients.

LPP's principal activity is the provision of a full pension service covering liability and risk management, investment management, and pension administration. We manage £12.5 billion of assets on behalf of two full-service clients (LCPF and LPFA) via our FCA-authorised subsidiary, Local Pensions Partnership Investments Ltd (LPP I). We provide pension administration services to approximately 1,200 employers with more than 517,000 members across seven LGPS funds and seven emergency service pension schemes. In addition, we support a number of pension funds with our technical pension consultancy and support services in areas such as the Guaranteed Minimum Pension Reconciliation. LPP delivers unique benefits to clients through its focus on liability and risk management as well as seeking strong investment performance.

As a business operating on a not-for-profit philosophy, savings and surpluses not re-invested in the business are passed back to clients through an annual rebate mechanism. Shareholders do not receive a dividend.

Both full-service clients retain their strategic LGPS responsibilities, but they have fully delegated to LPP their pension administration and investment management activities.

LPP business model

Strategy

LPP has a dual strategy – to deliver benefits to our two full-service clients as set out in the originating agreements, and to embark on growing the business. LPP plays an important role in assisting LGPS clients to meet their financial goals. Our aim is to deliver sustainable pensions and to share the benefits of success with clients – including members and employers.

The key benefits of our business model are:

- Improved investment returns through lower investment management costs;
- A governance model with full delegation to LPP and FCA oversight;
- Scale to gain access to a wider array of investment opportunities;
- Improved data quality, flow and control through a robust pension administration service model; and
- Long-term stable and improved funding ratios achieved through an integrated liability and risk management approach.

At the end of the period we have exceeded our initial expectations on performance, savings and delivery targets.

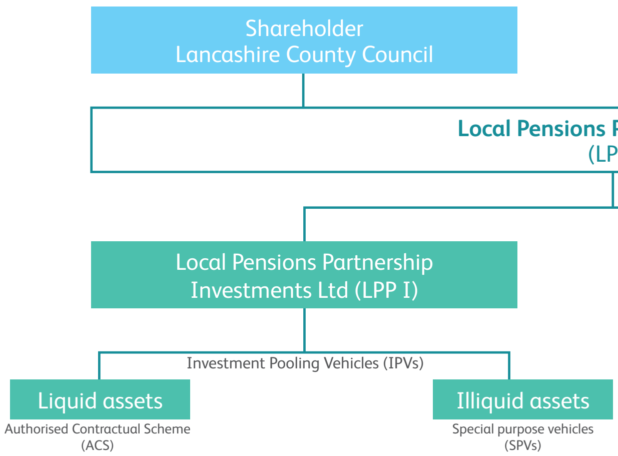
In order to meet the growth aspect of our strategy, we recognise that we need to build scale and strong client relationships. To that end, we aim to build on our reputation as a centre of pension administration expertise covering both employer and member functions, to enhance and develop our liability and risk management solutions, and to continue to build LPP I into a scalable, low-cost, high-performing investment platform that benefits from a robust governance structure. We have initiated a Transformation Programme, a group-wide initiative, to critically identify and implement areas of improvement, and reorganise our business operation. It is important that we are agile, responsive and efficient as the business moves forward.

We are gearing up for growth in our corporate resources including finance, human resources, governance, information technology, legal and client management. These areas are essential to support frontline services and demonstrate to our existing and potential clients that we have a robust and sustainable business model as well as provide top-class service quality.

In the coming years, we will continue to develop the business and capitalise on growth opportunities as they arise for the benefit of not just our clients and shareholders, but ultimately for their pension fund members and employers.

Business structure

LPP comprises a holding company, Local Pensions Partnership Ltd, and two subsidiaries: Local Pensions Partnership Investments Ltd (LPP I), Local Pensions Partnership Administration Ltd (LPP A) and other indirect subsidiaries as defined on page 40 (together 'the group'). The Executive Committee drives the delivery of the liability management, pension administration and investment management services. Long term stable and improved funding ratios are achieved through an integrated liability and risk management approach.



**LPP A has been non-trading since 1 November 2016, with all pension administration business being delivered by LPP under the management of the LPP Executive Committee and overseen by the LPP Board. A structural review will take place during 2017-2018.*

The Executive Committee of LPP is responsible for the execution of LPP's strategy and the day-to-day management of the business. The Executive Committee comprises eight executives.

The LPP Executive Committee

Susan Martin
Chief Executive

Greg Smith	**Tom Richardson**	**Chris Rule**	**Mike Jensen**	**George Graham**	**Allister Jeffrey**	**Jacqui Self**
Director of Strategic Programmes & Group Company Secretary	Chief Risk Officer	Managing Director (Investments) & Chief Investment Officer	Co-Chief Investment Officer	Managing Director (Administration)	Chief Financial Officer	Director of Human Resources

People and culture

LPP is a unique start-up: a pension services business owned by public sector shareholders and operating within the private sector. This brings dynamism, innovation and diversity; behavioural characteristics which are reflected in our culture and values. They enable us to understand our clients and their challenges, as well as the financial services market in which we operate.

We have a team of highly talented and experienced staff, many of whom worked in our shareholders' organisations, and we have also recruited additional colleagues throughout the period. As such we benefit from a stable workforce, with excellent knowledge of our clients, as well as expertise in asset and risk management, and pension administration which has been enhanced by recent recruitment. This has resulted in an innovative and 'can-do' environment.

We encourage and particularly support continued learning and development for all our people through the attainment of knowledge, skill, experience and professional qualifications. During the period, we have committed significant additional investment to our learning and development programme. In addition, we have rolled out a Leadership Programme, providing the development opportunity for our staff to become our future leaders.

We benefit from a stable workforce, with excellent knowledge of our clients

Business operation

Liability management

Since launch, LPP has invested significantly in the skills, tools and processes to enable effective asset and liability management (ALM) on behalf of our clients. The benefit of such an approach to asset and liability management is that it provides greater stability of contributions for employers and greater certainty of pension payments for members.

The approach and the process we have adopted include:

Implementing state-of-the-art analytical tools

We have implemented a market-leading asset and liability management tool to enable us to monitor our clients' assets and liabilities through realistic scenario analysis. The tool is an integral part of our evolving Risk Management Framework which aims to deliver the following:

- Projections of assets, liabilities and range of possible future funding levels over the short and long term;
- Identification, monitoring and reporting of key risk drivers;
- Development of risk mitigation strategies;
- Analysis of the impact of policy alternatives;
- Analysis of the impact of hedging strategies;
- Stress testing to help understand possible future risks; and
- Scenario analysis to improve understanding of balance sheet dynamics.

Employer risk management

The Employer Risk team works with employers of pension fund clients in order to manage data flow, accuracy and employer risk. This includes assessing the solvency of each employer and implementing additional security to protect taxpayers from inheriting pension fund liabilities. LPP provides this service to four clients and helps to ensure clients take timely action to manage the risks identified. During 2016-2017, as part of the triennial valuation process for one of our clients, our employer risk support has resulted in additional security of over £112 million being implemented, making a total of £438 million security implemented since the 2013 triennial valuation.

Pension administration

LPP provides pension administration services to a wide range of clients including LGPS, Firefighters' and Police pension schemes, representing approximately 1,200 employers with over 517,000 members.

Our services include:

- Full pension administration functions for London Boroughs, County Councils and emergency service authorities, and
- Special projects, employer and member engagement activities.

We deliver our services in line with The Pension Regulator Code of Practice 14, which relates to the administration and management of public sector schemes.

The pension administration business was created from the services transferred from Lancashire County Council (LCC) and LPFA, both of which had a record of success. This level of success has continued into year one of the group. Our service model is sustainable and provides 'value-for-money' for clients:

- We are a centre of LGPS, Firefighters' and Police pension scheme administration expertise. Our staff are specialists with in-depth knowledge and experience in all aspects of LGPS and other public sector scheme administration;
- We achieve economies of scale through servicing a much larger client base;
- We have the scale to make greater investment in technology to achieve greater efficiencies;
- Our services can be accessed either via competitive tender or local government shared service arrangements; and
- We apply best-in-class practices, processes and systems.

These are the foundations for us to build stronger relationships with clients and to continue to provide a high standard of service.

Business operation
continued

Performance

We have exceeded our performance targets during the period while providing a significant amount of additional support to clients. For example, we have provided Guaranteed Minimum Pension Reconciliations for 11 existing clients and two other schemes, resulting in improvements in their data quality and the accuracy of payments.

Growth

During the period, LPP delivered high quality, cost effective pension administration services to existing clients. This included engaging with LCC and LPFA's existing partners and seeking to transfer their administration to LPP via sub-contracting arrangements. This was achieved, and all historic shared services and contractual arrangements are now managed by LPP.

We also participated in a number of new contract tenders during the period. We are working to take on new work for a Fire Authority which has been awarded through a shared service route. In addition, we have been successful in joining the national framework for Police Pension Administration, which will give rise to tender opportunities.

Investment management

LPP's investment philosophy has two key aims: (i) to help clients achieve a faster reduction in pension deficits by maximising risk-adjusted investment returns and lowering costs; and (ii) to deliver stable and sustainable investment outcomes to meet clients' long-term pension funding requirements. At all times, we operate within each client's independent and sovereign strategic asset allocation objectives.

With this philosophy in mind, we have established a fully-functioning, low-cost and high performing FCA-regulated investment business, enabling full investment management delegation from clients. Our model is built upon three pillars:

- Scale – enables us to access a broader range of investment opportunities;
- Governance – delegated, independent decision making and governance structures enabling effective investment management; and
- In-house investment and risk management – a deep and broad in-house investment and risk management expertise across major asset classes in both public and private markets, which enable us to better understand clients' liabilities and funding requirements and to develop appropriate investment strategies to meet these requirements.

During the first period of operations, we have made significant progress on both the strategic development of the business and capabilities alongside the core investment and risk management objectives. Assets under management (AUM) have also increased by a further £2 billion to £12.5 billion since launch.

