

Lancashire County Council

Pension Fund Committee

Friday, 30th June, 2017 at 10.00 am in Committee Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item
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| 1. | Apologies | |
| 2. | Constitution, Membership and Terms of Reference of the Committee | (Pages 1 - 14) |
| 3. | 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. | |
| 4. | Minutes of the Meeting held on 17th March 2017
To be confirmed, and signed by the chair. | (Pages 15 - 22) |
| 5. | Internal Audit Annual Report 2016/17 and Audit Plan 2017/18 | (Pages 23 - 38) |
| 6. | Annual Administration Report 2016/17 | (Pages 39 - 50) |
| 7. | Lancashire County Pension Fund - Annual Governance Statement 2016/17 | (Pages 51 - 62) |
| 8. | Lancashire County Pension Fund 2016/17 Statement of Accounts and out-turn report | (Pages 63 - 150) |
| 9. | Progress on Delivering the Lancashire County Pension Fund Strategic Plan | (Pages 151 - 168) |
| 10. | Lancashire County Pension Fund Risk Register | (Pages 169 - 178) |
| 11. | Responsible Investment | (Pages 179 - 270) |

12. Feedback from members of the Committee on pensions related training, conferences and events (Pages 271 - 272)

13. Transaction of Urgent Business - revised Statement of Compliance with the UK Stewardship Code (Pages 273 - 282)

14. 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.

15. Date of Next Meeting

The next scheduled meeting of the Committee is due to be held at 10.30am on the 27th July 2017 in Cabinet Room 'D' - The Henry Bolingbroke Room at County Hall, Preston.

16. 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)

17. Investment Panel Report. (Pages 283 - 298)

18. LCPF Performance Overview March 2017 (Pages 299 - 312)

19. Local Pension Partnership business plan and 3 year budget. (Pages 313 - 372)

20. Local Pensions Partnership quarter 4 update (Pages 373 - 406)

21. Supply of Pension Fund Actuarial Services (Pages 407 - 412)

County Hall
Preston

Director of Governance, Finance and
Public Services

Pension Fund Committee

Meeting to be held on 30 June 2017

Electoral Division affected: N/A

Constitution, Membership and Terms of Reference of the Committee

(Appendix A refers)

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

Executive Summary

The Constitution, Membership and Terms of Reference of the Pension Fund Committee.

Recommendation

That the Constitution, Membership and Terms of Reference of the Pension Fund Committee be noted.

Background

At the meeting on the 25th May 2017 the full County Council approved the membership of various Committees and related appointments for 2017/18. With regard to the Pension Fund Committee the membership was approved as being 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. The following County Councillors were subsequently appointed to the Committee by the respective political groups.

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

The current co-opted members of the Committee are as follows.

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 – Lancashire Leaders
Councillor I Moran – Lancashire Leaders
Vacancy – FE/HE Institutions

At the meeting in May Full Council also appointed County Councillor E Pope as the Chair of the Committee and County Councillor A Schofield as the Deputy Chair.

A copy of the Committee's current Terms of Reference are set out at Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel
Agenda and Minutes from full County Council	25 th May 2017	Mike Neville 01772 533431

Pension Fund Committee

Terms of Reference

Composition and role:

1. The Pension Fund Committee ("the Committee") comprises twelve County Councillors and seven voting co-optees representing the following organisations:
 - a. One co-optee representing the Further and Higher Education sector in Lancashire;
 - b. One co-optee from Blackburn with Darwen Council;
 - c. One co-optee from Blackpool Council;
 - d. Two co-optees representing Trade Unions; and
 - e. Two co-optees representing the Lancashire Borough and City Councils.
2. The role of the Committee is to:
 - a. Fulfil the role of Scheme Manager, as set out in regulations, of the Lancashire County Pension Fund ("the Fund" or "LCPF");
 - b. Establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future Investment policy for the Fund;
 - c. Monitor and review investment activity and the performance of the Fund; and
 - d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.
3. The Committee shall meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
4. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

General:

5. To exercise Lancashire County Council's responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.
6. To determine which pension related functions and responsibilities should be exercised under a Scheme of Delegation to the Head of the LCPF, the Director of Financial Resources (S.151 Officer) and the Director of Governance, Finance and Public Services.

**(Approved and last updated by Full Council, 25 May 2017
Owner – Chris Mather)**

7. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
8. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
9. To establish sub-committees and panels as necessary to undertake any part of the Committee's functions.
10. To receive an annual report from the Lancashire Local Pensions Board on the nature and effect of its activities.

Policies (other than Investment, Administration and Funding – see below):

11. To approve the following key policy documents:
 - a. A rolling 3 Year Strategic Plan for the Fund;
 - b. The Statement of Investment Principles
 - c. Governance Policy Statement;
 - d. Governance Compliance Statement;
 - e. Pension Fund Annual Report;
 - f. Communication Policy statement;
 - g. Internal Dispute Resolution Procedure;
 - h. Death Grant Procedure;
 - i. Bulk Transfer Payment Policy;
 - j. Commutation policy (small pensions);
 - k. Transfer policy;
 - l. Abatement policy; and
 - m. Any other discretionary policies as required under LGPS regulations

Investment:

12. To determine the strategic asset allocation policy, giving due recognition to the options made available by the Local Pensions Partnership Ltd (LPPL).
13. To monitor the performance of the Fund's investments and ensure that best practice is being adopted and value for money is being delivered
14. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.
15. To approve and review on a regular basis an overall Investment Strategy and subsidiary Strategies for such asset classes as the Investment Panel consider appropriate.
16. To have overall responsibility for investment policy.

Administration:

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17. To approve the Annual Administration Report.
18. To approve the Pensions Administration Strategy Statement.
19. To monitor the performance of the pensions administration function.
20. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.
21. To approve applications for early payment of preserved pension benefits on compassionate grounds.
22. To approve payments under the County of Lancashire Act 1984.
23. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.
24. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, as a result of anything they were required to do in carrying out their work and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.

Funding:

25. To approve the Funding Strategy Statement which shall include the Fund's policy in respect of:
 - a. the Funding Target;
 - b. the collection of employee contributions;
 - c. the collection of employer contributions;
 - d. the collection of additional employer contributions; and
 - e. Admissions and Terminations.
26. To approve Scheme Funding Advice
27. To review ongoing funding updates for potential cash contribution implications

Procurement:

28. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external support, including:
 - a. an external corporate governance adviser;
 - b. an external Fund custodian;
 - c. external performance measurement advisers;

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- d. the Fund Actuary; and
- e. the Fund's AVC Provider.

Training:

- 29. To approve the annual Training Plan for members of the Pension Fund Committee and actively participate in training opportunities.

Local Pensions Partnership Ltd (LPPL):

LPPL was formed in partnership between the County Council and the London Pension Funds Authority (LPFA) to carry out certain pension functions such as investment activity and administration on behalf of the two partner authorities. The relationship between the County Council and LPFA is governed by a number of agreements one of which (the Shareholders Agreement dated []) reserves certain key matters for the determination of the County Council and LPFA rather than LPPL (the "Reserved Matters"). References to delegated powers relating to LPPL address the Reserved Matters. Unless stipulated, any reference to the "Agreement" is a reference to the Shareholders Agreement dated [].

Incorporation or winding up of subsidiaries:

- 30. To approve, with the exception to the formation of vehicles which are necessary for any transactional, operational or tax efficiency reasons in the sole opinion of the Board, any incorporation of any new subsidiary of LPPL or any of its Group Companies or any liquidation or winding up of LLP or any of its Group Companies. Any acquisition of any shares in any company, whether through subscription or transfer, such that the company concerned becomes a Subsidiary of LPPL or any Group Company.

Merger/acquisition of any business undertaking:

- 31. To approve the amalgamation or merger with any company, association, partnership or legal entity or the acquisition of any business undertaking of any other person.

Financial and Business:

- 32. To approve any Strategic Plan for LPPL or make any material changes to any Strategic Plan after its approval.
- 33. To approve any extension of the activities of LPPL outside the scope of the Business or close down any business operation.
- 34. To receive the annual accounts of LPPL.
- 35. To approve the establishment, provision or amendment of any pension scheme.

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36. To give or take any loans, borrowing or credit (other than normal trade credit in the ordinary course of business) in excess of £1,000,000 or cause the aggregate indebtedness of LPPL to exceed £[5m].

Shares, shareholder loans and constitutional:

37. To pay or declare any dividend (other than as expressly provided for in the Shareholder agreement) or other distribution to the Shareholders or redeem or buy any Shares or otherwise reorganise the share capital of LPPL.
38. To admit any person whether by subscription or transfer as a member of LPPL save as provided for in the Shareholder Agreement.
39. To approve any name change of LPPL

Control, management, directors and employees:

40. To approve the remuneration policy of LPPL Non-Executive Directors.
41. To approve the appointment or removal of any statutory director of LPPL otherwise than in accordance with the Shareholder Agreement and the Articles of LPPL.
42. To enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, LPPL being managed otherwise than by its directors or controlled otherwise than by its shareholders.
43. To approve the move of the central management and control of LPPL or LPPL's tax residence outside of the UK.

Contract with related parties

44. To enter into or vary any contracts or arrangements with any of the Shareholders or Directors or any person with whom any Shareholder or Director is connected (whether as director, consultant, shareholder or otherwise) save as anticipated in the various agreements between the County Council, LPFA and LPPL entered into on the [].
45. To approve the commencement or the taking of steps to commence any insolvency proceedings under any law relating to insolvency anywhere in the world unless LPPL is at the relevant time unable to pay its debts as they fall due or the value of its assets is less than its liabilities, including its contingent and prospective liabilities and the directors reasonably consider (taking into account their fiduciary duties) that it ought to be wound up or it ought to enter into administration.
46. To enter into any partnership, joint venture or profit sharing arrangement with any person or create any share option scheme.

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- 47. To enter into or make any material variation to any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis.
- 48. To approve the sale, lease (as lessor), licence (as licensor), transfer or otherwise dispose of any of its material assets.
- 49. To enter into any contract which cannot be terminated within 48 months and under which the liability for such termination could exceed £1 million.

Pension Fund Committee – Scheme of Delegation Arrangements

1. Matters reserved to Full Council

Local Pensions Partnership Ltd (LPPL):

Changes to the Articles or any Share rights impacting on any pre-approval matter(s)

1. Approval to alter any of the provisions of the LPPL Articles (including the articles of the LPPL subsidiary companies) or alter any of the rights attaching to the Shares (including where any such alterations directly or indirectly impacts on a Reserved Matter) unless such amendment is of a purely administrative nature.

Dilution on Shareholding/Issue of Shares and Share Options

2. Approval to reduce or cancel any share capital of LPPL, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of LPPL or any security of LPPL convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of LPPL or alter the classification of any part of the share capital of LPPL save as the power to do so without prior Shareholder approval is specifically provided for in the Agreement .

Creation of any Holdco of LPPL

3. To approve the formation of any holding company of LPPL.

Change of Company status

4. To approve a change of status of LPPL from a limited company to a public limited company or from a company limited by shares to any other form of legal entity.

2. Matters reserved to the Employment Committee

Local Pensions Partnership Ltd (LPPL):

Approval of LPPL's Remuneration Policy

1. To approve the remuneration policy of the LPPL directors and staff, other than for LPPL Non-Executive Directors

Changes to Directors' Remuneration Policy

2. To approve the payment of any fees, remuneration or other sums to or in respect of the services of any director or vary any such fees or remuneration other than in accordance with an agreed remuneration policy approved by both LCC and LPFA. For the avoidance of doubt this will not apply to the payment

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or reimbursement of reasonable expenses properly incurred by any statutory director in the course of carrying out his duties in relation to LPPL nor to any payment under any indemnity by LPPL to which the statutory director is entitled under the Articles or under any relevant law.

Proposed redundancies of any Group employees

3. To approve any proposed programme of redundancies within LPPL or rationalisation of a group of employees

Proposed re-location of any LPPL employees

4. To approve any proposed programme of relocation of a group of employees outside Lancashire who were previously employees of LCC.

Chief Executive

5. To approve the appointment or removal of the Chief Executive of LPPL or any subsidiary company.

3. Matters reserved to Officers

The following functions have been delegated to the Head of the Lancashire County Pension Fund (LCPF), the Director of Governance, Finance and Public Services, and the Director of Financial Resources (as the Council's S.151 officer) as indicated below:

The Head of the LCPF, the Director of Governance, Finance and Public Services, and the Director of Financial Resources may allocate or re-allocate responsibility for exercising powers (delegated to them by Full Council or the Pension Fund Committee) to other officers on their behalf in the interests of effective corporate management as he/she thinks fit.

Records of all such authorisations must be retained and a copy sent to Democratic Services for retention. The 'other' officer(s) to whom a power has been re-allocated cannot further delegate that power to another officer.

Any decisions taken under the Scheme of Delegation must be recorded on the electronic decision recording system.

- **Matters reserved to the Director of Governance, Finance and Public Services**

Agreements

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1. To enter into or vary any agreement to do any of the things reserved to the Pension Fund Committee and to officers under the Scheme of Delegation arrangements

Local Pensions Partnership Ltd (LPPL):

Guarantees and Indemnities

2. To give any guarantee, suretyship or indemnity outside the ordinary course of business to secure the liabilities of any person or assume the obligations of any person.

Disputes and proceedings

3. To commence, settle or defend any claim, proceedings or other litigation brought by or against LPPL, except in relation to debt collection [not exceeding £[2m].] in the ordinary course of the Business.

• Matters reserved to the Council's S.151 Officer

As the officer designated under s.151 of the Local Government Act 1972 to be responsible for the proper administration of the financial affairs of the County Council, for this purpose including the Lancashire County Pension Fund.

Accounts and Records

1. To maintain all necessary accounts and records in relation to the Pension Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Committee

Local Pensions Partnership Ltd (LPPL):

Shares, shareholder loans and constitutional:

2. Save as provided for in the Shareholders Agreement, to approve an increase in the amount of any Shareholder Loans or the variation of the terms of any Shareholder Loans.
3. To approve the repurchase, repayment, redemption or cancellation of any Shareholder Loan other than in accordance with the terms of any Loan Agreement, Loan Notes or the terms of the Shareholders Agreement.
4. To enter into any agreement with a Shareholder for the provision of additional funds or financial support from that Shareholder which differ from the terms on which the other Shareholder is providing equivalent finance or support.