Key investment highlights

In parallel to the day-to-day tasks of managing the portfolios, we successfully launched the LPP I Global Equities Fund within an Authorised Contractual Scheme (ACS) on 1 November 2016 and transitioned more than £5 billion into this vehicle, consolidated holdings and aligned the portfolio with our thematic objectives. In doing so, we expect to deliver an on-going reduction in investment fees of approximately £7.5 million.

In addition, regulatory permissions were expanded to accommodate wider asset pooling into private markets assets and the new Private Equity pool vehicles were launched at the end of March 2017. We have worked to ensure we share experience with our peers within the LGPS sector and continue to do so as we launch new asset pooling vehicles.

Across asset classes, performance has been strong against a backdrop of increased volatility (geo-political and market) with no material detractors. For our clients, the strong performance has helped deliver significant improvements in their funding ratios. The investment pipeline has remained strong with a combination of high conviction, direct and indirect new investments completed across the portfolios.

Alongside this asset pooling and fund development work, we have made significant investment in our people, systems and processes to ensure we have a broad and resilient infrastructure. We have grown our teams in investment, investment operations and risk, and established robust and efficient governance structures, all of which operate with the oversight of our internal compliance function.

delivering the investment strategy through analysis of environmental, social and governance factors

Responsible investment and stewardship

In its own capacity as an asset manager and on behalf of its client pension funds, LPP is responsible for fulfilling the fiduciary duty to protect the long term financial interests of fund members and beneficiaries. This is achieved by investing assets prudently and sustainably with a view to achieving a long-term financial return. Fulfilling these commitments in practice involves governance and investment management arrangements which incorporate rigorous due diligence and effective challenge and oversight processes which generate consistent, insightful and responsible decisions.

The first period of LPP's operation has involved the successful coming together of two large pension funds with wholly aligned stewardship principles and beliefs, but a range of legacy arrangements which followed different approaches. It has been a priority to design, implement and transition client funds to common arrangements that meet the fiduciary needs of both using a consistent format suited to asset pooling. Central to this has been the establishment of an LPP Stewardship Committee chaired by the Chief Investment Officer. The Committee has responsibility for developing and delivering a coordinated approach to stewardship and engagement across the portfolio of both internally and externally managed investment funds.

Under the oversight of the Stewardship Committee, LPP has developed a Responsible Investment Policy that sets out the beliefs, standards, and procedures integral to our stewardship of client assets. The Policy covers how we select investments, exercise active ownership, and monitor and report on our stewardship activities. Importantly, the due diligence process for each investment contains an assessment from a responsible ownership perspective. Responsible investment is an integral part of our decision-making process rather than a separate consideration. Our Policy will continue to evolve.

We seek to maximise investment value and encourage high standards of corporate governance in the enterprises we invest in on behalf of our clients. We actively use influence as an institutional asset manager through routes including:

- Central management of shareholder voting with the support of a proxy voting provider;
- Direct representation on company boards or investor and advisory committees as appropriate; and
- Participating in a range of partnerships and collaborations with other investors.

We also support our clients in developing and implementing on stewardship themes they wish to specifically prioritise.

LPP's two full-service clients are both signatories to the UN Principles for Responsible Investment. They are also members of the Local Authority Pension Fund Forum and the Pensions and Lifetime Savings Association. We participate in stewardship and responsible investment activities alongside these organisations and other associations. We also provide dedicated stewardship support to clients.

As a member of the Responsible Investment Sub-Group of the LGPS Cross Pool Collaboration Group, the Responsible Investment Manager meets regularly with counterparts at each of the emerging LGPS pools to share insights and ideas. The group works collaboratively to develop responsible investment good practice across the LGPS. Additionally, LPP collaborates with a wide network of UK pension funds through the UK Pension Fund Responsible Investment Roundtable which offers further opportunities for joint action, sharing resources and adding influence to initiatives of common benefit to investors.

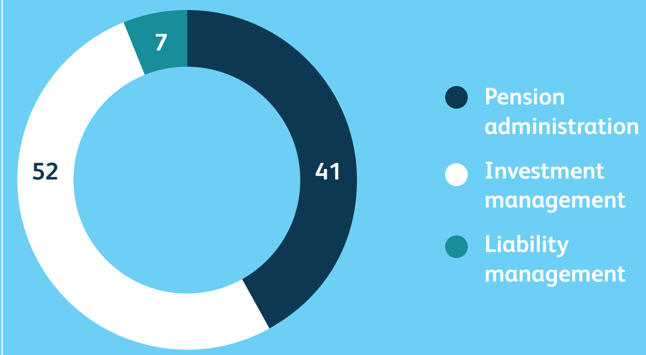
LPP has provided updates and training sessions for Pension Board and Pension Fund Committee members on responsible investment themes including the revised stewardship requirements for Administering Authorities, introduced as part of pre-pooling arrangements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

As part of our ongoing support to our clients with regards to climate change, the Responsible Investment Manager organised a seminar for LPFA Board members and stakeholders in February 2017. The seminar encouraged information sharing with other pension funds and stimulated debate around the issue of fossil fuel investment and climate change risk and opportunity for pension funds as long term investors and fiduciaries.

LPP is a supporter of the Transition Pathway Initiative, an asset owner-led project launched in January 2017 which assesses how companies are preparing for the transition to a low-carbon economy by evaluating the quality of companies' management of their greenhouse gas emissions and the risks and opportunities related to the low-carbon transition.

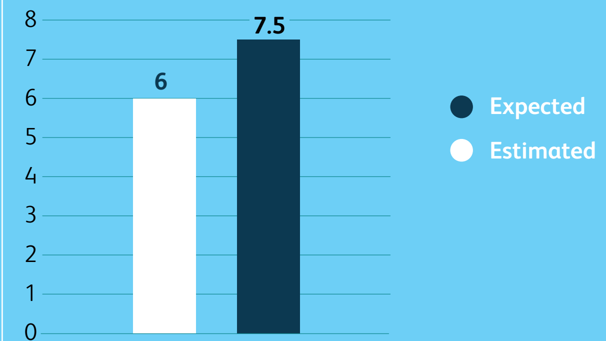
Key performance indicators

Turnover by business operation
(%)

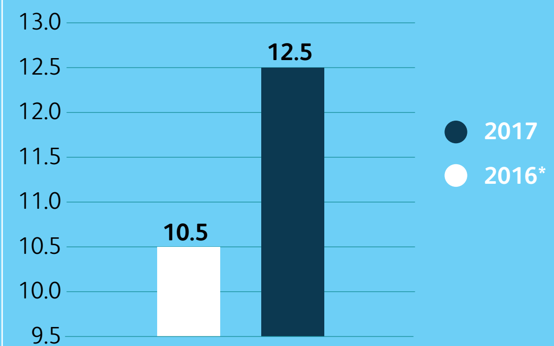


Further details can be found in Notes 5 to the financial statements on page 38.

On-going reduction in investment fees in LPP I Global Equities Fund
(£ million per annum)

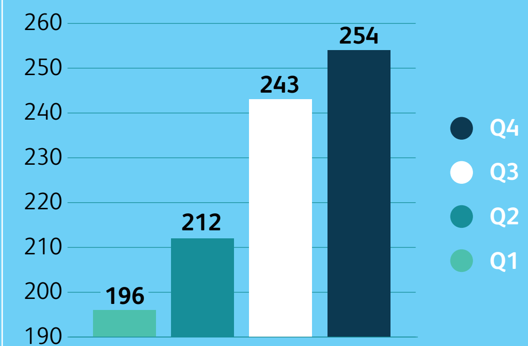


Assets under management
(£ billion)



*Assets under management as at 8 April 2016 when LPP started operation.

Quarterly average headcount during the period**



**Employees of LPFA and LCC who were members of the LCPF were TUPE transferred to LPP and LPP I on 8 April 2016. A subsequent transfer of employees into LPP from LPFA took place during the period.

Looking forward to 2017–2018

Going into 2017-2018, our priorities for the business are as follows:

Liability management

We will continue to enhance our asset and liability management tools and reporting capabilities to enable effective asset and liability management on behalf of our clients.

We will further promote our employer risk management services to clients.

Pension administration

We will be moving our current operating model which services clients by geography, to a 'common delivery' operating model. This will create three main service hubs – member services, engagement and business development. We believe this new operating model will provide greater resilience and flexibility, reduce costs, and enable a more efficient management of data flow and customer queries. It will be underpinned by significant developments in our IT platform.

We are looking to expand our existing LGPS, Firefighters and Police client base, and develop new business opportunities in other public sector pension schemes. We will also be expanding our special projects, employer and member engagement services.

Investment management

New funds will be launched to complete the transition to pooled investments enabling this process to be completed by April 2018. This includes pooled vehicles for infrastructure, credit, fixed income, total return and property. In doing so, we continue to seek innovative solutions for pooling assets that are scalable and cost-effective.

We continue to develop our internal management capacity and capabilities as we seek to maintain performance, manage risk and provide maximum flexibility in what we expect to be an increasingly challenging investment environment.

We are preparing the business for the implementation of the Markets in Financial Instruments Directive (MiFID) II.

Our collaborative efforts will also continue as we work with our partners to expand the GLIL Infrastructure vehicle, consider similar initiatives in other asset classes, and offer our expertise to other partners.

Risk management

LPP has a strong risk management culture and as a business LPP is exposed to a variety of risks as a result of its business activities. As such, effective risk management is a core competence and we actively monitor the potential likelihood and impact of current and future risks. This section explains our approach to risk management and outlines the key categories of risk that may affect our business.

Managing risk

The LPP Board is ultimately responsible for risk and oversight of the approach to managing risk. The Board is complemented by the LPP I Risk Committee which provides executive and non-executive oversight with particular focus on the standards and quality of risk management and internal controls. Additional non-executive oversight is also provided by the LPP Audit Committee. Further details on the role and scope of work undertaken by the LPP Audit Committee and the LPP I Risk Committee can be found on page 23 and page 24 respectively.

Our approach to risk management recognises that it is the responsibility of all employees to manage risks in their respective areas of business. LPP's Executive Committee is responsible for the monitoring and reporting of risks and controls and regularly reviews the key risks facing the business. Executive oversight of risk is delegated to the Chief Risk Officer who is responsible for the design and implementation of the risk and control framework and reporting of risk.

Risk framework

LPP's Risk Management Framework can be described as '*a process which helps us prevent an unacceptable level of uncertainty in business objectives*'. The Framework sets out what the business will undertake in order to:

- Establish and operate an effective risk management and internal control environment including risk identification, assessment, reporting, monitoring and the development of actions arising;
- Establish, operate and report a regular programme of group-wide risk, analysis, reporting, stress testing, scenario development, thematic review and reverse stress testing; and
- Integrate risk management into the culture of the business.

Best practice methods are adopted in the identification, evaluation and control of risks to ensure that they are treated to an acceptable level. The Framework is used universally across the business and delivers both a 'bottom up' and 'top down' approach.

Key risk categories

Financial risk: We recognise that poor investment performance could result in a reduction in AUM. Our investment management business charges income as a percentage of AUM. A fall in AUM could result in a fall in income. We closely monitor the risk and performance of the assets we manage and maintain financial resources in an amount sufficient to meet regulatory requirements and to cover a sustained fall in income.

Business risk: Pension administration service contracts with clients may not be renewed or may be terminated, or that the costs of our service increase to such an extent that contracts become unprofitable. We provide services to a broad range of clients to reduce the concentration risk. Service level performance is closely monitored and discussed with clients to assess the quality of service. Costs are controlled as part of the financial budgeting process.

Strategic risk: The Board has approved a strategic business plan which sets out LPP's key objectives. Failure to meet the objectives of the plan may undermine the success of the business resulting in increased uncertainty over future revenues and costs. The business environment in which we operate is highly exposed to changes to regulation and government policy, and volatility in the global financial markets. These changes can be unexpected and create additional business uncertainty.

The key risks to our strategic business plan are:

- Recruitment and retention of key staff;
- Maintenance of performance across the business during a significant change programme;
- Regulatory change impacting delivery model;
- Governance failure resulting in regulatory fines and impact on reputation;
- Change of government policy;
- Market related risks and volatility in the financial markets;
- Managing a phased approach to business development;
- Meeting strategic growth targets; and
- Generation of capital to sustain investments, regulatory and loan repayment requirements.

Our mitigation strategy is that we maintain a proactive dialogue and engagement with government, regulators and industry bodies so to keep abreast of potential changes, which are factored into our planning and budgeting process.

Credit and Concentration risk: LPP has no significant concentration of credit risk. We do have a risk of client concentration, as a significant portion of our income comes from two large clients.

Operational risk: Operational risks may arise as a result of failures in our internal controls or operational processes. Such failures may lead to financial and reputational losses which can have a permanent and negative impact on clients' trust and confidence in LPP. We have implemented a three-year internal audit plan to review our business operation. The results of the reviews are reported to the Audit Committee.

LPP has a strong risk management culture

Lines of defence

LPP's individual business areas are the first line of defence in the management of risk. Business heads continuously identify potential risks, assess their impact and implement appropriate controls. The second line of defence consists of the control functions including: Compliance, Finance, Governance, Legal, Human Resources and Corporate Risk. Internal Audit is the third line of defence providing independent assurance over the effectiveness of the risk and control environment.

Going Concern

In assessing the basis of preparation of the financial statements for the period ended 31 March 2017, the Board has considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures.

The Board has undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts for the period to 31 March 2018. The Board has reviewed the strength of LPP's balance sheet, the recoverability of assets and availability of funding through LPP's existing facilities. Based on the assessment, the Board is satisfied and confident with LPP's financial positions, and believe it is appropriate to prepare the financial statements on a going concern basis.

Corporate governance

The governance requirement has been significant

Corporate governance framework and responsibilities

The governance requirements to oversee LPP's services and activities are significant. LPP is operating under the requirements of the FCA and has also inherited significant public sector legal requirements as the shareholders are public sector organisations. This has resulted in a group structure which adheres to:

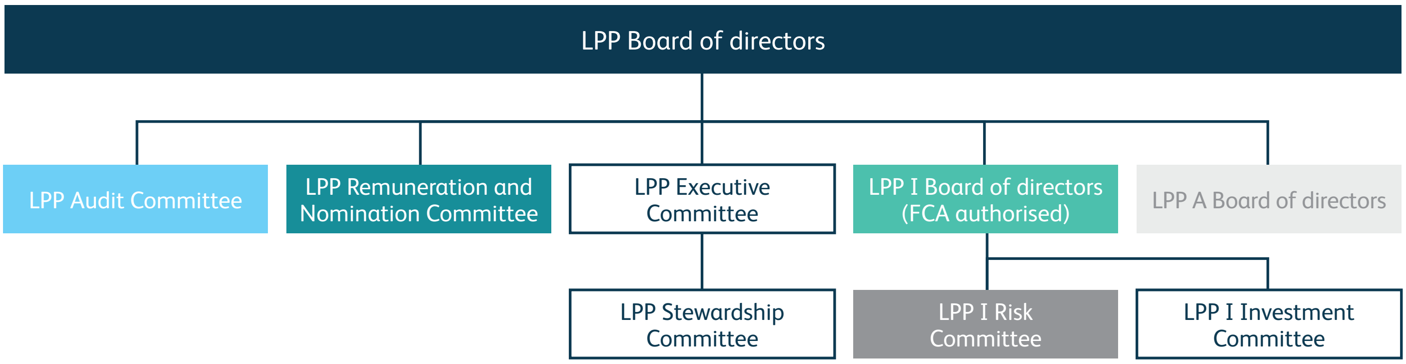
- Public law requirements
- Obligations under the Companies Acts
- FCA regulations, and
- Governance best practice.

The LPP Board is responsible for the group's strategy and leadership, performance, risk management and oversight, and financial reporting and investment. Additionally, the Board has oversight of LPP's two subsidiaries: LPP I and LPP A.

The day-to-day implementation of the strategic direction of the business is carried out by the Executive Committee. Investment decisions are taken by individuals who are authorised by the FCA to carry out investment activities.

The LPP website contains a section on Governance which outlines the responsibilities of each of the Boards and Committees in the group governance framework.

LPP's group governance structure



Board of directors

The Board comprises an independent Chair, three Executive Directors, three independent non-Executive Directors and two shareholder non-Executive Directors.

Each of LPP's shareholders appoint a shareholder non-Executive Director to the LPP Board.

All Directors are ratified by the shareholders at the next Annual General Meeting. Non-Executive Directors are appointed for initial terms of between three and four years. All Directors undergo a tailored induction programme on appointment.

Michael O'Higgins

Chair of LPP Board
Non-Executive Director on LPP I Board
Member of LPP Remuneration and Nomination Committee

Michael O'Higgins is also Chairman of Calculus VCT, the Channel Islands Competition and Regulatory Authorities, as well as a non-executive director of Network Rail and of the pensions company Hedgehog. He became the 'Independent Person' for Tunbridge Wells Borough Council in October 2015.

He was Chairman of The Pensions Regulator from 2011 to 2014, Chairman of the Audit Commission from 2006 until 2012 and Chairman of the NHS Confederation from 2012 until 2015. He was also a non-executive director (NED) of HM Treasury and Chair of the Treasury Group Audit Committee from 2008 to 2014.

Michael was the Chair of the youth homelessness charity Centrepoint from 2004 to 2011. Previously, Michael was a Managing Partner with PA Consulting, leading its Government and IT Consulting Groups, latterly as a Director on its International Board. Prior to that he was a partner at Price Waterhouse, worked at the Organisation for Economic Co-Operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.

David Borrow

Shareholder non-Executive Director
Member of LPP Remuneration and Nomination Committee

Councillor Borrow was elected to Preston City Council in 2011 and two years later he was elected to Lancashire County Council where he was appointed Deputy Leader and Finance portfolio holder. His financial background made him a valuable addition to the LPP Board.

David Borrow was originally from Huddersfield and had an honours degree in Economics from Coventry University. After a short career in banking, he joined the Valuation Tribunal Service in Preston in 1975. From 1983 to 1997 he ran the Merseyside Valuation Tribunal. He was elected to Preston Borough Council and had two periods as Leader before leaving local government to serve as the MP for South Ribble until 2010.

He stepped down from the Board on 8 May 2017.

Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPP I Board
- LPP I Risk Committee
- LPP A

Dermot 'Skip' McMullan

Shareholder non-Executive Director
Chair of LPP Remuneration and Nomination Committee

Dermot 'Skip' McMullan was a managing director at Bank of America in a career spanning 28 years, prior to becoming an Independent Chair of Trustees. During his career at Bank of America, he was involved with a number of major industries in the UK and globally, including construction, mining, real estate, shipping, and the oil and gas industries. Most recently he was responsible for all the relationships that the Bank had in Europe with other financial and non-financial institutions.

His earlier career included the creation of the first PFI company, structuring the financial package and concession for the Dartford Bridge, followed by the larger concession for the Second Severn Bridge and the smaller concession for the Skye Bridge. The latter also involved the buyout of the concession by the Scottish Executive. Currently, he chairs the trustee boards of the Bank of America UK Pension Plan and the SSVC Pension Plan. He is a director of the Bank of America Merrill Lynch UK Pension Plan and joined the LPFA board in April 2013. He is also a trustee of a number of charities.

Sir Peter Rogers

Non-Executive Director
Chair of LPP Audit Committee
Member of LPP I Risk Committee

Sir Peter has more than 18 years' knowledge and experience of working within the public sector. Sir Peter is currently the Chairman of New West End Company and was previously an advisor to Boris Johnson, Mayor of London, on regeneration, growth and enterprise at the Greater London Authority.