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- **Matters reserved to the Head of the Lancashire County Pension Fund**

As the officer responsible for the management of the Lancashire County Pension Fund:

1. To set the appropriate funding target for the Fund.
2. To place any monies not allocated to investments on short term deposit in accordance with arrangements approved by the Pension Fund Committee.
3. In consultation with the Investment Panel, to monitor and review the performance of investments made by LPPL and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.
4. To arrange and authorise the provision of appropriate and necessary training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.
5. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
6. To prepare and submit the following to Pension Fund Committee:
 - a. A rolling 3 Year Strategic Plan for the Fund;
 - b. Statement of Investment Principles (to include policy on the management of cash balances) ,
 - c. Governance Policy Statement
 - d. Governance Compliance Statement.
 - e. Pension Fund Annual Report, including the Annual Administration Report.
 - f. The Funding Strategy Statement to include the Fund's policy in respect of:
 - g. the Funding Target;
 - h. the collection of employee contributions;
 - i. the collection of employer contributions;
 - j. the collection of additional employer contributions; and
 - k. Admissions and Terminations.
 - l. Pensions Administration strategy statement;
 - m. Communication Policy statement;
 - n. Internal Dispute Resolution Procedure;
 - o. Death Grant Procedure;
 - p. Bulk Transfer Payment Policy;

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- q. Commutation policy (small pensions);
 - r. Transfer policy; and
 - s. Abatement policy
7. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme.
 8. To approve the payment of death grants in accordance with the agreed Death Grant Procedures.
 9. To appoint any required external support (subject to the role of the Pension Fund Committee and the Investment Panel), their terms of office and remit.
 10. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.
 11. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.
 12. To approve applications for early payment of preserved pension benefits on compassionate grounds.
 13. To approve payments under the County of Lancashire Act 1984
 14. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.
 15. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, as a result of anything they were required to do in carrying out their work and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.
 16. To provide support to the Local Pension Board to enable it to fulfil its role and responsibilities as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013.

Local Pensions Partnership Ltd (LPPL):

To approve the following:

17. The appointment or removal of the auditors of LPPL.
18. The alteration of LPPL's accounting reference date.
19. Any significant change to any of LPPL's accounting or reporting practices.
20. The creation of any Encumbrance over the whole or part of the undertaking or assets of LPPL.

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21. Any item or series of items of capital expenditure including finance leases but excluding operating leases of more than £5,000,000.
22. The entering into or variation of any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 10 years or involving aggregate premium and annual rental payments in excess of £5m.
23. The factor or discount any book debts of LPPL.
24. The making of any agreement or reach any settlement with any revenue authorities or any other taxing authority, or make any claim, disclaimer, election or consent of a material nature for tax purposes in relation to LPPL, its business, assets or undertaking.
25. Any change to the bankers of LPPL.
26. Any change to the registered office of LPPL.

**(Approved and last updated by Full Council, 25 May 2017
Owner – Chris Mather)**

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 17th March, 2017 at 2.00 pm in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

Present:

County Councillor Kevin Ellard (Chair)

County Councillors

M Barron	M Otter
G Dowding	A Schofield
J Oakes	K Sedgewick

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Edward Pope, (FE/HE and Lancashire Leaders' Group Representative)
Councillor Peter Rankin, (Lancashire Leaders' Group Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

Independent Advisers

A Devitt
E Lambert

1. Welcome and Apologies

The Chair welcomed everyone to the meeting and noted that Greg Smith, (Director of Strategic Programmes and Group Company Secretary) and Chris Rule (Managing Director and Chief Investment Officer) from LPP were attending to present the reports at items 15 and 16.

He also welcomed Marianne Dixon, Manager, and Ian Pinches, Assistant Manager, from Grant Thornton UK LLP who would present the report at item 7.

Apologies for absence were received from County Councillor D Borrow and presented on behalf of County Councillor M Parkinson and County Councillor D Westley.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

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

3. Minutes of the Meeting held on 2nd December 2016

The Chair informed the meeting that following consultations with Colleges and Universities it had been agreed that Mr Eddie Pope from UCLAN would be the sole nominee put forward to replace Mr Milloy as the FE/HE representative on the Committee and that upon his retirement from the position it would be filled by a nominee from the FE colleges and the position would then alternate between the sectors in a similar way.

The Committee noted that Mr Pope would ensure that relevant colleagues from each of the Lancashire FE/HE institutions would be able to input through him and receive feedback from him following meetings.

Resolved:

1. That the appointment of Mr E Pope from UCLAN as the co-opted member representing FE/HE institutions on the basis set out above is noted.
2. That the Minutes of the meeting held on the 2nd December 2016 as presented are confirmed as an accurate record and signed by the Chair.

The Chair informed the meeting that he would take all the Part II items as the next items of business in order that the representatives from the Local Pension Partnership could present their reports and then leave the meeting.

12. 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.

13. Investment Panel Report

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

The Committee received a report on matters considered by the Investment Panel since the last meeting which included updates on the continuing implications of Brexit, the US presidency and rising inflation on global markets.

Resolved: That the report is noted.

14. Fund Performance Report

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

The Committee considered a report on the performance of the Fund up to the end of December 2016 which included the following:

- An update on the economic backdrop;
- The total Fund return as at 31st December 2016;
- An update on the performance of equities, credit, real estate, infrastructure and private equity:
- Asset allocation;
- The funding ratio up to December 2016;
- Details of contributions net of benefits and investment income.

An additional summary and overview of performance was circulated to members of the Committee at the meeting. In considering the report the Committee noted that regulatory changes in January 2018 would classify local authorities as 'retail investors' which were not considered suitable to invest in infrastructure. Mr Smith reported that discussions were underway regarding the criteria, with a view to determining whether authorities which could demonstrate they have sufficient expertise, would be able to "opt up" and continue to invest in infrastructure.

It was also noted that the Fund was performing well with strong growth potential across all asset allocations.

Resolved:

1. That the report and updates on performance presented at the meeting are noted.
2. That the Committee be kept informed of developments regarding the regulatory changes which are due to come into operation in January 2018 and their implications for the Fund.

15. Local Pensions Partnership (LPP) Quarter 3 update

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

The Director of Strategic Programmes and Group Company Secretary from LPP updated the Committee on the performance of the Fund up to 31st December, 2016, including plans to expand the current pooling arrangements. The Committee also discussed arrangements for publicising the work of the LPP in the media.

The Managing Director and Chief Investment Officer from LPP updated the meeting in relation to the transition of assets which was anticipated to be completed by February 2018. With regard to social investment it was noted that LPP would monitor upcoming decisions and ensure that any voting was in accordance with LPPs responsible investment policy.

Resolved:

1. That the report and updates presented at the meeting are noted.
2. That arrangements be made for members of the Committee to be regularly updated on publicity associated with the LPP.

16. Data security issue - Pension Administration Service

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

A report was presented on a data protection breach which had been brought to the attention of the Head of Fund since the last meeting. The breach had been referred to the County Council's Information Governance Team who had reported the incident to the Information Commissioner and carried out a full investigation. The Committee noted that the County Councils Senior Information Risk Owner had reviewed the breach and concluded that it was not necessary to report it to the Pensions Regulator.

Resolved: That the report is noted.

17. Transaction of Urgent Business - Extension of contract for Independent Advisor to Pension Fund

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

A report was presented in relation to a decision taken by the Director of Governance, Finance and Public Services under the urgent business procedure to approve the extension of the contract of an independent adviser to the Committee, for an additional two years to 28th February 2019 on the existing terms of appointment.

Resolved: That the report is noted.

Having considered all of the reports in Part II the Committee returned to those items in Part I of the agenda which were open to the press and public.

4. Proposed revised Terms of Reference for the Lancashire Local Pension Board

Mr Bourne, Chair of the Lancashire Local Pensions Board, presented a report regarding proposed revised Terms of Reference for the Board.

It was noted that the main changes to the Terms of Reference related to clarifying the review and scrutiny role of the Board and the inclusion of eleven bullet points taken from the LGC Guidance on the operation of Pension Boards.

Resolved: That the revised Terms of Reference for the Lancashire Local Pensions Board are approved.

5. LCPF Budget 2017/18

The Head of the Fund, presented a report regarding the budget for the Lancashire County Pension Fund for the year ending 31st March 2018 and informed the meeting that the budget would be compared with updated figures from the 2017 Actuarial Valuation once they were available.

In considering the report the Committee discussed the various measures which were in place to ensure transparency including internal/external audit, the risk register and Investment Panel. It was also noted that the Pension Board had recommended that in the future an independent external review of the LPP be undertaken to provide further reassurance over financial procedures and controls.

Resolved: That the budget for the Lancashire County Pension Fund for the year ended 31st March 2018, as set out in Appendix 'A' to the report presented is noted and approved.

6. Funding Strategy Statement

A report was presented in relation to the revised Funding Strategy Statement (FSS) which incorporated the requirements set out in the Fund's Investment Strategy Statement.

In considering the report the Committee recognised the tensions which existed between contribution levels from employers and the Committee as the holder of the Fund for beneficiaries. It was reported that the key elements of the revised FSS had been communicated to employers and discussions were ongoing with individual employers in relation to the options available to them in relation to debt recovery.

Resolved: That the revised Funding Strategy Statement, as set out in Appendix 'A' to the report presented, is approved.

7. 2016-17 Audit Plan

The Committee considered the External Auditors Annual Audit Plan for 2016/17 which set out in broad terms the programme of work which the audit would focus on. It was noted that the total fee for the audit would be the same as that charged for the preceding two years.

Resolved: That the Audit Plan for 2016/17 and associated fee, as set out in the Appendix to the report presented, is noted.

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

The Chair updated the Committee in relation to Conferences he had attended since the last meeting.

The Local Authority Pensions Fund Forum Conference had been a useful and informative forum with interesting discussions on infrastructure and pooling. The Chair informed the meeting that discussions had indicated that the LPP was 'ahead of the game' in relation to infrastructure investment and that progress on pooling across the country was progressing slowly with a variety of approaches being adopted by individual Funds.

With regard to the LGC Investment Seminar the Chair reported that the event had been informative with useful presentations and discussions on a range of topics including:

- The possibility of incorporating Academies into the LGPS in the future.
- The marked improvement in funding levels over the last 3 years as identified by Actuarial Valuations.
- Sustainability in relation to socially responsible investments.

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

9. Programme of Meetings 2017/18

It was reported that on the 15th December, 2016, the full County Council had agreed a programme of meetings for 2017/18 which included four meetings of the Pension Fund Committee to be held at 10.30am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston, on the following dates:

9th June 2017
15th September 2017
1st December 2017
23rd March 2018

The Committee also noted that arrangements had been made for an additional meeting to be held on the 27th July 2017 to consider the Pension Fund accounts before they are submitted to the Audit and Governance Committee.

Resolved:

1. That the programme of meetings for 2017/18, as agreed by full County Council on the 15th December, 2016 and set out in the report presented are noted.
2. That an additional meeting of the Committee to consider the Pension Fund Statement of Accounts be held at 10.30am on the 27th July 2017 in Cabinet Room 'D' – The Henry Bollingbroke Room, County Hall, Preston.

10. Urgent Business

No items of urgent business were raised under this heading.

11. Date of Next Meeting.

It was noted that the next scheduled meeting of the Committee would be held at 10.30am (preceded by a briefing from 10am) on the 9th June 2017 in Cabinet room 'C' – The Duke of Lancaster Room.

As the next meeting would take place after the local elections in May the Chair thanked those colleagues who may not be standing for re-election for their contribution to the work of the Committee and wished those who were standing all the best.

I Young
Director of Governance, Finance and
Public Services

County Hall
Preston

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: (All Divisions);
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Internal Audit Annual Report 2016/17 and Audit Plan 2017/18

(Appendix A refers)

Contact for further information: Judith Taylor, 01772 534948, Audit manager

Judith.Taylor@lancashire.gov.uk

Executive Summary

For the year 2016/17, the Pension Fund Committee can take substantial assurance that the Lancashire Pension Fund operates a generally sound system of risk management, governance and internal control.

The annual report for 2016/17, incorporating an outline of the work planned for 2017/18, is included at Appendix 'A' to this report.

Recommendation

The Committee is asked to consider and note the Internal Audit Service annual report for 2016/17 and the outline annual work plan for 2017/18.

Background and Advice

The Internal Audit Service complies with the professional standards of the Chartered Institute of Public Finance and Accountancy, which established Public Sector Internal Audit Standards, which encompass the *Mission of Internal Audit* and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*).

The Public Sector Internal Audit Standards and supporting Local Government Application Note require a chief internal auditor to deliver an annual opinion and report that can be used to inform the Pension Fund's annual governance statement.

The opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

N/A

Implications:

N/A

Risk management

This report to the Pension Fund Committee discharges the responsibilities of the Head of Internal Audit (under PSIAS) to provide a written report on the adequacy of the governance, risk management and internal control arrangements operated in relation to the Pension Fund, which in turn supports the Audit and Governance Committee in undertaking its responsibilities in relation to the Pension Fund.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Annual report of the head of internal audit for the year ended 31 March 2017 and Internal Audit Plan 2017/18



	Section	Page
1.	Introduction	1
2.	Overall opinion on governance, risk management and internal control	2
3.	Findings of internal audit work undertaken during the year	2
4.	Internal Audit Plan – 2017/18	6
5.	Internal audit quality assurance and improvement	7

Annex A: Scope, responsibilities and assurance

Annex B: Audit assurance levels and classification of agreed actions

1. Introduction

- 1.1. This report summarises the work that the Internal Audit Service undertook during 2016/17 and the key themes arising from it in relation to risk management, governance and control.

The role of internal audit

- 1.2. The Internal Audit Service is an assurance function designed to provide an independent and objective opinion on the adequacy and effectiveness of the control environment. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the control environment and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2016/17.
- 1.3. The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report is set out in Annex A to this report. The levels of assurance the Internal Audit Service provides are set out in Annex B.

Acknowledgements

- 1.4. I am grateful for the assistance that has been provided to the Internal Audit Service in the course of our work during the year.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2. Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1. On the basis of our programme of work for the year, I can provide substantial assurance over the internal control environment, governance and risk management arrangements of the Lancashire Pension Fund for 2016/17. In my opinion there is a generally sound system of internal control, adequately designed to meet the objectives of the Pension Fund and controls were generally applied consistently.