He is a former chief executive officer of Westminster City Council, a former non-executive director to Liberata and also former chief executive officer of the London Development Agency. Prior to that Sir Peter worked in the private sector as a senior executive in one of the leading national transport operators.

Robert Vandersluis

Non-Executive Director
Non-Executive Director on LPP I Board
Chair of LPP I Risk Committee

Robert Vandersluis is Director of Global Pension Investments at GlaxoSmithKline (GSK), where he manages over £10 billion of investments and a substantial derivative portfolio. At GSK, Robert sits on a number of pension boards, and he provides strategic advice to GSK's pension fund trustees in Europe, the United States, and Japan. Robert established GSK's London-based pension investment department, where he developed and implemented GSK's interest rate and inflation hedging strategies.

Robert's previous roles include senior treasury and corporate finance positions at Affinity Sutton Group and FCE Bank plc. He also served on the board of the Pensions Trust, where he was deputy chair of the investment committee.

Robert studied economics and public policy at the London School of Economics, the University of Michigan, Cambridge University, and Harvard University's Kennedy School of Government.

Board of directors
continued

Sally Bridgeland
Non-Executive Director
Chair of LPP I Board

Sally is well known in the UK pensions industry, for her thought-provoking views on risk, investment strategy and governance.

She combines investment governance consultancy for Avida International with a number of complementary roles, including as a Non-Executive Director and Investment Committee Chairman at mutual insurance company Royal London; and trustee at both NEST Corporation and the Lloyds Bank pension schemes and at the Nuclear Liabilities Fund. Sally also serves on the Trust Investment Committee of the innovation foundation, Nesta and was the first lady Master of the Worshipful Company of Actuaries from 2016-17.

Sally was previously the CEO of BP Pension Trustees Limited. Before joining BP, Sally spent twenty years with Aon Hewitt as a Pensions Actuary and in the investment practice, where she led a number of research initiatives.

Susan Martin
Director
LPP Chief Executive

Susan Martin is LPP's inaugural Chief Executive, having previously held the role of LPFA Chief Executive since December 2013. Prior to this she was Deputy Chief Executive (2011) and Acting Chief Executive (August 2013) having joined the LPFA in April 2007 as Director of Organisational Development. She has over 30 years of experience across all sectors in pensions, partnerships, mergers, acquisitions, organisational change and business development.

Susan sits on the Pensions and Lifetime Savings DB Council, the LGPS Forum and the Investors Committee of the 30% Club, which aims to increase Board diversity. She is a regular speaker, writer and contributor to discussions on pensions, partnership working, leadership and business change in the UK and internationally. Susan has been recognised for her innovative work on asset and liability management and for her successful partnerships with other administering authorities and pension funds by her industry peers securing the Industry Achievement Award at the Portfolio Institutional Awards 2015 as well as being cited in the top most influential people in pensions and/or in financial services.

George Graham
Director
LPP Managing Director (Administration)
Director on LPP A Board

George joined LPP from Lancashire County Council where he has been the Director of the Lancashire County Pension Fund since 2015; an entirely new role where he was responsible for managing all aspects of the operation of the Fund. He originally joined Lancashire County Council in 2009 as Assistant Director of Finance, before becoming Deputy County Treasurer in 2011.

He began his local government career in 1986 as a Graduate Trainee with Oxfordshire County Council after gaining a degree in Modern History and Economics at the University of Manchester. After achieving his CIPFA qualification at Oxfordshire in 1990, he spent 11 years with Northamptonshire County Council, before being appointed Director of Finance at Chorley Borough Council in Lancashire, which included managing the large customer facing functions of revenues and benefits.

In 2005 he joined Rossendale Borough Council as Executive Director of Resources where, as part of a new management team, his work resulted in the Council achieving a jump from poor to good in its Audit Commission assessment.

George stepped down from the LPP Board on 13 April 2017.

Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPP I Board
- LPP I Risk Committee
- LPP A

Tom Richardson

Director
LPP Chief Risk Officer
Executive Director on LPP I Board
Member of LPP I Risk Committee

Tom joined LPP in July 2016 from the Maple Financial Group, where he spent almost 20 years building his skills in different parts of the business. From 2008, he was the Chief Risk Officer (Market Risk), Global, a role that saw him driving the management and communication of the Group's business line policies within an economic capital framework totalling £400 million.

Tom's areas of responsibility included the measurement and reporting of financial risk where he led the design and implementation of risk methodologies, policies and procedures to meet both internal and regulatory objectives, including Value at Risk, Credit Capital at Risk, scenario analysis and stress testing.

Alan Schofield

Shareholder non-Executive Director
Member of LPP Remuneration and Nomination Committee

Councillor Schofield was appointed to the Board on 25 May 2017.

Councillor Schofield was elected to Lancashire County Council in May 2013 and re-elected in 2017. Prior to becoming a county councillor, Alan held senior financial management posts in the Water Services industry at several locations before moving to a local government career in 1992. He served in a metropolitan borough in Greater Manchester and then progressed upward at three local authorities in Cumbria and Lancashire, retiring in 2011. Alan is a life member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

At Lancashire, he is a member of the Pension Fund Committee (now Deputy Chair); and participated from the outset in the high-level working party deliberating on, and overseeing, the preparations and approval stages toward achieving the April 2016 establishment of LPP.

Also at Lancashire County Council, Alan chairs the Audit and Governance Committee. Outside of the county council, Alan is a trustee director of a citizens advice bureau and a parish councillor.

Corporate governance report

The period under review has been significant in governance terms. An initial governance review was carried out six months after the launch of LPP which resulted in the establishment of a separate Audit Committee. In addition, a greater allocation of assets to an internally managed portfolio has necessitated new processes, procedures and policies to be established. These activities will continue into 2017-2018.

Governance highlights

- Established the LPP group structure including a FCA-authorised subsidiary;
- Approved new committees including the Audit Committee;
- Appointed Deloitte as LPP's internal auditor;
- Implemented the governance requirements for pooled investment entities;
- The Chairman completed the Non-Executive Director appraisals;
- Developed and implemented a range of new policies in addition to a full suite of governance policies which were implemented prior to LPP launch in April 2016. These new policies include the Responsible Investment Policy, the Freedom of Information Policy and the Policy on the management of legal entities; and
- Carried out an initial governance review in September 2016.

Board attendance

The table below shows the number of Board and Committee meetings and the attendance record of each Director and the independent advisor of the Audit Committee during the period.

Director	Date of appointment	Number of meetings	Meetings attended
LPP Board			
Michael O'Higgins (Chair)	19 October 2015	5	5
Dermot 'Skip' McMullan	19 October 2015	5	5
Sir Peter Rogers	2 November 2015	5	4
Robert Vandersluis	2 November 2015	5	5
Susan Martin	11 November 2015	5	5
Sally Bridgeland	1 July 2016	4	4
Tom Richardson	11 July 2016	4	3
David Borrow	19 October 2015 Resigned on 8 May 2017	5	5
George Graham	11 November 2015 Resigned on 13 April 2017	5	5
Angela Smith	11 November 2015 Resigned on 10 August 2016	1	1
LPP Audit Committee			
Sir Peter Rogers (Chair)	17 October 2016	2	2
Bharat Shah (independent advisor)	1 December 2016	2	2
LPP Remuneration and Nomination Committee			
Dermot 'Skip' McMullan (Chair)	14 December 2015	4	4
Michael O'Higgins	14 December 2015	4	4
David Borrow	14 December 2015 Resigned on 8 May 2017	4	4
LPP I Board			
Sally Bridgeland (Chair)	14 December 2015	5	5
Robert Vandersluis	14 December 2015	5	5
Michael O'Higgins	21 October 2015	5	5
Chris Rule	21 October 2015	5	5
Mike Jensen	21 October 2015	5	4
Tom Richardson	11 July 2016	4	4
Angela Smith	21 October 2015 Resigned on 10 August 2016	1	1
LPP I Risk Committee			
Robert Vandersluis (Chair)	17 October 2016	4	4
Sir Peter Rogers	17 October 2016	2	2
Tom Richardson	11 July 2016	3	3
Sally Bridgeland	14 December 2015 Resigned on 17 October 2016	2	2
Angela Smith	14 December 2015 Resigned on 10 August 2016	1	1
LPP A			
George Graham	11 February 2016	2	2
Jacqui Self	11 February 2016	2	2
Michael O'Higgins	3 February 2016 Resigned on 17 October 2016	2	2
Sir Peter Rogers	11 February 2016 Resigned on 17 October 2016	2	2

Board and committee reports

LPP Board

The Board was established prior to LPP starting operation in April 2016. During 2016-2017, it considered reports on strategy, budget, risk management, business growth and performance of all areas of the business, governance and reputation management.

The Chairman, in conjunction with the Chief Executive and Group Company Secretary, maintains an annual rolling agenda which sets the framework for Board meetings so that the Board covers an appropriate range of topics from matters of strategy and business development to reviews of the group's operations. At each Board meeting, members received a report from the Chief Executive on the performance of the business, an update from the Chief Investment Officer on investment performance and a report from the Managing Director (Administration) on pension administration activities.

A 'Strategy Awayday' was held in February 2017 where LPP's dual strategy of delivering benefits to clients plus seeking growth opportunities was confirmed. This strategy has been communicated to shareholders via a shareholder forum in March 2017.

The Board has undertaken an initial governance review and much of 2016-2017 was characterised by shareholders and LPP adjusting to their respective roles. A further governance and structural review is anticipated during 2017-2018.

LPP anticipates meeting the original strategic objectives set out in the business plan by April 2018. It envisages that part of 2017-2018 will be dedicated to moving from a set-up phase to growing the businesses.