Summary of assurance provided by the Internal Audit Service

- 2.2. We have fulfilled the work plan outlined in the report to the Pension Fund Committee in June 2016, which addressed the administration of the Fund for its members, the Fund's general ledger accounting arrangements, controls over investment management, and the follow up of our prior year work on performance management and corporate oversight of the Fund's governance arrangements. We have provided full or substantial assurance over each of these areas.
- 2.3. Definitions of the assurance levels used are included in Annex 2.

Wider sources of assurance available to the Pension Fund

- 2.4. Assurance has also been provided to the Head of the Pension Fund by Grant Thornton as the Fund's external auditor. Grant Thornton issued its annual audit letter relating to 2015/16 in September 2016, and gave an unqualified opinion on the Fund's annual financial statements.

Implications for the Annual Governance Statement

- 2.5. On the basis of our work during 2016/17, we are aware of no issues that should be disclosed in the Fund's Annual Governance Statement.

3. Findings of internal audit work undertaken during the year

Administration of the Pension Fund in relation to its membership

- 3.1. We have provided *substantial* assurance that membership of the Pension Fund is properly administered and well controlled. We assessed the controls in place to manage a range of relevant risks and to ensure that:
- Only eligible employees are admitted to the scheme at the correct enrolment date, subject to auto-enrolment and authorised and received opt-out instructions;
 - Transfers in are accepted on the basis of authorised and received instructions and are accurately recorded in Altair on the basis of payments/credits received;
 - Transfers out are processed on the basis of authorised and received instructions and are accurately calculated, paid and recorded in Altair;

- Pension contributions are fully, accurately and promptly entered into Altair contribution records;
- Retirement lump sums and pension payments are processed on the basis of authorised and received instructions and are accurately calculated and paid and recorded in Altair;
- Death grants are processed on the basis of authorised probate instructions/death certificates received and are accurately calculated and paid and recorded in Altair;
- Calculations for transfers, retirements and death grants are subject to supervisory review before processing;
- Contributions due to the Pension Fund from employers are complete and accurate in respect of members of the scheme;
- System upgrades or enhancements are appropriately tested prior to integration into the live environment;
- Overpayments and recoveries are quickly and efficiently collected in line with procedures and policy;
- Complaints and ad hoc appeals are swiftly concluded in line with policy and procedures;
- Performance data and KPIs are regularly reviewed by the appropriate level of management. Explanations and remedial actions are evidenced;
- Procedures and controls for the new online members and employers self-service systems are adequate and fit for purpose;
- Returning services i.e. scanning and the automation of manual processes, are fit for purpose and add value to the service.

3.2. We have no significant findings to report, although we did identify that:

- No senior manager within the Administration Service had responsibility for verifying and certifying system updates;
- Not all employers are submitting data files in accordance with the agreed timescales; and
- Inaccuracies within the KPI data source could lead to inaccurate management information being reported.

3.3. Actions have been agreed to address the above weaknesses in control.

3.4. Our review of the actions raised following our prior year audit demonstrated that one of the actions had been satisfactorily addressed. The other action, which related to pursuing employers who continue to submit data files late is still ongoing.

Pension Fund General Ledger

3.5. We have provided *substantial* assurance over the operation of the accounting system supporting the Pension Fund, covering the following areas of control:

- Pension Fund general ledger access rights are appropriate to job roles and are adequately supervised and authorised;

- There is an appropriate system of control and authorisation for the creation, amendment or disablement of codes on the general ledger;
 - Feeder files are posted and reconciled on a timely basis to the general ledger;
 - Journal entries are processed by authorised staff and can be traced to the originators and reasons for posting;
 - The system automatically prevents/corrects/reports debit/credit imbalances, errors or invalid postings;
 - The system provides authorised hierarchies for all services, enabling the current position in respect of income and expenditure to be reported;
 - Sub-ledgers are reconciled to the general ledger; and
 - Holding or suspense accounts are reviewed and cleared on a regular basis.
- 3.6. There were no areas of major concern found during the course of our review. We did however identify:
- Officers who had access to the general ledger who no longer required this access due to moving on to other roles;
 - Examples where new general ledger codes were not appropriately requested or authorised;
 - In some instances information from a third party was relied upon without any independent validation or verification being performed by finance staff; and
 - One control account from our sample had not been reconciled.
- 3.7. Actions have been agreed to address these matters.
- 3.8. Our review of the actions raised following our prior year audit demonstrated that two of the three actions had not been satisfactorily addressed. These were both associated with the need to better manage access to the Pension Fund general ledger, particularly in relation to leavers. As a result of staff changes, the actions had never been implemented, and as the weakness has not been addressed, a further action has been agreed.

Fund investment management

- 3.9. We have provided *substantial* assurance regarding the adequacy and effectiveness of the controls operating over fund investment management.
- 3.10. The scope of our review included the following:
- Verification that the investment strategy is being reviewed;
 - Verification that personnel are suitably qualified and that LCC are informed of changes to staff as per the advisory agreement;
 - Confirming that investment risk monitoring is undertaken on an ongoing basis;
 - Testing that the monthly and quarterly reports documented in the advisory agreement are provided by the Local Pensions Partnership Limited (LPPL) and are accurate; and

- Ascertaining and verifying the process in place to ensure a balanced portfolio.

3.11. There were no major areas of concern identified, although we noted that whilst a market risk specialist has been appointed, the procedures in relation to investment risk monitoring are still under development.

Oversight of the Pension Fund

3.12. We have provided *substantial* assurance regarding the adequacy and effectiveness of the controls in place to ensure an appropriate oversight of the Pension Fund is maintained by the Council.

3.13. The scope of our review has included the following:

- Verifying that a business plan is produced on an annual basis and subject to regular review;
- Confirmation that a formal governance structure has been established which enforces decision making and approvals at the right levels;
- Determination of the processes in place to ensure that the county council is being consulted on matters reserved and verifying that there is compliance with these requirements;
- Confirming that changes to remuneration have been forwarded to the county council's Employment Committee and are in line with the Shareholders Agreement;
- Verifying for a sample of board meetings that there are appropriate non-executive directors on the board and they have approved all decisions made;
- Determining whether the conflicts policy has been implemented and if compliance with it has been validated by LPPL's Compliance Team;
- Ascertaining the adequacy and effectiveness of the controls in place to ensure compliance with regulations; and
- Confirming that the legal agreements in place between LPPL and the county council are monitored as documented in the Shareholder Agreement.

3.14. There were no major areas of concern identified. However, in relation to 'matters reserved' we noted that decisions are not always communicated to the Head of Fund on a timely basis. We also consider that in the absence of a formal log, there may be decisions required to be ratified by the Head of Fund that are not submitted to her.

3.15. Additionally, reports are being completed and submitted to the Financial Conduct Authority by the Local Pension Partnership Investments Limited Compliance Team using the gabriel system. Our testing confirmed that whilst reports are being submitted in accordance with the monitoring and

compliance timetable, we have been unable to confirm that the information was accurate as the data submitted is unable to be reproduced.

National Fraud Initiative

- 3.16. The NFI is part of the statutory audit process for health, local government and other public sector providers managed by the Cabinet office. The NFI flags inconsistencies in data which may indicate fraud or highlight emerging fraud risks.
- 3.17. Following the submission of data in October 2016, the resulting matches were released by the Cabinet Office in January 2017 and these have started to be investigated by the Local Pensions Partnership. The table below provides details of the total number of matches identified, the number of matches recommended for investigation, the number of matches reviewed and cleared to date and those currently opened and in progress.
- 3.18. The Local Pensions Partnership is currently making good progress in investigating data matches against the Cabinet Office milestone dates.
- 3.19. No savings, frauds or errors have been identified from the cases opened and closed to date.

Category of data	Number of matches identified	Number of matches recommended for investigation	Number of matches processed	Number of matches in progress
Comparison of pension records to deceased person records	559	410	468	91
Comparison of pension and payroll records between and within organisations	943	252	931	9
Total	1502	662	1399	100

4. Internal audit plan 2017/18

- 4.1. The individual assignments which underpin the assurance to be provided to the Head of the Fund in relation to the Lancashire County Pension Scheme is incorporated within the overall audit plan for Lancashire County Council, which has been submitted for approval to the meeting of the Audit and Governance Committee of June 2017.
- 4.2. In outline the work for 2017/18 will include the following:
 - Assessment of the assurance proposed and, in due course, provided by Deloitte LLP over the Lancashire Pension Fund's administration and investment operations outsourced to the Local Pensions Partnership.

- Assessment of the council's governance framework to achieve corporate oversight of the Pension Fund.
- Audit of the custodianship of the assets of the Lancashire Pension Fund.
- Audit of the council's accounting for the Pension Fund through its general ledger.

5. Internal audit quality assurance and improvement

- 5.1. The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with the PSIAS. This includes both internal and external assessments.
- 5.2. A self-assessment of the Internal Audit Service confirmed that the service substantially meets the requirements of PSIAS. A more detailed assessment will build on this in 2017/18 and a full external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS will take place during November 2017, and the results will be reported to the committee. The outcome of that review will be used to inform a revised quality assurance and improvement programme if necessary.

Scope, responsibilities and assurance

Annex A

Approach

- A.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the scope of internal audit encompasses all of the Pension Fund's governance, risk management and control processes including where they are provided by other organisations on its behalf.

Responsibilities of management and internal auditors

- A.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls.
- A.3 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- A.4 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- A.5 Internal auditors cannot be held responsible for internal control failures, however, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- A.6 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- A.7 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Team and Head of the Lancashire County Pension Fund, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and

recommend further action on the relevant policies, procedures, controls and operations at a later date.

- A.8 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- A.9 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

Basis of our assessment

- A.10 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Audit and Governance Committee and submitted for information to the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

Limitations to the scope of our work

- A.11 There have been no limitations to the scope of our audit work.

Limitations on the assurance that internal audit can provide

- A.12 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- A.13 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- A.14 This report has been prepared solely for Lancashire Pension Fund. It forms part of a continuing dialogue between the Internal Audit Service, the senior management of the Fund, and the Pension Fund Committee. It is not

therefore intended to include every matter that came to our attention during each internal audit review.

- A.15 This report may be made available to other parties, such as the external auditors. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

Audit assurance levels

Annex B

The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Classification of agreed actions

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the service's reputation.

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation.

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern.

Pension Fund Committee

Meeting to be held on 30 June 2017

Electoral Division affected: All

Annual Administration Report 2016/17

(Appendix 'A' refers)

Contact for further information:

Abigail Leech (01772) 530808, Head of Fund

abigail.leech@lancashire.gov.uk

Executive Summary

This annual report is produced in accordance with the arrangements for the provision of pension administration services to Lancashire County Pension Fund. The report describes performance against standards and targets during 2016/17.

Recommendation

The Committee is asked to note the contents of the report as presented at Appendix 'A'.

Background and Advice

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

A report is attached at Appendix 'A' to inform the Committee of performance against standards and targets set over the year to 31 March 2017.

Over the year, an overall performance of 97% has been achieved and all statutory requirements, including the production of annual benefits statements, have been met.

Consultations:

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Directorate/Ext
N/A		

your
pension
service

LANCASHIRE COUNTY PENSION FUND

Annual Administration Report 2017



Administered by



1. INTRODUCTION

Purpose

This administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service (YPS) against the standards set out in the SLA during the period 1 April 2016 to 31 March 2017.

Annual Plan – 2016/17



Due



Completed

Event	Responsibility Your Pension Service (YPS)											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Application of Pension Increases												
Issue Annual Benefit Statement to Active Members												
Issue Annual Benefit Statement to Def Members												
Issue P60s and Newsletter to Pensioners												
Issue Newsletter to Active Members												
Complete HMRC Scheme Returns												
Provide FRS17 data												

2. PERFORMANCE

EPIC Update

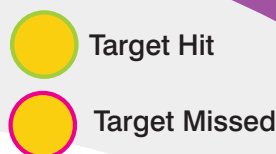
Since 1 April 2014 employers have been submitting monthly files to Your Pension Service, which replace many of the forms that they used to complete, and enable YPS to accurately post and reconcile contributions and pensionable pay to individual member records.

YPS use an internally designed system called "EPIC" to do this. EPIC has helped YPS to ensure that active member data is accurate and up to date, and that every member receives their correct pension pot entitlement.

It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund.

Almost 90% of employers submit monthly files on time. Employers who fail to submit by the deadline are contacted initially with the offer of support and training. Repeated failure to meet the deadline for submission of monthly files is escalated within the employer organisation.

Performance Standards



Service Level Agreements

During the reporting period 25,563 individual calculations/enquiries were completed, of which 24,807 met the performance standard; an overall performance of 97% was achieved.

LGPS

Performance Standard



3. MEMBERSHIP

Fund membership

Lancashire County Pension Fund	31/03/16	31/03/17
Number of active scheme members		
County Council	27,106	26,416
Other employers	29,223	29,499
Total	56,329	55,915
Number of pensioners		
County Council	22,414	23,141
Other employers	22,093	23,012
Total	44,507	46,153
Number of deferred pensioners		
County Council	33,253	34,668
Other employers	28,377	30,573
Total	61,630	65,241
Total membership	162,466	167,309

As at 31 March there were 4,592 pending leavers

4. CUSTOMER SERVICE

Retirement Experience

Elapsed time from retirement to first pension payment.

Average 45 days
to payment
of pension
(54 Days in 2015/16)

2,527 new
pensioners

Compliments/Complaints



During the period the service received 29 compliments and they related to the Good Customer Service provided by the staff within Your Pension Service.

Almost all the complaints were from members relating to the late payment of pension and time taken to process pensions. We are currently working with employers to assist them in providing more timely/accurate information.

Telephone helpdesk

A dedicated helpdesk, AskPensions provides the first point of contact for members and employers. The helpdesk has a target to answer 90% of calls offered. 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.

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

5. FIRST STAGE APPEALS

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

The appeals in the main related to ill health and late transfers.

Period 01/04/2016 - 31/03/2017



6. EMPLOYER RISK

Employer Risk Team - Admissions and Exits

The team manages the admissions and exits process for the Fund, with significant volumes of activity in the year:

Admissions and Exits 2016/17	Admissions	Exits
In progress at beginning of year	21	44
New cases to be processed	49	13
Cases completed	58	27
In progress at end of year	12	30

Good progress has been made in reducing the number of in progress admissions and terminations, with processes becoming more streamlined following a change in Fund policy.

The bulk of new admissions result from scheme employers, largely academies, contracting out services to contractors; when this occurs transferring staff have a right to retain membership of the LGPS, so the contractor is then admitted to the Fund.

The bulk of exits relate to contractors whose contract (to provide services to scheme employers) has expired, and affected staff either transfer to a new contractor or back to the original scheme employer. Other exits occur, for example due to consolidation between employers, or where previously admitted employers choose to leave the LGPS.

From June 2016 a fee, payable to the Fund, has been applied for new admissions.

Risk Assessment and Covenant

Funds within the LGPS are required to regularly assess the risk presented to them by employers, to ensure that all monies due to funds are paid.

The team manages the covenant and risk assessment process, and has completed assessments for the majority of higher risk employers, by looking back at three years' historic financial information and engaging with employers. These risk assessments have been linked to the March 2016 Fund valuation process, which determines how much employers must pay to the Fund over the next triennial cycle. As a result of the team's efforts, ongoing risk to the Fund has been reduced.

The team has developed an assessment methodology which is rigorous and consistent, but which places a minimal burden on employers in complying with the risk assessment process.

7. COMMUNICATIONS

The Team

Communications are delivered by the Partnerships Team - a manager and three client liaison officers. They are the link between Your Pension Service scheme members and employers.

Employers

The Partnerships Team visits employers (with more than 100 active members) on an annual basis in order to maintain relationships, update employers of any change affecting them and to address any issues that may have arisen during the year. 32 visits have been carried out across Lancashire over the year to date. The annual employer visits are extremely popular, they give the scheme employer an opportunity to build and maintain excellent working relationships.

The annual practitioners conference was held on 21 October at Woodlands Conference centre in Chorley. This year the conference concentrated on better ways of working with employers and helping them with key processes including use of the employer services online facility.

The day included a presentation from Pensionwise and an update on the new regulations.

Employees/Scheme Members

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, although any member can attend so that their queries can be dealt with face to face. 14 surgeries have been held across Lancashire since October 2016.

Drop in sessions are 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.

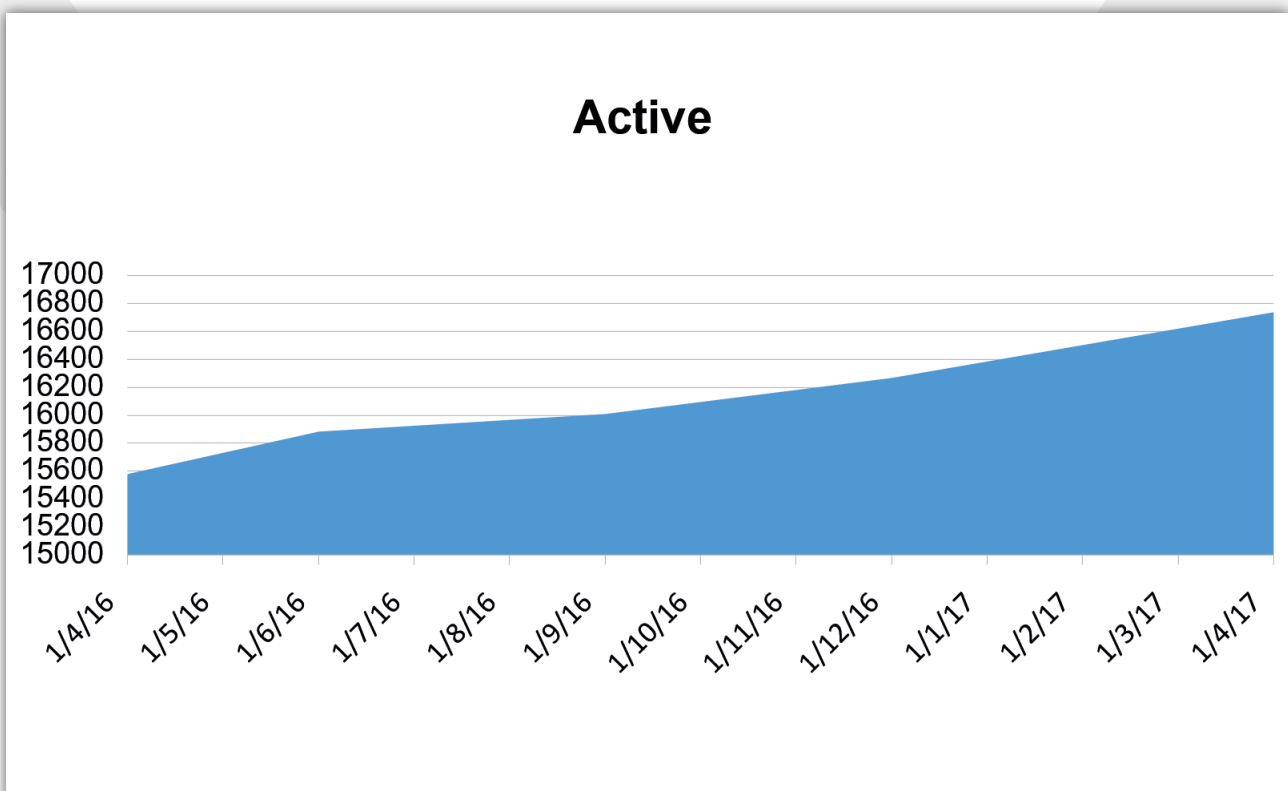
It is worth noting that the Fund was represented at 29 pre-retirements courses throughout Lancashire this year.

8. MY PENSION ONLINE (MPO)

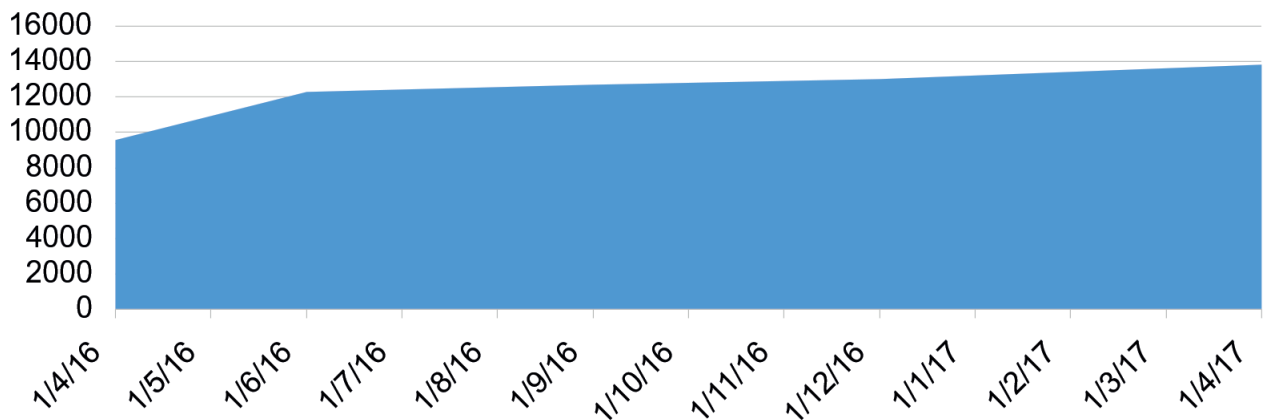
My Pension Online is an online facility that was developed in 2012 and launched comprehensively throughout 2013. Through 'My Pension Online' members can view their details and also securely update any changes in contact details. As well as this, members can run various pension estimates assisting with planning for retirement. 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 Your Pension Service to communicate with registered members via email. Currently over 47,700 members are registered online.

At every opportunity The Partnerships Team promote 'My Pension Online' always encouraging members to sign up online. The team includes the benefits of 'My Pension Online' in all presentations. Throughout the period the team continued to deliver "drop in sessions" where members sign up and are shown how to navigate the system, these continue to be held throughout the county.

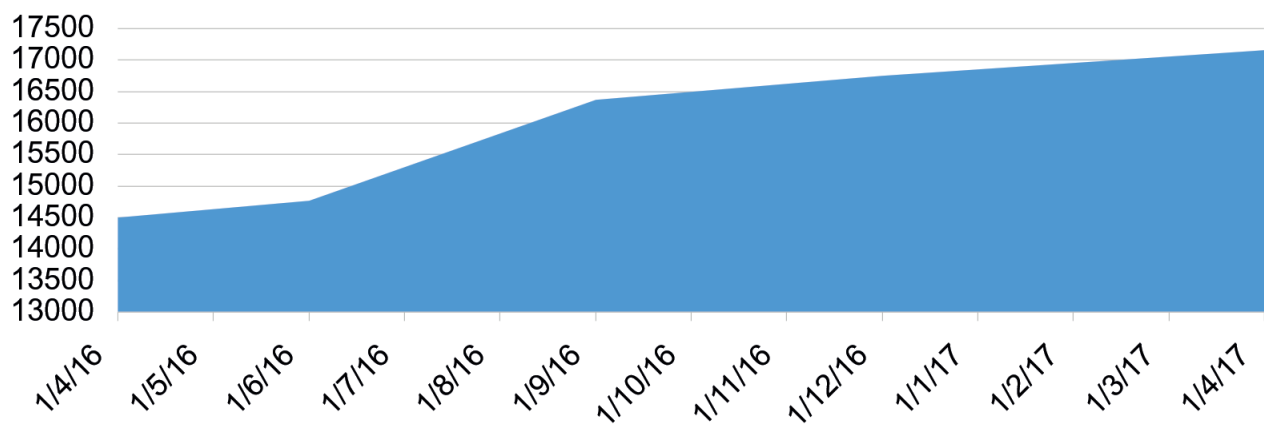
Below is a summary of how membership of 'My Pension Online' has grown throughout the period.



Deferred



Pensioners / spouses



9. LEGISLATIVE CHANGE

Another interesting year has passed, although compared to recent years we have seen very little change. There were however, a number of proposals 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 we use to process pensions. This includes the factors we use 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.

Proposals

- 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 we will pay to certain persons upon redundancy. We await further information 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 SPA on after 6 December 2018. The consultation considers whether the element should be fully inflation proofed and, if so, how this should be done. We are currently waiting for the government to respond to the consultation.

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: None;

Lancashire County Pension Fund - Annual Governance Statement 2016/17 (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

This report presents for approval the Annual Governance Statement (AGS) for Lancashire County Pension Fund.

The AGS is a review of the governance arrangements for 2016/2017 and is produced to be incorporated into the statement of accounts.

Recommendation

The Committee is recommended to approve the Annual Governance Statement for the Lancashire County Pension Fund set out at Appendix 'A' for signature by the Chair and the Head of the Fund.

Background and Advice

The AGS set out in Appendix A has been produced to ensure that members of the Committee in their role as "those charged with governance" in relation to the Fund are able to review and consider the adequacy of the Fund's governance arrangements in order to provide assurance as part of the process of preparing the Fund's report and accounts.

This separate AGS in relation to the Fund is required as the overall statement prepared by the County Council cannot cover the activities of the Fund in sufficient detail to provide the necessary assurance.

The AGS is a review of the governance arrangements for 2016/2017 and is produced to be incorporated into the statement of accounts.

In compiling the Statement reliance has been placed on the Pension Fund Governance Policy and the Governance and Strategy of LPP, a FCA registered company. In addition the statement reflects the conclusions drawn by the Chief Internal Auditor from her work in relation to the Fund during the year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

A sound Annual Governance Statement which reflects the reality of the operation of the Fund represents a key assurance for members that the control framework is operating appropriately to manage risk.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
"Coming of Age: Development of the Local Government Pension Scheme" Grant Thornton	Nov 2013	Abigail Leech (01772) 530808

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

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.

Signed

.....

County Councillor Eddie Pope
Chair of the Pension Fund Committee

.....

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Date:

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: None;

LCPF 2016/17 Statement of Accounts and out-turn report

(Appendix A refers)

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

Abigail.leech@lancashire.gov.uk,

Executive Summary

This report sets out a review of the final out-turn position for the Fund. A set of draft unaudited statutory accounts are attached in Appendix 'A' for review and comment.

Recommendation

The Committee is asked to note the final outturn position and review the 2016/17 Accounts of the Fund as set out in Appendix 'A' for submission to the Audit & Governance Committee for approval at its meeting in July.

Background and Advice

The draft accounts and financial statements for the Fund were approved by the Director of Financial Resources on 31 May 2017 and a copy is attached at Appendix 'A'.

The external audit of the Fund accounts has commenced and is scheduled to be completed by the end of July. Until the end of the audit it is possible for changes to be requested to the accounts but no significant amendments are anticipated. Any material changes will be reported to the Committee in September as part of the report on the Annual Report for the Fund.

Significant variances between actual results for the year ended 31 March 2017 compared to prior year and to budget are discussed in more detail below.

FUND ACCOUNT

Investment income £109.9m (2016: £99.1m, budget £125.5m)

As has previously been noted in reports on the budget, investment income is difficult to predict.

The increase in investment income compared to the prior year is primarily the result of economic factors.

Investment management expenses £42.7m (2016: £32.5m, budget £13.4m)

CIPFA guidance introduced in 2014/15, and expected to be made mandatory in 2017/18, requires fees deducted from asset values by investment managers to be deducted from the surplus for the year rather than deducted from the value of investments on the net assets statement.

The fees of £42.7m for year ending 31 March 2017 and £32.5m for the prior year have been reported in line with the guidance. The budget was set in 2014 and didn't account for this change in policy which has an impact of £26.1m in 2016/17 and £20.9m in 2015/16.

The largest proportion of investment management expenses for the Fund are those which are based upon a percentage of the value of the assets under management. There has been significant growth in the value of the Fund during 2016/17 and the resultant increase in management fees was expected. The level of fee as a percentage of total investment value is 0.59% which is similar to the percentage of 0.56% in the prior year.

A significant proportion of the investment management expense is based upon fund performance. Performance fees have risen £4.2m from £2.9m in 2015/16 to £7.1m in 2016/17, an increase of 145%. The performance of the Fund has increased by a far greater percentage (357%) and hence the rise in expense is not unreasonable given market conditions.

Investment management expenses in 2016/17 were also impacted by a series of one off and transition costs related to the LGPS Pooling and the transfer of management to LPP I.

At the start of the financial year LPP I became responsible for managing the Lancashire portfolio. LPP I levy a management fee which is a new cost for 2016/17. Whilst this partially offset by a reduction in direct costs, on a net basis this is an additional cost for this financial year.

In November 2016 the transition of global equity positions was completed. This crystallised one off transaction costs of £1.9m which are included in the investment management expenses reported.

NET ASSETS STATEMENT (*A budget is not set for the net assets statement so comparison is to prior year only.)