Since 1 November 2016, LPP has also had responsibility for overseeing the pension administration business. These responsibilities were transferred from LPP A.

LPP Audit Committee

The Audit Committee is a group-wide committee responsible for ensuring the financial integrity of the group. The establishment of this Committee is a key development of LPP's governance framework.

Sir Peter Rogers was appointed Chair of the Audit Committee, supported by an independent advisor Bharat Shah, who has a wealth of financial, business and pension experience.

The Committee was established in October 2016 and convened twice during the period. The initial meeting approved the terms of reference of the Committee and the appointment of Deloitte as LPP's internal auditor. The second meeting focused on the internal audit plan for 2017-2020.

In 2017-2018, the Committee will focus on working closely with LPP I's Risk Committee, overseeing the work of the internal and external auditors, and the roll out of LPP's Transformation Programme. This is a key initiative for the development of the business. It should ensure LPP delivers the benefits outlined in the original strategic business case.

The Committee's forward planner includes receiving regular reports from the Executive Committee on the financial position of the business.

LPP Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a group-wide committee responsible for remuneration, nomination and succession planning of the group. The establishment of this Committee is a key development of LPP's governance framework. Remuneration above a certain level and the approval of the LPP's Remuneration Policy is a shareholder reserved matter.

Dermot 'Skip' McMullan was appointed Chair of the Remuneration and Nomination Committee. Other Committee members include Michael O'Higgins, David Borrow, who stepped down from the Board on 8 May 2017, and Alan Schofield, who joined the Board on 25 May 2017.

The Committee was established in 2015 and convened four times during the period. The initial priority for the Committee was to establish the terms and conditions on which staff from our two shareholder organisations were transitioned to and the appointment of a Chief Risk Officer. In addition, the Committee also established a Remuneration Policy for the group which underpins our mission to be a leader in pension services delivering sustainable pensions and long-term shareholder and client satisfaction in a competitive market. Furthermore, the Committee takes into consideration that remuneration must remain competitive with the financial services market so that we continue to attract and retain talent, and adhere to the FCA standards and policies on remuneration. However, the Committee must respect the fact that LPP's shareholders are public sector organisations, ensuring value for money in terms of both the overall remuneration and the quality of service provided to our clients.

Looking ahead, the Committee will focus on nomination and succession planning while ensuring LPP's reward framework achieves the aim of attracting and retaining talent.

Board and committee reports
continued

Directors' emoluments

As part of the desire for transparency, the table below summaries the remuneration paid to group statutory directors in the period to 31 March 2017.

Paid by LPP (unless stated)		Basic salary (£)	Bonuses (£)	Pensions (£)	**2017 Total (£)**
Executive:					
George Graham	2	119,441	–	14,210	**133,651**
Mike Jensen	1	141,568	56,000	23,248	**220,816**
Susan Martin		196,139	52,000	29,777	**277,916**
Tom Richardson		109,365	24,750	17,150	**151,265**
Chris Rule	1	235,594	120,000	42,671	**398,265**
Jacqui Self		98,133	20,000	14,176	**132,309**
Non-executive:					
Sally Bridgeland		32,019	–	–	**32,019**
Dermot 'Skip' McMullan		23,000	–	–	**23,000**
Michael O'Higgins		68,708	–	–	**68,708**
Sir Peter Rogers		34,327	–	–	**34,327**
Robert Vandersluis		34,412	–	–	**34,412**
		1,092,706	272,750	141,232	**1,506,688**
Employers' NI					**175,403**
At 31 March 2017					**1,682,091**

1 Paid by LPP I 2 George Graham declined his entitlement to a bonus for the period

LPP I Board

A key factor in the early success of LPP has been the establishment of LPP I as a FCA-authorised entity to manage client assets, enabling a full investment management delegation to be put in place from its clients from the day of LPP's launch.

The day-to-day investment decisions are delegated to the Investment Committee which is executive in nature comprising the Managing Director (Investments), the Co-Chief Investment Officer, the Chief Risk Officer, the Head of Compliance and senior investment professionals within LPP I. The LPP I Board is responsible for ensuring that appropriate policies, procedures and governance are in place in managing client assets. Quarterly reports on the performance of assets are provided to the Board. The Board comprises a Chair who is an independent non-Executive Director (Sally Bridgeland), two non-Executive Directors (Michael O'Higgins and Robert Vandersluis) and three Executive members. The Head of Compliance attends all Board meetings.

In order to fulfil its responsibilities, the LPP I Board has approved the following activities:

- Establishment of the Investment Committee including the approval of the terms of reference and the review of processes;
- Establishment of a Valuation Policy and Fair Value Pricing Committee;
- Creation and implementation of a Responsible Investment Policy;
- Implementation of a Compliance Monitoring Programme;
- Development and agreement of LPP's approach on key regulatory events such as MiFID II;
- Authorising any directly managed internal mandates;
- Pooling strategies; and
- Establishment of a Fund Launch Committee to meet when products are launched.

LPP I Risk Committee

Robert Vandersluis is the Chair of LPP I Risk Committee. Other Committee members include Sir Peter Rogers, and Tom Richardson.

The Committee was established in December 2015 and convened four times during the period. The Committee serves two roles. Firstly, it is the risk committee of a FCA regulated entity responsible for full compliance to regulatory requirements by LPP I. Secondly, it is a group-wide committee responsible for reviewing all aspects of corporate and operational risks of the group.

During the period, the Committee received regular reports on:

- Pooling strategies and running of the internal mandates;
- Regulatory change impacting LPP I;
- Corporate Risk Management – the framework and identification of key corporate risks;
- Compliance monitoring reports including incident identification;
- Data protection and information security audits;
- LPP's information communications and technology environment and business continuity;
- LPP's Transformation Programme and the associated risks;
- Liability and risk profile of the two clients; and
- Internal controls.

Directors' report

The directors present their first report and financial statements for the period from 19 October 2015 to 31 March 2017.

Incorporation

The company was incorporated on 19 October 2015 under the name of Lancashire and London Pensions Partnership Ltd and began trading on 8 April 2016.

On 12 February 2016 a special resolution was passed to change the company name to Local Pensions Partnership Ltd.

Directors

The directors in office during the period and at the date of signing this report were as follows:

David Borrow
(appointed 19 October 2015; resigned 8 May 2017)

Sally Bridgeland
(appointed 1 July 2016)

George Graham
(appointed 11 November 2015; resigned 13 April 2017)

Susan Martin
(appointed 11 November 2015)

Dermot 'Skip' McMullan
(appointed 19 October 2015)

Michael O'Higgins
(appointed 19 October 2015)

Tom Richardson
(appointed 11 July 2016)

Sir Peter Rogers
(appointed 2 November 2015)

Alan Schofield
(appointed 25 May 2017)

Angela Smith
(appointed 11 November 2015; resigned 10 August 2016)

Robert Vandersluis
(appointed 2 November 2015)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom applicable law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 (FRS 102) 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the group keeps adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Results and dividends

The result for the LPP group for the period is a profit after tax of £3,443,000. LPP itself made a profit after tax of £1,388,000. Where the group makes such profits that are not required to be reinvested in the business their refunds will be passed back to clients through an annual rebate mechanism.

No dividends were paid during the period.

As part of the review at the group's period end, the directors have not included in the financial statements, as a provision, any unspent part of the Transformation Programme which began during the period ended 31 March 2017. Over the two year period to March 2019 it is expected that the group will spend in the region of £8.4m as part of the Transformation Programme.

Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

1. So far as the directors are aware there is no relevant audit information of which the group's auditor is unaware; and
2. The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant information and to establish that the group's auditor is aware of that information..

Directors' report
continued

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

On 29 February 2016, Grant Thornton UK LLP were appointed as auditors of Local Pensions Partnership Ltd and its subsidiaries. Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting in accordance with s487 of the Companies Act 2006.

Approved by the Board of directors and signed on behalf of the Board:

Susan Martin
Director
24 July 2017

Independent auditor's report

We have audited the financial statements of Local Pensions Partnership Ltd for the period ended 31 March 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statement of financial position, the consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Flatley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
30 Finsbury Square

25 July 2017

Financial statements

Consolidated income statement

For the period ended 31 March 2017

	Notes	From 19 Oct 2015 to 31 Mar 2017 £'000
Turnover	5	23,306
Administrative expenses		(18,243)
Operating profit	6	5,063
Interest receivable and similar income		25
Interest payable and similar charges		(729)
Profit on ordinary activities before taxation		4,359
Tax on profit on ordinary activities	8	(916)
Profit for the financial period		**3,443**

Consolidated statement of comprehensive income

For the period ended 31 March 2017

	Notes	From 19 Oct 2015 to 31 Mar 2017 £'000
Profit for the financial period		3,443
Net actuarial loss on defined benefit schemes	16	(5,570)
Deferred tax asset as actuarial loss		947
Total comprehensive loss for the financial period		**(1,180)**

Consolidated statement of financial position

As at 31 March 2017

	Notes	2017 £'000
Fixed assets		
Intangible fixed assets	9	55
Tangible fixed assets	10	80
		135
Current assets		
Debtors	12	9,853
Cash at bank and in hand	13	17,561
		27,414
Current Liabilities		
Creditors: amounts falling due within one year	14	(4,247)
Net Current Assets		23,167
Total assets less current liabilities		**23,302**
Creditors: amounts falling due after one year	15	(17,500)
Post employment benefits	16	(15,039)
Net liabilities		(9,237)
Capital and Reserves		
Called up share capital	17	–
Retirement benefit obligations reserve		(8,057)
Profit and loss account		(1,180)
Total Shareholders' Deficit		**(9,237)**

The financial statements on pages 29 to 50 were approved by the board of directors on and authorised for issue on 24 July 2017 and were signed on their behalf by:

T.J. R

Tom Richardson
Director

Company Registration Number: 09830002

Company statement of financial position

As at 31 March 2017

	Notes	2017 £'000
Fixed assets		
Intangible fixed assets	9	55
Tangible fixed assets	10	80
Investments	11	10,000
		10,135
Current assets		
Debtors	12	8,196
Cash at bank and in hand	13	5,925
		14,121
Current Liabilities		
Creditors: amounts falling due within one year	14	(3,294)
Net Current Assets		10,827
Total assets less current liabilities		20,962
Creditors: amounts falling due after one year	15	(17,500)
Post employment benefits		(13,210)
Net liabilities		(9,748)
Capital and Reserves		
Called up share capital	17	–
Retirement benefit obligations reserve		(7,496)
Profit and loss account		(2,252)
Total Shareholders' Deficit		(9,748)

The financial statements on pages 29 to 50 were approved by the board of directors on and authorised for issue on 24 July 2017 and were signed on their behalf by:

Tom Richardson
Director

Company Registration Number: 09830002

Consolidated statement of cash flows

As at 31 March 2017

	Notes	2017 £'000
Cash flows from operating activities		
Consolidated operating profit for the financial period		5,063
Adjustments for:		
Depreciation of tangible assets	10	7
Amortisation of intangible assets	9	4
Interest expense		(729)
Interest income		25
Taxation		(1,091)
Deferred tax assets		2,534
Increase in trade & other debtors	12	(9,853)
Increase in trade creditors	14	4,247
Net cash generated from operating activities		207
Cash flows from investing activities		
Purchase of tangible assets	10	(87)
Purchase of intangible assets	9	(59)
Net cash from investing activities		(146)
Cash flows from financing activities		
Issue of ordinary share capital	17	–
Long-term Loan	15	17,500
Net cash used in financing activities		17,500
Net increase in cash and cash equivalents		17,561
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period	13	**17,561**

Consolidated statement of changes in equity

For the period ended 31 March 2017

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	**Total £'000**
At 19 October 2015	–	–	–	**–**
Loss and total comprehensive income for the period	–	–	(1,180)	**(1,180)**
Issue of shares	–	–	–	**–**
Pension deficit for the period	–	(9,469)	–	**(9,469)**
Deferred tax asset on retirement benefit obligation deficit	–	1,412	–	**1,412**
At 31 March 2017	–	(8,057)	(1,180)	**(9,237)**

Company statement of changes in equity

For the period ended 31 March 2017

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	**Total £'000**
At 19 October 2015	–	–	–	**–**
Loss and total comprehensive income for the period	–	–	(2,252)	**(2,252)**
Issue of shares	–	–	–	**–**
Pension deficit for the period	–	(8,824)	–	**(8,824)**
Deferred tax asset on retirement benefit obligation deficit	–	1,328	–	**1,328**
At 31 March 2017	–	(7,496)	(2,252)	**(9,748)**

Notes to the financial statements

For the period ended 31 March 2017

1. Company information

Local Pensions Partnership Ltd (the 'company') is a private company limited by shares and incorporated in England. Its registered office is County Hall, Fishergate, Preston, United Kingdom, PR1 8XJ .

The company's principal activities and nature of operations is included in the Strategic report on page 6.

2. Basis of preparation

These group financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The group financial statements have been prepared on the historical cost basis.

The group financial statements are presented in Sterling (£).

The group financial statements consolidate the financial statements of Local Pensions Partnership Ltd and all its subsidiary undertakings drawn up to 31 March each year.

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements.

The individual accounts of Local Pensions Partnership Ltd have also adopted the following disclosure exemptions as they are included in the group financial statements:

- the requirement to present a statement of cash flows and related notes (s7 FRS 102)
- financial instrument disclosures (s11 and s12 FRS 102) including:
  - categories of financial instruments;
  - items of income, expenses, gains or losses relating to financial instruments; and
  - exposure to and management of financial risks;
- the exemption has been claimed not to disclose related party transactions (s33 FRS 102).

Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. Significant judgements and estimates

In the process of applying the group's accounting policies, which are described in note 4, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Deferred taxation

The financial statements include judgements and estimates that have been made regarding deferred taxation, as described in note 4.9.

Pensions liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries are engaged to provide the group with expert advice about the assumptions to be applied. However, because these judgements cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the financial statements
continued

For the period ended 31 March 2017

4. Principal accounting policies

4.1 Investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the group (its subsidiaries). Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

4.2 Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible asses are amortised over the following useful economic lives:

- Software costs, over the life of the licence

4.3 Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives, using the straight-line method. The rates applicable are:

- Computer hardware 5 years

4.4 Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carry amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.5 Debtors

Loans receivable are measured initially at fair value, net of transaction costs.

4.6 Cash at bank and in hand

Cash at bank and in hand include deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

4.7 Creditors

Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs.

Notes to the financial statements
continued

For the period ended 31 March 2017

4. Principal accounting policies (continued)

4.8 Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

4.9 Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.10 Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes. Turnover includes revenue earned from the rendering of administration, investment and risk management services.

4.11 Employee and pension costs

Participation by group employees in four administered defined benefit scheme funds began on 8 April 2016. Contributions from the employer were payable to the schemes and are charged to the profit and loss account in the period to which they relate.

Notes to the financial statements
continued

For the period ended 31 March 2017

5. Turnover

	From 19 Oct 2015 to 31 Mar 2017 £'000
Pension administration	9,608
Investment management fees	12,184
Risk management services	1,514
	23,306

6. Profit on ordinary activities before taxation

	From 19 Oct 2015 to 31 Mar 2017 £'000
The profit is stated after charging:	
Staff costs (note 7)	1,072
Auditor's remuneration – audit of these financial statements	60
Non-audit service fees – accounting and tax	19
Operating lease rentals:	
– Land and buildings	1,019

The auditors remuneration includes £40,000 for the audit of subsidiaries and £20,000 for the group.

7. Directors and employees

	From 19 Oct 2015 to 31 Mar 2017 £'000
Wages and salaries	8,764
Social security costs	961
Other pension costs	995
	10,720

The group operates defined benefit pension schemes for the benefit of the employees and directors. The assets of the scheme are administered in house. Pension payments recognised as an expense during the period amount to £995,000.

The average monthly number of employees during the period was 226, of which 9 were directors, and 217 were staff.

Remuneration in respect of directors was as follows:

	From 19 Oct 2015 to 31 Mar 2017 £'000
Emoluments	1,366
Social security costs	175
Pension contributions to defined benefit schemes	141
	1,682

Not included in emoluments above are LTIP payments of £93,303 made to directors by a shareholder.

Notes to the financial statements
continued

For the period ended 31 March 2017

7. Directors and employees

The amounts set out above include remuneration in respect of the highest paid director and are as follows:

	From 19 Oct 2015 to 31 Mar 2017 £'000
Emoluments	355
Social security costs	48
Pension contributions to defined benefit schemes	43
	446

8. Taxation

	From 19 Oct 2015 to 31 Mar 2017 £'000
The tax charge is based on the profit for the period and represents:	
UK Corporation Tax	1,091
Deferred tax:	
Current period	(206)
Effect of changes in tax rates	31
Tax on results on ordinary activities	**916**
The tax charge for the year can be reconciled to the profit per the income statement as follows:	
Profit on ordinary activities before tax	4,359
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	872
Expenses not deductible for tax purposes	13
Tax rate changes	31
Tax on results on ordinary activities	**916**
Deferred taxation	
Deferred tax credit to income statement for the period	(175)
Deferred tax credit in equity for the period	(1,412)
Deferred tax credit in OCI for the period	(947)
	(2,534)

9. Intangible fixed assets

The group & the company	Software £'000
Cost	
Balance 19 October 2015	–
Additions	59
At 31 March 2017	**59**

Notes to the financial statements
continued

For the period ended 31 March 2017

9. Intangible fixed assets (continued)

	Software £'000
Amortisation	
Balance 19 October 2015	–
Charge for the period	4
At 31 March 2017	**4**
Net book value	
At 31 March 2017	**55**

10. Tangible fixed assets

The group & the company	IT equipment £'000
Cost	
Balance 19 October 2015	–
Additions	87
At 31 March 2017	**87**
Depreciation	
Balance	–
Charge for the period	7
At 31 March 2017	**7**
Net book value	
At 31 March 2017	**80**

11. Investments

The company

	Investment in subsidiaries £'000
Cost	
Additions in the period	10,000
At 31 March 2017	**10,000**

On the incorporation of its subsidiary Local Pensions Partnership Investments Ltd, the company paid £1 for one ordinary £1 share and £9,999,999 as share premium. The two Scottish companies were acquired in the period for £2 each and LPP A and Daventry GP Limited were acquired for £1 each.

Subsidiaries – direct

	Type of shares held	Proportion held	Country of incorporation	Nature of business
Local Pensions Partnership Administration Ltd	Ordinary	100 %	UK	Non-trading
Local Pensions Partnership Investments Ltd	Ordinary	100 %	UK	Investment

Subsidiaries – indirect

	Type of shares held	Proportion held	Country of incorporation	Nature of business
LPP I Scotland (No.1) Limited	Ordinary	100 %	UK	Investment
LPP I Scotland (No.2) Limited	Ordinary	100 %	UK	Non-trading
Daventry GP Limited	Ordinary	100 %	UK	Property

Notes to the financial statements
continued

For the period ended 31 March 2017

12. Debtors

	The group 2017 £'000	The company 2017 £'000
Amounts falling due within one year:		
Trade debtors	4,981	1,427
Amounts owed by group undertakings	0	2,500
Deferred tax	2,534	2,223
Prepayments and accrued income	2,338	2,046
	9,853	**8,196**

13. Cash at bank and in-hand

	The group 2017 £'000	The company 2017 £'000
Cash at bank	**17,561**	**5,925**

14. Creditors: amounts falling due within a year

	The group 2017 £'000	The company 2017 £'000
Trade creditors	236	725
Taxation and social security costs	836	538
Corporation tax	1,090	528
Other creditors	186	129
Accruals	1,899	1,374
	4,247	**3,294**

15. Creditors: amounts falling due after one year

	The group 2017 £'000	The company 2017 £'000
Loans	**17,500**	**17,500**

Loans are repayable as follows:

	The group 2017 £'000	The company 2017 £'000
More than five years	**17,500**	**17,500**

On 8 April 2016, the company entered into a term loan facility agreement with Lancashire County Council, one of its shareholders. The term is for ten years and with no schedule of fixed repayments. The loan facility bears interest at 4.25% per annum. No repayments have been made as at 31 March 2017.