Investment assets £7,191.4m (2016: £6,027.3m)

Of the overall increase in the market value of investment assets (£1,164.1m), £1,133.2m is the result of market movements, particularly on equities and pooled investments.

Global equities were pooled during the year and are now held in the LPP (I) Global Equities Pool rather than as direct investments of the Fund. The balances in note 14 to the accounts reflect this transfer. There are no equities on the net asset statement at year end as the investment is now reported as pooled investment vehicles.

Cash deposits £56.3m (2016: £210.3m)

The reduction in cash on hand compared to the prior year is a function of trading activity and timing and is consistent with a reduction in investment accruals.

Investment liabilities £nil (2016: £291.0m)

Investment liabilities at 31 March 2016 comprise forward currency contracts. These were specific to the direct holding of equities. Any similar contracts now sit within the global equity pool and are no longer a liability of the Fund.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Pension Fund Annual Report will be published in line with statutory deadlines.

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.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Appendix A: Draft unaudited statement of accounts of Lancashire County Pension Fund	14/06/17	Helen Gallacher, Pensions Manager, 01772 536620 helen.gallacher@lancashire.gov.uk

Reason for inclusion in Part II, if appropriate

N/A

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

ANNUAL GOVERNANCE STATEMENT 2016/17

[the published version will include the 2016/17 annual governance statement here]

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

The published version will include the Audit Certification on this page.

The published version will include the Audit Certification on this page.

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)			(276.8)
(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

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 the Audit and Governance Committee

NOTES TO THE FINANCIAL STATEMENTS

1. PENSION FUND OPERATIONS AND MEMBERSHIP

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

The published accounts show that in 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 $1/80 \times$ final pensionable salary	Each year worked is worth $1/60 \times$ final pensionable salary	Each year worked is worth $1/49^{\text{th}} \times$ the pensionable pay for that year (or $1/98^{\text{th}}$ 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 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.

3.3.5 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.

3.3.6 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.

3.3.7 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).

3.3.8 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).

3.3.9 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.	<p>The market value of private equity and infrastructure investments in the financial statements totals £1,421.8 m.</p> <p>There is a risk that these investments might be under or overstated in the accounts.</p>
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.	<p>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.</p> <p>There is a risk that these investments might be under or overstated in the accounts.</p>
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.	<p>The market value of housing authority loans to Heylo Housing totals £138.6m in the financial statements.</p> <p>There is a risk that this may be under or overstated.</p>
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.	<p>Indirect property investments in the financial statements total £99.4m.</p> <p>There is a risk that these investments may be under or overstated in the accounts.</p>

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.
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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

¹Included 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

²Oversight 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.

11. 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

12. 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

13. STOCK LENDING

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

Stock lending 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 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2017 £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
Derivatives contracts: Forward currency contracts asset value	294.5			(329.0)	-
Cash deposits	210.3			26.6	56.3
Investment accruals	13.1				2.7
Total Investment assets	6,318.3			842.2	7,191.4
Derivatives contracts: Forward currency contracts liability value	(291.0)			291.0	-
Net investment assets	6,027.3			1,133.2	7,191.4

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

²The value of pooled property investments was previously included within total pooled investment vehicles. Pooled investment vehicles includes the LPP Global Equities Pool.

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
Derivative Contracts: Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Total investment assets	6,443.1				6,318.3
Derivative contracts: Forward currency contracts liability value	(629.6)				(291.0)
Net investment assets	5,813.5			165.9	6,027.3

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

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

Pension fund accounts

Investments analysed by fund 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%

Pension fund accounts

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%

Pension fund accounts

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%	Madriena 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		-

Pension fund accounts

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		

Pension fund accounts

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, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

17.1.2 Level 2

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

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

17.1.3 Level 3

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

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

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

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	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	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	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	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 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

Pension fund accounts

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:

Pension fund accounts

Asset type		Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	31 March 2017		
	£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	
		+100BPS	-100BPS
	31 March 2016		
	£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.

Pension fund accounts

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.

Pension fund accounts

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 institutions 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 Fund's 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*.

Pension fund accounts

	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 £743.8m (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:

Pension fund accounts

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.

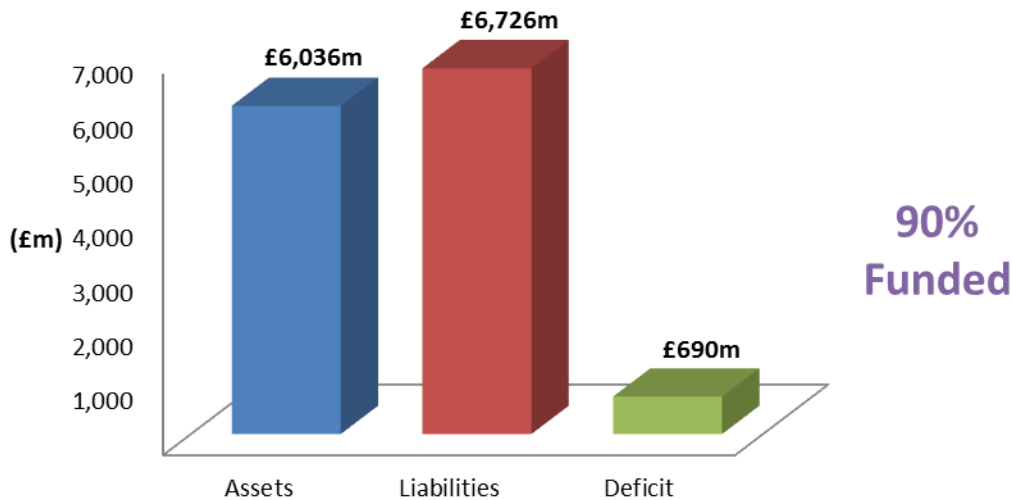
25. FUNDING ARRANGEMENTS

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).

Pension fund accounts

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.

Pension fund accounts

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2017

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

ANNUAL GOVERNANCE STATEMENT 2016/17

[the published version will include the 2016/17 annual governance statement here]

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

The published version will include the Audit Certification on this page.

The published version will include the Audit Certification on this page.

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)			(276.8)
(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

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 the Audit and Governance Committee

NOTES TO THE FINANCIAL STATEMENTS

1. PENSION FUND OPERATIONS AND MEMBERSHIP

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

The published accounts show that in 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 $1/80 \times$ final pensionable salary	Each year worked is worth $1/60 \times$ final pensionable salary	Each year worked is worth $1/49^{\text{th}} \times$ the pensionable pay for that year (or $1/98^{\text{th}}$ 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 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.

3.3.5 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.

3.3.6 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.

3.3.7 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).

3.3.8 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).

3.3.9 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.	<p>The market value of private equity and infrastructure investments in the financial statements totals £1,421.8 m.</p> <p>There is a risk that these investments might be under or overstated in the accounts.</p>
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.	<p>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.</p> <p>There is a risk that these investments might be under or overstated in the accounts.</p>
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.	<p>The market value of housing authority loans to Heylo Housing totals £138.6m in the financial statements.</p> <p>There is a risk that this may be under or overstated.</p>
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.	<p>Indirect property investments in the financial statements total £99.4m.</p> <p>There is a risk that these investments may be under or overstated in the accounts.</p>

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.
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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

¹Included 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

²Oversight 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.

11. 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

12. 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

13. STOCK LENDING

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

Stock lending 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 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2017 £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
Derivatives contracts: Forward currency contracts asset value	294.5			(329.0)	-
Cash deposits	210.3			26.6	56.3
Investment accruals	13.1				2.7
Total Investment assets	6,318.3			842.2	7,191.4
Derivatives contracts: Forward currency contracts liability value	(291.0)			291.0	-
Net investment assets	6,027.3			1,133.2	7,191.4

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

²The value of pooled property investments was previously included within total pooled investment vehicles. Pooled investment vehicles includes the LPP Global Equities Pool.

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
Derivative Contracts: Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Total investment assets	6,443.1				6,318.3
Derivative contracts: Forward currency contracts liability value	(629.6)				(291.0)
Net investment assets	5,813.5			165.9	6,027.3

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

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

Pension fund accounts

Investments analysed by fund 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%

Pension fund accounts

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%

Pension fund accounts

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		-

Pension fund accounts

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		

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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, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

17.1.2 Level 2

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

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

17.1.3 Level 3

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

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

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

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	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	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	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	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 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

Pension fund accounts

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:

Pension fund accounts

Asset type		Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	31 March 2017		
	£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	
		+100BPS	-100BPS
	31 March 2016		
	£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.

Pension fund accounts

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.

Pension fund accounts

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 institutions 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 Fund's 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*.

Pension fund accounts

	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 £743.8m (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:

Pension fund accounts

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.

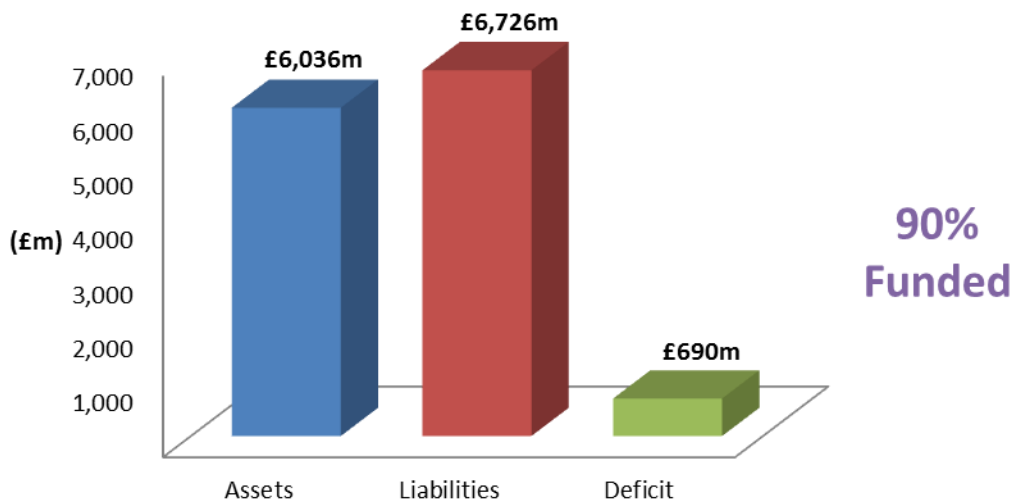
25. FUNDING ARRANGEMENTS

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).

Pension fund accounts

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.

Pension fund accounts

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2017

Pension Fund Committee

Meeting to be held on 30 June 2017

Electoral Division affected: None

Progress on Delivering the Lancashire County Pension Fund Strategic Plan (Appendix 'A' refers)

Contact for further information:

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Executive Summary

The Committee approved the Fund's Strategic Plan at its meeting in March 2015 and received a progress report in November 2015. This report provides the Committee with an update on the delivery of the specific objectives set out in the Plan.

It is recognised that the creation of LPP has a significant impact on the Strategy and it is anticipated that a new Strategy will be presented to the Committee in September.

Recommendation

The Committee is asked to note the progress made on the delivery of the Lancashire County Pension Fund Strategic Plan.

Background and Advice

At its meeting in March 2015, the Committee approved the three year Strategic Plan for the Lancashire County Pension Fund. The plan is structured around the four dimensions that impact on the running of a successful pension fund:

- Governance
- Asset and Liability Management
- Administration, and
- Communication

Appendix 'A' provides an update on progress made against the various objectives set out in the plan.

The period has seen the creation of the Local Pension Partnership (LPP) and LPP Investments Limited and the new way of working has meant some of the plans will have been subject to review. Some of the objectives will now form part of the activity of the Local Pension Partnership rather than being directly managed the County Council.

It is considered that as the transition of assets to LPP continues and in reaction to the development of the company a new Strategy for LCPF will be presented to the Committee at its meeting in September.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

N/A

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
<p>Governance</p> <p>Implement the new governance requirements including creating and supporting the Local Pension Board</p>	<ul style="list-style-type: none"> • Assessment of new legislation and regulatory requirements; • Creation of appropriate structures; • LPB members elected and Chair appointed; • LPB meetings to commence by 31 July 2015; • Comprehensive and ongoing training of PFC and LPB members 	<ul style="list-style-type: none"> • Independent review of Fund governance; • LPB in place, undertaking relevant work plan; • Positive assessment of PFC skills, knowledge, and effectiveness. 	<p>LPB in place by 1 April 2015</p> <p>Governance review by 31 December 2015</p> <p>Confirmation of new structures by 31 March 2016</p> <p>Ongoing member training</p>	<p>Pension Board operational</p> <p>Governance review commenced but report may be after December due to resource requirements of the LLPP partnership and the need for proposals to address the changed relationships brought about by LLPP</p> <p>More structured approach to member training initiated.</p>	<p>Pension Board Operational</p> <p>A revised Governance Policy Statement was approved by the Pension Fund Committee in June 2016. This was necessary following the establishment of the Local Pensions Partnership, a number of consequential changes had been made to the terms of reference and delegated responsibilities of the Committee, the Investment Panel and officers, and these had been reflected in an updated Policy Statement.</p> <p>LPP has Governance cohesion with shareholders and clients via:</p> <p>Independence within the Group plus shareholder Non-Executives</p> <p>Legal agreements including:</p> <p>Shareholder agreement governing 3 way relationship. This also incorporates shareholder reserved matters.</p> <p>Advisory and Management Agreement governs the</p>

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
					<p>investment delegation.</p> <p>Service level agreement in relation to pension administration and all other interactions and assistance provided such as provision of risk reports</p> <p>LCC internal audit and professional assurance provided.</p>
<p>Put in place an effective workforce planning and development approach to provide increased capacity to be innovative and the ability to support individuals to realise their potential</p>	<ul style="list-style-type: none"> • LCPF workforce development policy created; • Skills audit and requirements assessed; • Training needs assessment; • Coaching and mentoring provision; • Succession planning arrangements; • On the job training and formal training where required. 	<ul style="list-style-type: none"> • Workforce development policy in place and communicated to all stakeholders. • Integration with PDR requirements; • TNA undertaken for each officer; • Training plans in place with a variety of methods employed; • Career ladder in place; • Mentoring sessions being 	<p>Workforce policy and career ladder by 30 September 2015</p> <p>TNA and training plans by 31 March 2016</p> <p>Mentoring established and operating by 31 March 2016</p>	<p>Limited progress on an overall strategic approach due to capacity constraints caused by LLPP work. However, on-going training and development is taking place as required.</p>	<p>The creation of LPP has resulted in staff being transferred from both LCC and LPFA. The company is committed to developing and managing people.</p> <p>Those staff remaining with LCC receive appropriate training via attendance at Conferences, Technical workshops and in-house training</p>

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
		held where appropriate.			
Review the effectiveness of Fund governance	<ul style="list-style-type: none"> • Assessment of decision-making processes • Policy and process review; • Links to compliance monitoring processes; 	<ul style="list-style-type: none"> • Independent review including external audit and LPB; • Agreement and approval of revised processes; • Governance element incorporated into compliance monitoring. 	<p>Governance review by 30 September 2015</p> <p>PFC approval by 30 November 2015</p> <p>Compliance monitoring programme in place by 1 April 2015</p>	<p>Governance review commenced but report may be delayed due to resource requirements of the LLPP partnership and the need for proposals to address the changed relationships brought about by LLPP</p> <p>Compliance monitoring programme in place and first report made to Pension Fund Committee on 30th Sept 2015.</p>	<p>Work on governance and risk has been on-going especially in light of the new relationship with LPP.</p> <p>PwC were appointed to review the revised governance arrangements and refresh the Fund's risk register. An updated risk register will be presented to the committee at its meeting in June.</p>
Continue to	• Take legal advice	• Approval of	Decision on LPFA	Initial decision	LPP has been established.

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
explore the potential opportunities arising from collaboration with other Funds within both Local Government Pension Scheme, and wider Pension Fund community	to create appropriate structure which is scalable; • Progress London Pension Fund Authority (LPFA) collaboration as first step on this journey. • Identify areas where collaboration may be beneficial.	appropriate vehicles and governance for pooling and collaboration; • Demonstration of appropriate cost/benefit analysis; • Ability for scaling to other interested parties.	collaboration by 31st July 2015 Depending upon above, creation of appropriate vehicle by 31 March 2016	taken on 2 nd July 2015. Progress on creating the new vehicles and achieving registration is in line with plan.	Opportunities for further collaboration within LPP are subject to shareholder approval.
Continue to develop and implement an effective compliance and monitoring programme	• Finalisation of Compliance Manual; • Implementation of compliance monitoring programme including monthly, quarterly, and annual tests • Development of PFC reporting regime.	• Agreed Compliance Manual distributed to stakeholders; • Compliance monitoring programme in place and assurance reported/ actions planned.	Manual agreed by 31 March 2015 Monitoring programme from 1 April 2015 First assurance report to PFC June 2015	Initial LCPF Compliance Manual in place. Monitoring programme being undertaken. First assurance report based on information to the end of June to PFC 30 Sept 2015.	Compliance monitoring commenced in April 2015 and has been on-going. This work is now undertaken by with LPP. The Head of Fund still has a duty to ensure compliance and does this via information from and challenge of LPP.
Enhance current	• Ongoing	• Ongoing	Risk approach to be	Limited	The decision to pool the

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
risk management processes	assessment of existing and new risks; • Improved horizon scanning; • Linking of risk register to compliance programme; • Development of trend analysis.	identification and updating of risk register; • Regular strategic planning and longer term perspective; • Transparency of risks and monitoring; • Enhanced reporting of risk reporting and internal control assurance.	enhanced on an ongoing basis throughout 2015/16	enhancements made to the assessment and reporting processes, with a view to the fact that more fundamental change will take place when LLPP becomes operational.	investment and administration operations of the fund within the Local Pensions Partnership (LPP) has changed the governance arrangements for the Fund and therefore the potential risks. The Head of Fund has reviewed these arrangements and engaged PwC to do detailed work in this area. A draft risk register was submitted to Pension Fund Committee in December 2016.
Asset and Liability Management Implement the recommendations of the Member Working Group on Responsible Investment	• Adherence to the UN Principles of Responsible Investment • Measurement of the quality of commitment to good governance of invested companies against a benchmark	• Sign off by the UNPRI organisation • Reporting of the benchmarking results to PFC and Fund stakeholders	• Initially by May 2015 and annually thereafter • September 2015 as part of the Fund's Annual Report, then annually	Organisation signed up to UNPRI. Progress on benchmarking not as rapid as intended.	LPPI are actively involved in responsible investment and Quarterly reports are presented to the Pension Fund Committee. LCC became a signatory to the Principles of Responsible Investment in March 2015. New signatories have a grace period of 12 months before they are required to report formally on their activities against the principles via the detailed assessment framework.

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
					<p>LCC reported to PRI for the first time in March 2017. The PRI take a couple of months to review submissions, to ask questions/seek clarification and to grade the responses in order to provide a result for peer assessment. The outcome of this not yet known but is expected soon.</p> <p>Although LCPF no longer directly owns equities a stewardship arrangement was agreed with LPP. This includes the requirement for adherence to the 6 Principles of Responsible Investment. As part of this during 2016/17 there was an emphasis on understanding risks from climate change resulting in an initial high level review of the Fund's investments in renewable energy and its exposure to fossil fuel companies.</p>
	<p>Measurement of the environmental impact of the Fund's investments</p> <p>Actively engage</p>	<ul style="list-style-type: none"> Member and officer attendance at LAPFF meetings in order to influence the Forum's agenda 	<ul style="list-style-type: none"> Regular attendance from June 2015. 	<p>The service will need to be procured and LCPF is supporting the procurement process for a</p>	<p>LPP has a dedicated Responsible Investment Manager within its Investment Team. This role oversees shareholder voting, litigation and LPP's engagement with other investors and</p>

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	with the Local Authority Pension Fund Forum to further the Fund's RI objectives			<p>national framework for these services.</p> <p>Officers have begun attending the regular LAPFF Business Meetings.</p> <p>The costs of the officer taking a lead in this area are being shared with LPFA.</p>	<p>organisations on Responsible themes. LPP is linked into a range of groups and networks which enable insight into best practice and knowledge sharing. This includes LAPFF.</p>
Develop a more structured approach to assessing the risks to the Fund posed by individual employers and identify appropriate asset allocations to reduce the risk to the Fund.	<ul style="list-style-type: none"> Undertake formal covenant reviews for each employer in the Fund. Review and assess the potential risks from the results. Identify appropriate asset 	<ul style="list-style-type: none"> Stratification of the whole employer base according to the risk posed to the Fund. Allocation of each strata of employer to a specific asset mix. 	<ul style="list-style-type: none"> Covenant reviews completed by May 2016. Revised asset allocations agreed alongside the valuation process by February 2017. 	<p>Data gathering for covenant reviews currently being undertaken.</p> <p>PFC agreed to consult on use of results within the valuation at its September 2015 meeting.</p>	<p>Covenant reviews were completed for the employers in the fund. The results of this review were taken into consideration during the actuarial valuation.</p>

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	allocations for different risk categories of employer to feed into 2016 post valuation Investment Strategy update.				
Completion of the 2016 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy	<ul style="list-style-type: none"> • Provision of data to the Actuary at individual member level. • Agreement of key assumptions with the Actuary by the PFC • Engagement with employers on an ongoing basis throughout the process, but particularly as results become available. • Review of 	<ul style="list-style-type: none"> • Maintenance of stable contribution rates. • Actuary's assessment of the quality of the data provided. • Adoption of revised Investment Strategy by PFC 	<ul style="list-style-type: none"> • Provision of data from April 2016. • Agreement of assumptions by PFC to be in line with Actuary's timetable. • Feedback of results from September 2016. • Revised Investment Strategy to PFC Feb / March 2017. • Implementation of revised Rates and Adjustments 	Planning commenced and initial consultation on the framework and key assumptions agreed by the PFC in September 2015.	The actuarial valuation 2016 has been completed and the Funding Strategy Statement was approved at December Pension fund committee. The Investment Strategy is currently being reviewed by the Investment Panel an update on this review will be presented to Pension fund committee in September.

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	Investment Strategy in light of results.		Certificate from April 2017.		
Review and update of the 5 asset class investment strategies in order to ensure that they remain relevant to both the needs of the Fund and deliverable within market constraints.	<ul style="list-style-type: none"> Formal review of progress against and the continuing relevance of each strategy by the Investment Panel. Commissioning of revised strategies by the Investment Panel. Consideration and approval of revised strategies by PFC. 	<ul style="list-style-type: none"> Approval of proposals for change by PFC. Achievement of target returns (and levels of volatility) by investments selected under the strategies. 	<ul style="list-style-type: none"> Infrastructure Strategy for formal approval June 2015. Equity and Private Equity to go to PFC during 2015/16 Property and Credit Strategies to go to PFC during 2016/17. Infrastructure to go to PFC following review during 2017/18. 	A consolidated strategy reflecting the fact that assets will largely be held within the LLPP structure will need to come to the PFC in quarter 1 of 2016	The Investment Strategy Statement was approved in November 2016 taking into account the approved asset allocations with LPP. Detailed implementation of the Strategies has been delegated to Local Pensions Partnership Investments Limited.
Development and implementation of a Liability Management Strategy	<ul style="list-style-type: none"> Agreement by Investment Panel and PFC on the degree to which the Fund should seek to manage its liabilities. 	<ul style="list-style-type: none"> Adoption of agreed strategy by PFC. Impact on the scale of the Fund's risk exposure specifically to: 	<ul style="list-style-type: none"> Strategy agreed by the end of the 2015 calendar year. Implementation during 2016/17. Initial review at end of 2017/18. 	Preparatory work on this continues. There is a need to consider whether, in the light of the change in actuarial approach for the	There is no strategic allocation to asset liability management. LPP will need to develop proposals for submission to the Investment Panel before approval is sought from the Committee.

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	<ul style="list-style-type: none"> Adoption and implementation of approved strategy, including the appointment of any fund managers required. 	<ul style="list-style-type: none"> Long term interest rates Inflation 		2016 valuation it would be better to delay this work until after the valuation.	
Administration Review and ensure compliance with the new TPR Code of Practice for Public Sector Pension Schemes	Undertake GAP analysis Act on results	Via a public statement of compliance. Target 100% compliance with the relevant regulations. No reported breaches of law	31 March 2016	Report will be made to the Local Pension Board at a meeting in 2016	Report considered by Local Pension Board January 2016 which identified no areas of non-compliance
Develop and implement a member and employer self-service strategies	Introduce email/online processes in all areas of casework Develop website and employer e-solutions Develop self-service functionality within	Demonstrable transference of transactional activity to the employer and to the member. Set targets to measure % shift	31 March 2017	Formal strategies will follow from the creation of LLPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means	2015/16 Annual Administration report indicates 45,000 members registered for self-service. New "publish" facility implemented to enable better e-communication of member specific information via the self-service facility. LPP Strategic Approach will be developed for full implementation

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	the Altair system			that ?% of members interact with the Fund electronically	from April '18
Consider collaborative opportunities and work towards building capacity for the future	Work in partnership with likeminded Authorities Attract new business	Organisational structure and capacity in place New business secured	31 December 2016	Partnership process through LLPP is targeted for April 2016. Merseyside Fire and Rescue Service added as a new client from April 2015. Proposals made to 2 other potential clients.	LPP has already been successful in gaining new business with Kent Fire Authority and discussions with a London Borough are at an advanced stage. LPP has also been awarded a place on the national framework for Police Pension Administration. This shows progress in all 3 current market segments
Review employer compliance with Pension Administration Strategy Statement	Implement monitoring process. Measure and report results to PFC	% Employer compliance	31 December 2015	To be reported to Local Pension Board and PFC in Quarter 1 of 2016.	Information is reported to the Head of Fund on a regular basis as part of the performance review process for decision as to whether any action is necessary.
Undertake systematic analysis of appeals	Implement case review process	Year on year reduction in 1 st and 2 nd stage appeals	1 April 2017	Work not yet commenced	A case review process analysing the numbers and the type of disputes being received is undertaken. As part of the process of review of stage 2 disputes for the Appeals officer any procedural issues

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
					<p>identified are followed up, following the conclusion of the determination, with the organisation concerned.</p> <p>The aim for year on year reductions in appeals at both stage 1 and 2 has not occurred with the number actually rising. Primarily this is down to the increased number of ill health cases being received. There is an increased awareness of members to the appeal process together with more transparency over the ill-health decisions given to the member giving more cause for appeal.</p>
Review basic financial control processes surrounding pension fund administration and pensioner payroll.	Undertake GAP analysis Act on results	Full Assurance from internal and external auditors.	1 April 2016	Work on-going. No recommendations from either set of auditors which require action. Full formal review will be required prior to implementation of LPP.	Ongoing continuous improvement work ongoing, but as indicated no significant issues raised by auditors. Steps taken when LPP was created to ensure that Fund Officers approve the release of both the payroll and immediate payment runs
Develop and	Promote the use of	Demonstrable	April 2017	Formal strategy	The strategy which will be based

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
implement an Employer engagement strategy	online and email communication and information sharing, making online self-service the norm and the employer website area the first port of call for employers.	<p>increase in employers using online services.</p> <p>Increased member awareness of pension benefits</p> <p>Increase in proactive employer engagement</p>		will follow from the creation of LPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means that many employers interact with the Fund electronically	on the approach previously taken by LCPF will be developed by LPP during 2017 for implementation alongside the new operating model for the administration business from April 2018
	Support Scheme employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.				Significant engagement undertaken by Fund Officers as part of the valuation process with logistical support from LPP.

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
	Actively engage with employers on Funding and investment issues				
Develop and implement a Member engagement strategy	<p>Promote the use of online and email communication and information sharing, making online self-service the norm and the website the first point of contact for members.</p> <p>Take a multimedia approach to communication and engagement in recognition that different styles and methods of communication suit different stakeholders</p>	<p>Demonstrable increase in online self- service activity.</p> <p>Increase in web contact/reduction in telephone contact</p> <p>Increase in customer satisfaction</p>	December 2017	Formal strategy will follow from the creation of LLPP. However, in the short term encouraging take up of on line facilities through ordinary communication channels means that ?% of members interact with the Fund electronically	As with employer engagement LPP will develop a strategy over the coming year based on the approach used by LCPF. This will be fully rolled out from April 2018.
Undertake systematic analysis of customer	Implement formal process for review of complaints and	Year on year reduction in complaints/increase	March 2017	Additional detail being reported to Local Pension Board and further	A complaints and compliments log is maintained. This is reported in the Annual Administration report which is submitted to the

ACTION	HOW WILL THIS BE ACHIEVED?	HOW WILL SUCCESS BE MEASURED?	TIMESCALE	PROGRESS AT END SEPT 2015	PROGRESS AT END MARCH 2017
feedback	compliments Set targets for customer satisfaction and measure	in compliments Targets achieved		work planned in response to their deliberations.	Committee and the local Pension board.