The company also has a loan facility with its other shareholder, LPFA, but is not drawn down as at 31 March 2017. The facility is for £17.5m, to be repaid within ten years of the withdrawal date, at a rate initially of 1.3% before draw down and at 4.25% thereafter.

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes

Defined benefit pension schemes

On 8 April 2016 current employees of the London Pensions Fund Authority (LPFA) and Lancashire County Council (LCC) who were members of the Lancashire County Pension Fund (LCPF) were TUPE transferred to the Local Pensions Partnership Ltd (LPP) and Local Pensions Partnership Investments Ltd (LPP I). A subsequent transfer of employees into LPP from LPFA took place during the period.

The transferring employees are all members of the Local Government Pension Scheme (LGPS). LPP and LPP I were allocated notional shares of the LPFA and LCPF Fund assets equal to 100% of the value of the transferring pension liabilities. The liabilities were calculated on the ongoing basis appropriate for funding, either the LPFA or LCPF 2016 Triennial valuation assumptions depending on the Fund from which employees' liabilities were transferred. As such LPP and LPP I's pension liabilities were 100% funded on the relevant ongoing basis at the dates of transfer.

Notwithstanding differences between the LPFA and LCPF ongoing 2016 Triennial valuation basis, when the pension liabilities are valued for the purposes of IAS19 disclosures, the discount rate is prescribed by the IAS19 standards to be set with reference to corporate bond yields. The assessment of pension liabilities on this accounting basis at the date of transfer results in pension liabilities greater than those assessed on the LPFA and LCPF ongoing valuation basis. Therefore at the date of transfer LPP and LPP I's pension liabilities on the IAS19 accounting basis were not fully funded.

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972. The benefits under the scheme are based on the length of membership and the average salary. Each member contributes a proportion of their salary, within a 5.5% to 12.5% range depending on their rate of pay. LPP and LPP I, as the employing bodies, also contributes in to the scheme on the employee's behalf at 12.0% of the employee's salary.

LGPS is accounted for as a defined benefits scheme. The liabilities of the LGPS attributable to the LPP group are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

In accounting for the defined benefit schemes, the group has applied the following principles:

- No pension assets are invested in the group's own financial instruments or property.

The schemes in the UK typically expose the group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk, as follows:

- Investment risk – the present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on plan assets is below this rate, a deficit will be created;
- Interest risk – a decrease in the bond interest rate will increase the scheme liability but this will be partially offset by an increase in the return of the plan's debt investments;
- Longevity risk – the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability; and
- Salary risk – the present value of the defined benefit scheme liability is calculated by reference to the future salaries of plan participants, as such, an increase in the salary of the plan participants will increase the plan's liability.

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

London Pensions Fund Authority

The actuaries for LPFA are Barnett Waddingham.

The normal contributions expected to be paid during the financial year ending 31 March 2018 are £589,000 (31 March 2017: £342,000) for LPP and for LPP I are £187,000 (2017: £120,000).

A summary of the defined benefit pension schemes on the group balance sheet is as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Retirement benefit assets	9,521	403
Retirement benefit obligations	(18,671)	(974)
Net retirement benefit deficit	**(9,150)**	**(571)**

Scheme assets – Changes in the fair value of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of assets	5,131	154
Interest income on scheme assets – employer	232	9
Return on scheme assets less interest income	1,230	41
Administrative expenses and taxes	(7)	–
Employer contributions	342	120
Contributions by employees	276	93
Benefits paid	(36)	(14)
Plan settlements	2,353	–
At 31 March 2017	**9,521**	**403**

Analysis of assets – The major categories of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Equity instruments	5,642	239
Target return portfolio	2,012	85
Infrastructure	501	21
Property	485	21
Cash and other	881	37
At 31 March 2017	**9,521**	**403**

The pension scheme has not invested in any of the group's own financial instruments or in properties or other assets used by the group. Virtually all equity and debt instruments have quoted prices in an active market.

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Scheme liabilities – Changes in the fair value of scheme liabilities are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in liabilities	8,392	353
Current service cost – employer	980	205
Effect of changes in financial assumptions	3,271	322
Interest cost – employer	385	15
Benefits paid	(36)	(14)
Contributions by scheme participants	276	93
Plan settlements	5,403	–
At 31 March 2017	**18,671**	**974**

Amounts recognised in the profit and loss account

	LPP 2017 £'000	LPP I 2017 £'000
Amounts recognised in operating profit		
Current service cost	4,030	205
Settlement gain	(3,050)	–
Administrative expenses and taxes	7	–
Recognised in arriving at operating profit	987	205
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	153	6
Recognised in interest receivable and similar income	153	6
Total recognised in the profit and loss account	**1,140**	**211**

Amounts recognised in the statement of comprehensive income

	LPP 2017 £'000	LPP I 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	1,230	41
Effect of changes in financial assumptions	(3,271)	(322)
	(2,041)	**(281)**
Total pension cost recognised in the statement of comprehensive income	**(2,041)**	**(281)**

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Principal actuarial assumptions
The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 2017 %	LPP I 2017 %
Discount rate	2.8	2.8
Future salary increases	4.2	4.2
Future pension increases (CPI)	2.7	2.7
Future pension increases (RPI)	3.6	3.6
Inflation assumption (CPI)	2.7	2.7
Inflation assumption (RPI)	3.6	3.6

Post retirement mortality assumptions

	LPP 2017 Years	LPP I 2017 Years
Current UK pensioners at retirement age – male	21.7	21.7
Current UK pensioners at retirement age – female	24.5	24.5
Future UK pensioners at retirement age – male	24.0	24.0
Future UK pensioners at retirement age – female	26.7	26.7

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Assumption	Change in assumption 2017 %	Change of +0.1 % in present value of scheme liabilities 2017 £'000	Change of (0.1 %) in present value of scheme liabilities 2017 £'000
LPP			
Discount rate: 2.8 %	0.1	18,169	(19,188)
Inflation: 2.1% CPI	0.1	19,044	(18,310)
Rate of salary increase: 4.2 %	0.1	18,815	(18,529)
LPP I			
Discount rate: 2.8 %	0.1	1,008	(1,008)
Inflation: 2.1% CPI	0.1	941	(941)
Rate of salary increase: 4.2 %	0.1	974	(974)

If the mortality rate was increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.7 – 26.7 years, post retirement age, the change in present value of scheme liabilities would increase 0.3 %.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Lancashire County Pension Fund

The actuaries for LCPF are Mercer.

The normal contributions expected to be paid during the financial period ending 31 March 2018 are £279,000 (31 March 2017: £283,000) for LPP and for LPP I are £88,000 (2017: £89,000).

A summary of the defined benefit pension schemes on the group balance sheet is as follows:

	LPP 2017 £'000	**LPP I 2017 £'000**
Retirement benefit assets	8,487	1,724
Retirement benefit obligations	(12,547)	(2,982)
Net retirement benefit deficit	**(4,060)**	**(1,258)**

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Scheme assets – Changes in the fair value of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of assets	6,743	1,305
Interest income on scheme assets – employer	257	51
Return on scheme assets less interest income	1,092	217
Administrative expenses and taxes	(11)	(4)
Employer contributions	283	89
Contributions by employees	148	66
Benefits paid	(25)	–
At 31 March 2017	**8,487**	**1,724**

Analysis of assets – The major categories of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Equity instruments	7,341	1,491
Bonds	306	62
Property	747	152
Cash and other	93	19
At 31 March 2017	**8,487**	**1,724**

The pension scheme has not invested in any of the group's own financial instruments or in properties or other assets used by the group. Virtually all equity and debt instruments have quoted prices in an active market.

Scheme liabilities – Changes in the present value of scheme liabilities are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of liabilities	8,243	1,599
Current service cost – employer	437	137
Effect of changes in financial assumptions	3,437	706
Effect of experience adjustments	–	414
Interest cost – employer	307	60
Benefits paid	(25)	–
Contributions by scheme participants	148	66
At 31 March 2017	**12,547**	**2,982**

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Amounts recognised in the profit and loss account

	LPP 2017 £'000	LPP I 2017 £'000
Amounts recognised in operating profit		
Current service cost	437	137
Administrative expenses and taxes	11	4
Recognised in arriving at operating profit	448	141
Amounts recognised in interest receivable and similar income		
Interest cost on scheme liabilities – employer	307	60
Interest cost on scheme assets – employer	(257)	(51)
Recognised in interest receivable and similar income	50	9
Total recognised in the profit and loss account	**498**	**150**

Amounts recognised in the statement of comprehensive income

	LPP 2017 £'000	LPP I 2017 £'000
Remeasurements recognised in the statement of comprehensive income		
Return on scheme assets less interest income	1,092	217
Effect of changes in financial assumptions	(3,437)	(706)
Effect of experience adjustments	–	(414)
	(2,345)	(903)
Total pension cost recognised in the statement of comprehensive income	**(2,345)**	**(903)**

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 2017 %	LPP I 2017 %
Discount rate	2.6	2.6
Future salary increases	3.7	3.7
Future pension increases (CPI)	2.2	2.2
Inflation assumption (CPI)	2.2	2.2

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Post retirement mortality assumptions

	LPP 2017 Years	LPP I 2017 Years
Current UK pensioners at retirement age – male	22.6	22.6
Current UK pensioners at retirement age – female	25.2	25.2
Future UK pensioners at retirement age – male	24.9	24.9
Future UK pensioners at retirement age – female	27.9	27.9

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Assumption	Change in assumption %	Change of +0.1 % in present value of scheme liabilities 2017 £'000	Change of (0.1 %) in present value of scheme liabilities 2017 £'000
LPP			
Discount rate: 2.6 %	0.1	12,217	(12,217)
Inflation: 2.2 % CPI	0.1	12,887	(12,887)
Rate of salary increase: 3.7 %	0.1	12,701	(12,701)
LPP I			
Discount rate: 3.8 %	0.1	2,903	(2,903)
Inflation: 2.1 % CPI	0.1	3,063	(3,063)
Rate of salary increase: 2.6 %	0.1	3,019	(3,019)

If the mortality rate was increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 22.6 – 27.9 years, post retirement age, the change in present value of scheme liabilities would increase 2 %.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Notes to the financial statements
continued

For the period ended 31 March 2017

16. Pension schemes (continued)

Post employment benefits summary

	LPFA	LCPF	Total
Net assets	9,924	10,211	20,135
Net liabilities	(19,645)	(15,529)	(35,174)
	(9,721)	(5,318)	(15,039)
Consolidated statement of comprehensive income	2,322	3,248	5,570
Pension deficit for the period	**(7,399)**	**(2,070)**	**(9,469)**

17. Share Capital

	2017 £
Authorised, allotted and fully paid:	
2 ordinary shares of £1 each	2
Ordinary shares	
Share issue – on incorporation	2
As at 31 March 2017	**2**

The shares issued in the period have full rights in the company with respect to voting, dividends and distributions.

18. Leasing commitments

At the period end the company was committed to make the following payments during the next year in respect of operating leases with expiry dates as follows:

	Land and buildings £'000	Other £'000	Total £'000
Expiry date:			
Within one year	76	–	76
Between one and five years	1,787	–	1,787
	1,863	**–**	**1,863**

19. Contingent liabilities and capital commitments

The group and the company have no contingent liabilities at the period end.

The group and company have no capital commitments at the period end.

20. Related party transactions and ultimate controlling party

The Key Management Personnel emoluments paid by the group total £796,204 for the period.

The directors of Local Pensions Partnership Ltd had no material transactions with the company or its subsidiaries during the period other than service contracts and directors' liability insurance. A summary of the directors' remuneration is disclosed in the notes to the accounts also in detail on page 24.

The company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned by Local Pensions Partnership Ltd.

The company is a joint venture and its ultimate parents and controlling parties are London Pensions Fund Authority and Lancashire County Council.

Offices and contact information

Directors	Sally Bridgeland Susan Martin Dermot 'Skip' McMullan Michael O'Higgins Tom Richardson Sir Peter Rogers Alan Schofield Robert Vandersluis
Company Secretary	Greg Smith
Company registration number	09830002
Registered office	County Hall Fishergate Preston United Kingdom PR1 8XJ
Business Address	2nd Floor 169 Union Street London SE1 0LL
Auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2P 2YU
Bankers	National Westminster Bank PO Box 35 10 Southwark Street London SE1 1TJ Handelsbanken Winckley Chambers 30 Winkley Square Preston Lancashire PR1 3JJ

LPP
Local Pensions Partnership

www.localpensionspartnership.org.uk
info@localpensionspartnership.org.uk
020 7369 6000

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected: None;

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

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

Executive Summary

This report updates the Committee on pension related training, conferences and events attended by individual members of the Committee since the last meeting and gives them an opportunity to provide feedback.

Recommendation

The Committee is asked to note the report and any feedback presented at the meeting.

Background and Advice

At the meeting on the 29th January 2016 the Committee approved a refreshed training plan for members of the Committee. As with the previous plan, the purpose of the refreshed plan was to ensure best practice within the Fund and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- Local Government Pension Scheme (LGPS) Governance Compliance Statement.

The training plan requires Committee Members to provide verbal feedback at the subsequent Committee to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and

Lancashire County Council

- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

The following training, conferences and events have been attended by members of the Committee since the last meeting:

23rd June 2017 – Workshop on Annual report and Accounts at County Hall, Preston, attended by County Councillors E Pope, J Burrows, S Clarke, A Schofield, J Fillis, J Mein and Co-opted members – P Crewe and Councillor R Whittle

29th/30th June 2017 - 14th Annual LGPS Trustees' Conference - "Brave New World" at the Marriott Highcliff Hotel, Bournemouth attended by County Councillor J Fillis.

18th/20th July 2017 - The LAPF Strategic Investment Forum at The Grove, Hertfordshire attended by Councillor D Borrow.

27th July 2017 – Workshop on the LCPF Risk Register at County Hall, Preston, attended by County Councillors E Pope, J Burrows, S Clarke, A Riggott, A Schofield, A Snowden, K Ellard. Co-opted members – Councillor D Borrow, R Whittle, and Ms J Eastham.

7th/8th September 2017 - LGC Investment Summit 'Navigating the new landscape' at the Celtic Manor Resort, Newport, South Wales attended by County Councillor K Ellard and County Councillor J Mein.

Members of the Committee are requested to provide feedback on the above at the meeting.

Consultations
N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

Financial

The cost of attendance, together with travel and subsistence costs, were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance at Conferences and Events approved by the Head of Fund under the Scheme of Delegation to Heads of Service	June to 8th September 2017	Mike Neville (01772) 533431

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

Pension Fund Committee
Meeting to be held on Friday, 15 September 2017

Electoral Division affected:
(All Divisions);

Supply of Lancashire Pension Fund Custodian Service

Contacts for further information: Christopher Ridings, (01772) 539403, Category Manager Christopher.Ridings@lancashire.gov.uk

Abigail Leech, (01772) 530808, Head of Fund Abigail.Leech@lancashire.gov.uk

Executive Summary

The current contract for the provision of custodian services is due to expire on 31st July 2018. This report sets out the timelines and award criteria for the procurement of a new custodian contract for the Fund.

Recommendation

That the County Council's Procurement Service undertake the following procurement processes:

1. Appoint an independent specialist firm via a 3 quote process, to assist the Fund in developing a specification for the custodian services and assist in the evaluation of potential tender responses as a result of the 2nd procurement exercise outlined below;

2. Undertake an independent open OJEU compliant procurement exercise to appoint an independent provider of custodian services for 3 years, with an option to extend for any given period up to a maximum of a further 3 years. The contract will commence on 1st April 2018.

Background and Advice

One of the key objectives of the Lancashire County Pension Fund (LCPF) in respect of its investments is to minimise risk. Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party professional custodian who keeps a register of holdings and will collect income and distribute monies according to client instructions.

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

Traditionally the Custodian has held a significant number of assets on behalf of LCPF. As a result of the recent pooling, the individual assets are owned by the company running the pool, the Local Pension Partnership, and they have their own custodian.

LCPF now holds less assets and the nature of the assets held have changed. As a consequence of the changes the custodian's role under the new contract will be focussed more on accounting and performance reporting. In addition the custodian will undertake some work on behalf of the County Council as part of its Treasury Management activities principally the holding of bonds.

Taking these changes into account, LCPF have stated they would like to appoint a custodian by the start of the next financial year (April 2018) and it has been proposed between LCPF and Lancashire Procurement Services that this be accomplished by the strategy highlighted in the recommendation.

An independent open OJEU compliant tender allows LCPF (in consultation with an appointed external advisor) to create its own specifications, performance measurements and contractual terms and conditions that reflect the changing role of the custodian.

The Committee is asked to note the process/timescales of the proposed procurement exercise and the proposed award criteria for custodian services highlighted in **"Appendix A: - Proposed timescales and award criteria"**

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to take steps to put a new contract in place and instead allow the incumbent to continue to provide the services will result in Lancashire County Council being in breach of its Procurement Rules, and the Public Contracts Regulations 2015.

The appointed independent advisor will be required to declare that there is no conflict of interest between their organisation and potential bidders for the custodian service contract.

Finance

The current cost of the existing services is approximately £250,000 per annum and is met from the LCPF budget. The procurement exercise (in consultation with an appointed external advisor) is expected to reduce this cost to the Pension Fund as it seeks to obtain greater value for money.

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

Paper	Date	Contact/Tel
N/A	N/A	N/A

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

Appendix A

1. Selection / Award Criteria to be applied (suggested)

Part 1 – 3 quote process

LCPF have stipulated that they would like to appoint an organisation who fully understands changes in LGPS investments and how this impacts on the service required. Therefore they have stated that they would like the process to be based on:

- 75% Quality
- 25% Price.

Part 2 – Open OJEU tender

The criteria is to be decided in consultation with the appointed external advisor.

2. Proposed Timescales

Action	Date
Initial Stakeholder project commencement meetings	1st August 2017
(LCC internal orders) – Deadline Report Strategy to LCC Pension Committee to Democratic Services (Must be signed off by procurement, legal and finance teams previously)	1st September 2017
Pension Committee meeting	15th September 2017
3 Quote Procedure Launched	18th September 2017
3 Quote Responses Deadline	2nd October 2017
Evaluation	2nd to 5th October 2017
Award	6th October 2017
Preparation of Tender Documentation with External Advisor and Legal Assistance	9th October to 1st December 2017
ITT Documentation and OJEU Notice Released (Deadline)	8th December 2017

Deadline for Clarifications	19th January 2018
Deadline for Tender Submissions	26th January 2018
Evaluation Period: Including Interviews	29th January to 16th February 2018
Finalisation of Award and Head of Service Report	19th to 23rd February 2018
Head of Service Authorisation of Award Deadline	23rd February 2018
Standstill Letters Released Deadline	26th February 2018
Contract Award Deadline	9th March 2018
Mobilisation	3 Weeks
Contract commencement date	1st April 2018

Agenda Item 16

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted

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

Document is Restricted