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: None;

Lancashire County Pension Fund Risk Register (Appendix 'A' refers)

Contact for further information:

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Executive Summary

The draft risk register was reviewed by the Committee at its meeting in December. The draft has subsequently been updated and finalised by risk owners and a copy of the final version of the risk register is attached in Appendix 'A'.

Risk owners are required to manage the risks for which they are responsible and the risk register will be updated periodically as a result. Updates will be reported to the Committee on a six monthly basis.

Recommendation

The Committee are asked to note the updated risk register as set out in Appendix 'A'.

Background and Advice

Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the organisation. It is not a process for avoiding or eliminating risk although that may be a consequence of the risk mitigation measures deployed.

The Head of Fund has worked with PwC to refresh the Pension Fund risk register taking into account the direction of the Fund and the change in governance arrangements due to the relationship with the Local pension Partnership (LPP).

The risk register attached as Appendix 'A' covers the following areas:

- Operational risk
- Investment and funding risk
- Member risk; and
- Transition risk

The impact and likelihood has then been scored on a scale of one to four (one being low risk, four being high risk) in order to assess whether the overall risk level is low, medium or high. The risk owners then assessed whether there are any mitigating factors in place which could reduce the level of risk and the risk score was adjusted accordingly.

The following risks are currently designated as 'high':

- Transition risk – T1, T2, T3, T4 and T5 – it is expected that over time these risks will either be removed or become operational with a reduced rating.
- Investment and Funding risk – I1, I2, I3 and I4.
- Operational – O1, O2, O3 and O4.

The risk register will continue to be reviewed on a regular basis.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
N/A		

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

Risk Assessment

In order to ensure identified risks can be consistently assessed, a common set of risk assessment criteria has been developed. Using this criteria, the following was determined for each individual risk:

- Gross risk: The likelihood and impact of the risk materialising without any mitigating controls being applied; and
- Residual risk: The likelihood and impact of the risk materialising with mitigating controls being applied.

Risks are evaluated on a scale of 1 to 4 with the highest value being the most likely to occur/ most severe impact. The risk assessment criteria developed with the Head of Fund is presented below:

				LIKELIHOOD OF RISK OCCURRING			
				1	2	3	4
				in 20 years /5%	1 in 5 years /20%	1 in 2 years /50%	1 in 1 years / 95– 100%
				Unlikely could occur once in 20 years	Possible could occur once in 5 years	Likely could occur in next 24 months	Happening Happening already or highly likely
FINANCIAL IMPACT	4	>£150m	<div><input type="checkbox"/> Critical impact on operational performance (>10% of membership affected recovery time > 1 year);</div> <div><input type="checkbox"/> Critical breach in laws and regulations that could result in material fines or consequences;</div> <div><input type="checkbox"/> Critical impact on the reputation of the Fund which could threaten its future viability, adverse national media coverage;</div> <div><input type="checkbox"/> Affect such that it undermines the ability to achieve key Fund goals and objectives (survival).</div>	4	8	12	16
	3	£75m - £150m	<div><input type="checkbox"/> Significant impact on operational performance (5 – 9% of membership affected/ recovery time 8 – 12 months);</div> <div><input type="checkbox"/> Significant breach in laws and regulations resulting in significant fines and consequences;</div> <div><input type="checkbox"/> Significant impact on the reputation or Fund (some national media coverage);</div> <div><input type="checkbox"/> Potential to have high impact on Fund goal and objectives.</div>	3	6	9	12
	2	£5m – £75m	<div><input type="checkbox"/> Moderate impact on operational performance (1 – 4% of membership affected/ recovery time 3 – 7 months);</div> <div><input type="checkbox"/> Moderate breach in laws and regulations resulting in fines and consequences;</div> <div><input type="checkbox"/> Moderate impact on the reputation or brand of the organisation (some media coverage);</div> <div><input type="checkbox"/> Potential to have moderate impact on Fund goal and objectives.</div>	2	4	6	8
	1	<£5m	<div><input type="checkbox"/> Minor impact on operational performance (<1% of membership affected/ recovery time <3 months);</div> <div><input type="checkbox"/> Minor breach in laws and regulations with limited consequences;</div> <div><input type="checkbox"/> Minor impact on the reputation of the organisation;</div> <div><input type="checkbox"/> Comparatively less impact on Fund goal and objectives.</div>	1	2	3	4

Risk Ref	Risk Title	Risk Description	Risk Drivers	Owner	Inherent Risk			Controls*	Residual Risk			Risk actions			
					Impact	Likelihood	Inherent Rating		Impact	Likelihood	Residual Rating	Action Details	Owner	Target Date	
INVESTMENT & FUNDING RISK															
I1	Investment Strategy	Inappropriate investment strategy leading to volatility and underperformance. A decline in the market value of investments relative to liabilities or an increase in the Fund's risk profile could have a negative impact on the value of the fund, particularly where the assets to liabilities profile is mismatched, leading to underfunding.	<ul style="list-style-type: none">The investment strategy is not appropriate to meet the Fund's funding requirements.Investment strategy does not change to reflect changes in circumstances, leading to a reduction in funding level or missed opportunities to enhance or protect the funding level.Falling share prices and values of illiquid assets, therefore decreasing in the assets held by the fund.	Head of Fund	4	2	H	<ul style="list-style-type: none">The Investment Advisors undertake a full review of the Fund's investment strategy following each triennial funding valuation to ensure investment strategy remains appropriate for the Fund's objectives. Advisors are also involved in any agreed ad hoc review between valuations.LCC Pension Committee review and approve Investment Strategy.Quarterly performance reporting against strategy performed by the Investment Panel and results reported to the Pension Committee.LPPL advise on strategy with LCC engaging external contractors / advice to validate / assess advice.	4	1	M	<ul style="list-style-type: none">The Investment Strategy is currently under review.An update of this review will be presented at Sept Committee.LPP are advising the Investment Panel on proposed strategy at its meeting in June.	Investment Panel/Head of Fund	Dec 2017	
			<ul style="list-style-type: none">Poor / inappropriate investment advice received from LPPL. Investment beliefs and preferences of individuals in LPPL might conflict with what is in the pure best interests of the Scheme.Poor / inappropriate investment advice received from external investment advisors.	Head of Fund	4	2	H	<ul style="list-style-type: none">LPPL advise on strategy with LCC engaging external contractors / advice to validate / assess advice.Decisions are made in consultation with External Advisors who attend specific Investment Panel and Pension Committee meetings during the year and are consulted as required to advise on investment strategy decisions.	4	1	M	<ul style="list-style-type: none">LPP are advising the Investment Panel on proposed strategy at its meeting in June.	Investment Panel/Head of Fund	Dec 2017	
I2	Construct, Implement and Perform	The portfolio fails to deliver the required return within risk tolerances / the translation of the strategy into the investment portfolio is sub-optimal / failure of the investment support infrastructure resulting in inefficient implementation or losses.	<ul style="list-style-type: none">Failure to achieve target returns over the mid term i.e. 5 years.Incorrect assumptions about expected returns, volatilities and correlations.Model specifications are incorrect, input data is inaccurate, outputs are misinterpreted.Failure to establish risk parameters for each component of the portfolio and for the total portfolio e.g. VAR, FX hedging and derivatives.	Head of Fund	4	2	H	<ul style="list-style-type: none">LPPL attendance at Investment Panel provides a view of activity.> LPPL is in the process of establishing investment risk monitoring roles in-house.	4	2	H	<ul style="list-style-type: none">The Investment Panel have met with LPP to discuss risk monitoring and reporting.	Investment Panel/Head of Fund	Dec 2017	
			<ul style="list-style-type: none">External mandates are not aligned to the Fund's return and risk requirements.Decisions are not implemented accurately, efficiently and in line with appropriate authorities.Investment performance is poor, not reported in a timely manner and / or frequently monitored.Investment manager SLA's are not in place and/or are not frequently monitored.Cost reduction achieved from utilising internal investment managers offset by poor internal investment manager performance.	Head of Fund	4	3	H	<ul style="list-style-type: none">Quarterly performance reporting against strategy performed by the Investment Panel and results reported to the Pension Committee.	4	2	H	<ul style="list-style-type: none">Quarterly reporting on cost reduction v's performance will be reported to Pension Fund Committee.	Head of Fund	Dec 2017	

					Inherent Risk				Residual Risk			Risk actions		
					4	3	H		4	2	H			
I3	Custody of Fund assets	Failure to ensure the security and safe custody of Fund assets leading to a loss of assets and / or income and breach of the Pensions Act.	<ul style="list-style-type: none"> The Fund's assets are not adequately safeguarded, with due record-keeping and accurate income and taxation processing; and Inadequate records and reporting of investment positions, transactions and returns. 	Head of Fund				<ul style="list-style-type: none"> Contractual protection via Custody agreement. Assets are held in separate named LCC client account. Monthly LCC reconciliation of Fund assets with those reported by Northern Trust. 				<ul style="list-style-type: none"> Review of Fund's custody arrangements to be undertaken taking into account LPP's arrangements with its custodian and depository. 	Head of Fund	Mar 2018
I4	Actuarial Valuation and Monitoring of Funding	Asset / liability mismatch leads to insufficient assets to fund liabilities resulting in increased deficit and inability to make benefit payments, meaning cash injections required from employers.	<ul style="list-style-type: none"> Models used in the actuarial valuation process, including liability projections and calculations, are incorrect or misinterpreted resulting in poor funding decisions (e.g. poor cash flow data being shared). Inappropriate assumptions or methodology used in the valuation process leading to inconsistent long term objectives. Increases in commodity prices push up the level of inflation - Inflation increases pension payments but assets do not grow at required level. A significant allocation in a particular type of asset will lead to an over exposure in that area and therefore vulnerability to significant changes (increasing the funding gap). 	Head of Fund	4	3	H	<ul style="list-style-type: none"> Assumptions used are market consistent and take into account Fund specifics, such as investment strategy and Fund mortality experience. An overall level of prudence is built into the assumptions to reduce the risk of adverse experience. The Pension Fund Committee monitors the funding level on a quarterly basis allowing the Committee to understand if the funding level is reducing. Funding advice and modelling is delegated to professionals specialising in LGPS scheme actuarial services (Mercer). 	4	1	M	<ul style="list-style-type: none"> LPP to undertake further work on funding level and cash flow analysis as part of the work on Investment Strategy advice. 	Investment Panel	Dec 2017
I5	Cash-Flow Management	Insufficient funds to meet payments from the Fund: Benefits are not paid on time.	<ul style="list-style-type: none"> Inadequate liquidity due to type of investments resulting in the inability to meet payments as they fall due and / or a need to liquidate assets at an unfavourable point of time; and Poor cash management results in the inability to meet payments as they fall due, un-invested cash balances, or overdrafts, implying loss of income or unnecessary costs being incurred. 	Head of Fund	2	2	M	<ul style="list-style-type: none"> The Fund portfolio includes liquid and tradeable assets in order to ensure a shortfall would be covered. Rental income received by the Fund covers the shortfall in contributions received allowing payroll to be met on a monthly basis. 	2	2	M	<ul style="list-style-type: none"> LPP to undertake further work on funding level and cash flow analysis as part of the work on Investment Strategy advice. 	Investment Panel	2017
I6	Admitted Bodies Arrangements	The Admitted body is unable to make good any shortfall of their share of the overall deficit requiring LCC to make additional contributions on their behalf.	<ul style="list-style-type: none"> Admitted bodies are unable to pay cessation debt on exit leading to an unfunded shortfall that will be required to be covered by LCC and/or other admitted bodies. 	Head of Fund	2	2	M	<ul style="list-style-type: none"> LPPL monitor employer's risk profiles with reference to the size of their liability. The Pension Fund Committee review the covenant on an annual basis. 	2	1	L	<ul style="list-style-type: none"> Ongoing covenant review 	Head of Fund	Mar 2018

					Inherent Risk				Residual Risk			Risk actions		
M1	Benefit Payments	Pensions payments and lump sums are incorrectly processed.	<ul style="list-style-type: none">• Administrator SLA's are not in place and/or performance is not reported or frequently monitored.• Misapplication of the Fund's rules leads to incorrect or untimely benefit calculations or payments.• System changes at the administrators leading to inaccurate benefit payments.• Pensions are paid late or not at all, causing distress to members or reputational impact to the Fund.	Head of Fund	2	2	M	<ul style="list-style-type: none">• Administrator reporting against SLA reviewed on a quarterly basis.• Complaints process monitored by the Head of Fund.• Documented processes and procedures in place with supervisor review performed for each benefit calculations.• Timeliness of monthly payroll monitored.	2	1	L	<ul style="list-style-type: none">• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going
M2	Member Comms	Fund and individual communications are inadequate, inappropriate or not made in a timely manner.	<ul style="list-style-type: none">• Fund and individual communications are inadequate, inappropriate or not made in a timely manner leading to members making badly informed decisions/lose out on potential benefits resulting in legal claims being made against the Trustee.	Head of Fund	2	2	M	<ul style="list-style-type: none">• Formal monitoring of member complaints and appeals process.• Administrator reporting against SLA reviewed on a quarterly basis.	2	1	L	<ul style="list-style-type: none">• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going
M3	Data quality	Member experience negatively impacted through inconsistent and/or inappropriate approaches in treatment and management of member data.	<ul style="list-style-type: none">• Data is not maintained, leading to incorrect or no benefits being paid.	Head of Fund	2	2	M	<ul style="list-style-type: none">• LPPL member data quality checking procedures in place.• Administrator reporting against SLA reviewed on a quarterly basis.	2	1	L	<ul style="list-style-type: none">• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going
M3	Contributions	Inaccurate / untimely contribution payments	<ul style="list-style-type: none">• Contributions are calculated incorrectly or not paid over within the statutory deadline.	Head of Fund	2	2	M	<ul style="list-style-type: none">• Administrator reporting against SLA reviewed on a quarterly basis.• Contribution reconciliations are performed by LCC. Reasonableness checks are performed by LPPL.	2	1	L	<ul style="list-style-type: none">• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going

O1	LCPF Committees and Fund Governance	Fund governance arrangements are inappropriate / ineffective, leading to:	<ul style="list-style-type: none"> The Pension Fund Committee and its sub-committees do not have the appropriate skills, knowledge and experience (both technical and board related skills) and support to discharge oversight responsibilities. The Pension Fund Committee, sub-committees and the Executive structure is inappropriate, and do not have clear and aligned roles, responsibilities and delegated authorities, leading to ineffective or inefficient decision making or lack of oversight. Fund objectives are unclear, not understood or not fully bought into resulting in: <ul style="list-style-type: none"> opportunities being missed; risks not being managed; and ineffective or inefficient decision making. 	Head of Fund	Inherent Risk			<ul style="list-style-type: none"> Monthly Committee training is delivered to Committee members and officers. Induction process in place for new Committee members. Committee composition comprises a range of relevant skills and experience including officer membership to provide ongoing support and technical expertise. Where required, external technical expertise is drawn upon via Committee attendance by external advisors (e.g. Investment advisors). Committee Terms of Reference are in place to clearly communicate Committee responsibilities. Committees operate a conflicts of interest policy and process. The delegation of authorities and authority levels has been documented and approved by the Pension Committee. The Head of Fund and the Pension Committee agree the annual business plan including Fund objectives. An update on the plan is presented at each Committee meeting and is monitored on a monthly basis by the Head of Fund. 	Residual Risk			Risk actions		
					3	4	H		3	2	M	<ul style="list-style-type: none"> New Strategic plan for the Fund to be produced and presented at Dec committee meeting. 	Head of Fund	Dec 2017
O2	Reliance on key persons and expertise	Failure to maintain an adequately resourced operation to support the execution of the Fund's objectives.	<ul style="list-style-type: none"> Skills and knowledge of LCC officers are lost with only a limited market from which to seek their replacement. Skills and knowledge within LPPL are lost with only a limited market from which to seek their replacement. A lack of Councillor continuity impacting composition and effectiveness of the Pension Committee. 	Head of Fund	3	3	H	<ul style="list-style-type: none"> Committee composition comprises a range of relevant skills and experience including officer membership to provide ongoing support, continuity and technical expertise. 	3	3	H	<ul style="list-style-type: none"> Induction training for new committee members has taken place. Monthly workshops will be delivered. Increased resource in Officer Team to ensure succession planning. 	Head of Fund	Ongoing
O3	Risk Management	Risk Management arrangements within the Fund are inappropriate / ineffective resulting in risks being missed or not appropriately managed.	<ul style="list-style-type: none"> Inappropriate oversight and monitoring impacts on the effective management of risks, ineffective or inefficient decision making and missed opportunities. The risk appetite of the Fund is not articulated, understood and embedded across the Fund. Risk management information and assurance mechanisms are inaccurate, incomplete, untimely or not actioned. 	Head of Fund	3	3	H	<ul style="list-style-type: none"> Risk identification and assessment exercise completed in Q4 2016. Assurance requirements for key risks identified as part of this process with subsequent action plans being developed. This process will help build the foundation of the Fund's risk management framework. 	3	3	H	<ul style="list-style-type: none"> New Governance and risk officer appointed. A risk framework will be developed and reported to committee in December. 	Head of Fund	Ongoing
O4	Compliance	Compliance breaches (i.e. Fund rules, legislation, regulation) which may result in reputational or financial impact to the Fund or its members.	<ul style="list-style-type: none"> Failure to identify sufficiently early and mitigate applicable regulatory changes. Fund fails to comply with corporate governance guidance (e.g. Stewardship Code) incurring reputational damage. LPPL and its approved persons fail to observe applicable FCA regulations and fail to maintain their authorised status leading to financial loss for the shareholders. Breach of the LPPL Shareholder agreement (e.g. failure to meet as a Board and breach of ABC laws) leading to financial loss and reputational damage. 	Head of Fund	3	3	H	<ul style="list-style-type: none"> A comprehensive breaches policy and guidance/procedures is in place. This document sets out the policy and procedures to be followed by certain persons involved with the Lancashire County Pension Fund, the Local Government Pension Scheme managed and administered by Lancashire County Council, in relation to reporting breaches of the law to the Pensions Regulator. The Head of Fund performs a review of the Myners Principles with the Committee and Board on periodic basis. This review is considered within the annual 	3	3	H	<ul style="list-style-type: none"> Internal audit plan to include a review of governance arrangement. Governance review of LPP structure will be started in July 2017. 	Head of Fund	Ongoing

TRANSITION RISK														
				Inherent Risk			Residual Risk			Risk actions				
O5	Cost Management	Unnecessary costs incurred and budget variances realised.	<ul style="list-style-type: none">LCC does not run effectively: Inefficient use of advisors, third parties or inefficient controls use up resources which should be used to meet benefits.	Head of Fund	1	3	L	<ul style="list-style-type: none">governance statement.The Fund has published its annual update on how it has implemented the Code. The assessment is reviewed by the Committee and the Board.The Head of Fund, Committee and Board, on an annual basis, assess, review and publish the Fund's Governance Compliance Statement.						
								<ul style="list-style-type: none">The Head of Fund (using external support as required) monitors performance of the Fund against the business plan and budget on a monthly basis.	1	2	L	<ul style="list-style-type: none">Regular budget monitoring on the fund and LPP budget to be reported to committee on a quarterly basis.	Head of Fund	Ongoing
O6	Business and IT Continuity	IT systems, business processes or business infrastructures fail (across the Fund) or are inadequate.	<ul style="list-style-type: none">IT systems, business processes or business infrastructures fail (across the Fund) or are inadequate resulting in financial loss, missed opportunities or failure to pay benefits.	Head of Fund	3	2	M	<ul style="list-style-type: none">LCC has in place a business continuity plan which includes LCPF fund staff and their internal operations.The fund's IT platform is outsourced to BT. An agreement is in place between LCC and BT which includes maintenance and support services for IT systems across LCC and LPPL.	3	2	M	<ul style="list-style-type: none">LPP internal audit plan includes a review of IT arrangementsOutcome of this work to be reported to committee.	Head of Fund	Ongoing
O7	Data Protection and cyber security	Failure to hold personal data securely (data transfer, data retention and back up).	<ul style="list-style-type: none">Failure to ensure the confidentiality / security, integrity and availability of membership data, potentially impacting members and/or the reputation of the Fund.	Head of Fund	3	2	M	<ul style="list-style-type: none">Data protection agreements are in place with third parties.LCC has in place a data protection policy.IT systems are configured with firewall and antivirus solutions.	3	2	M	<ul style="list-style-type: none">LPP internal audit plan includes a review of IT arrangementsOutcome of this work to be reported to committee.	Head of Fund	Ongoing
O8	Fraud Risk	Inadequate Financial Controls / loss of funds through fraud.	<ul style="list-style-type: none">Key Financial Processes not documented; absence of formal reconciliation regime; absence of adequate controls.	Head of Fund	2	2	M	<ul style="list-style-type: none">Assets are held by independent custodian which is responsible for protecting and safeguarding Fund assets.The delegation of authorities and authority levels, which promotes segregation of duties, has been documented and approved by the Pension Committee.The fund has a separate bank account which is operated by LCC and audited on an annual basis. Payment authorisation controls are in place to prevent any losses due to fraud.	1	1	L	<ul style="list-style-type: none">Internal audit work includes a review of financial controls.	Head of Fund	Ongoing

					Inherent Risk				Residual Risk			Risk actions		
T1	Decision Making	Inappropriate or untimely decision making as a result of lack of transparency between LCC and LPPL.	<ul style="list-style-type: none"> Non conformity with Shareholder agreement and Matters Reserved. Lack of relationship management. Lack of assurance and oversight reporting from LPPL to LCC. Non conformity with delegated authorities. Absence of sufficient representation of LCC within LPPL. Absence of review and challenge and oversight of LPPL. 	Head of Fund	4	4	H	<ul style="list-style-type: none"> Shareholder agreement and Matters Reserved in place. Decisions are made in line with this agreement. Legal agreements between LPPL companies are in place and monitored by LCC Officers. The delegation of authorities and authority levels has been documented and approved by the Pension Fund Committee and Full Council. A formal governance structure has been established which enforces decision making and approval at the right levels. LCC representation on the LPPL Board via the Non-Executive Director, providing transparency at Board meetings. LPPL Non-Executive Director approval required for LPPL Board decisions to take effect. LCC Head of Fund holds pre-board meetings to discuss matters with NED, increasing transparency. LPPL attend the Investment Panel to present updates / recommendations / proposals for ratification. 	4	3	H	<ul style="list-style-type: none"> Internal audit plan to include a review of governance arrangements . 	Head of Fund	Ongoing
T2	Change Management	Ongoing programme of change is not managed preventing project delivery, avoidable delays or excessive costs.	<ul style="list-style-type: none"> Change is not fully reflected in processes and controls such that something falls between the cracks. Interdependencies and resource conflicts between projects are not managed effectively. Project fails to deliver to scope, time and budget. Benefits are not realised. Key resources become unavailable. 	Head of Fund	3	3	H	<ul style="list-style-type: none"> A detailed transition plan for the LPPL Administration function is to be presented to the Head of Fund in October 2016. (NOTE: No detailed Investment transition plan has yet been presented). An initial cost benefit analysis of the setup of LPPL has been produced. Monitoring mechanisms are to be established. 	3	3	H	<ul style="list-style-type: none"> Quarterly reporting on administration transition to be presented to committee. Quarterly monitoring of Pension fund and LPP budget to be presented to committee. 	Head of Fund	Ongoing
T3	Investment Transition	Investment transition is poorly managed resulting in: error; unexpected cost; tax implications; ineffective decision making; and loss of FCA license.	<ul style="list-style-type: none"> Change in legal ownership resulting in significant transactional taxes being incurred in certain territories. Significant transactional costs arising from selling and repurchasing Fund assets. Inaccurate allocation of units within sub funds leading to inaccurate reporting and financial loss to the Fund. Transition managers fail to deliver on their agreements and maintain appropriate level of service leading to financial loss. Lack of information to give clarity of transitional impact to the Pension Committee. The Fund could have a disproportionately higher transactional cost (bid-offer) if there is little overlap between current investment managers and the chosen sub fund investment managers. Significant market movements whilst investment consolidation is ongoing and the funds are out of the market, leading to significant repurchase costs. LPPL fails to establish suitable sub funds on transition leading to poor investment performance. 	Head of Fund	3	3	H	<ul style="list-style-type: none"> An independent transition manager has been engaged for the following purposes: <ul style="list-style-type: none"> tax management; transaction and cost management; working with the custodian; and Reporting on arrangements and actions taken. 	3	3	H	<ul style="list-style-type: none"> Public equity transition complete and details reported to March committee. Details on other asset transitions will be reported when complete. 	Head of Fund	March 2018

					Inherent Risk				Residual Risk			Risk actions		
T4	Admin transition	Ineffective transition of administration responsibilities and processes leads to poor member experience.	<ul style="list-style-type: none"> The LPPL Administration team does not retain appropriate resource to manage the transition of services and does not maintain performance as a result, leading to poor member experience. Administrator performance is not reported in a timely manner and frequently monitored. Administrator SLA's are not in place and/or are not frequently monitored, leading to poor member experience. System changes at the administrators leading to inaccurate benefit payments and misapplication of Fund rules. 	Head of Fund	4	3	H	<ul style="list-style-type: none"> A detailed transition plan for the LPPL Administration function is to be presented to the Head of Fund in October 2016. The LPPL Administration team has retained LCC staff who are experienced in their roles. Quarterly Administration reporting is reviewed by the Head of Fund who monitors administration performance against defined service level agreements. No issues in performance levels have yet been identified as a result of transition. 	4	2	H	<ul style="list-style-type: none"> Quarterly reporting on administration transition to be presented to committee. 	Head of Fund	March 2018
T5	External Drivers	Changes in government thinking, personnel / key stakeholders significantly alter the requirements of pooling, increasing cost.	<ul style="list-style-type: none"> Pool no longer needed and funds abandoned missing the benefits from a level of collective investment and sunk costs. Merger of funds is put back on the table due to pooling target not being met (£25bn). Dilution of shareholder power due to on-boarding of additional funds leading to loss of control over the Partnership. Conflicting interests of shareholders leading to slow and ineffective decision making. 	Head of Fund	4	4	H	<ul style="list-style-type: none"> Active engagement with other funds to consider possibility of pooling (e.g. Berkshire to enter into the Partnership). Shareholder agreement and Matters Reserved in place. Decisions are made in line with this agreement. Close collaboration amongst funds. Clear governance established with Cross pool meetings to share understanding. Legal advice provided. Monitoring of LPPL service performance (investment and administration) to detect degradation in service as a result of increasing demands from multiple funds. 	4	4	H	<ul style="list-style-type: none"> Continue to engage with other potential partners. Legal advice to be sought for any changes to shareholder agreement and reserved matters. 	Head of Fund	Ongoing

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: None

Responsible Investment

(Appendix 'A' refers)

Contact for further information: Contact for further information: Abigail Leech,
(01772) 5 30808 Head of Fund, Lancashire County Pension Fund
abigail.leech@lancashire.gov.uk

Executive Summary

The report at Appendix 'A' provides the Pension Fund Committee with an update on Responsible Investment matters.

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.

Recommendation

The Committee is asked to note the report.

Background and Advice

The Pension Fund Committee receives a quarterly report on RI-related matters as part of the investment management services LCPF receives from the Local Pensions Partnership (LPP) as the Fund's external provider of pension services. RI reports provide information on the stewardship of the Fund's assets by LPP and enable the committee to monitor the activities undertaken.

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 at Appendix 'A' relates to the first quarter of 2017/18 and focusses on the period from 1st January to 31st March 2017.

For the purposes of reporting on wider matters, more recent developments are reflected as part of bringing current and emerging issues to the Committee's attention.

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
UK Stewardship Code (Financial Reporting Council September 2012)	September 2017	Abigail Leech, (01772) 5 30808
Reason for inclusion in Part II, if appropriate		
N/A		

Lancashire County Pension Fund

Appendix A

**Pension Fund Committee
Responsible Investment Report**

30 June 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	Appendix 1: LCPF Reporting to the Principles of Responsible Investment 2017 Appendix 2: LCPF Statement of Compliance with the UK Stewardship Code

1. Executive Summary

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

2. Introduction

The Fund's approach to RI 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 January to 31st March 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.

To ensure shareholder voting rights are exercised effectively and consistently, 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.

ISS services operate through an online voting platform (ProxyExchange) which enables LPP I to evaluate pre-meeting research and analysis and review ISS voting recommendations in advance in order to decide whether to follow or depart from these. The platform also provides functionality to support monitoring, oversight and reporting on voting activities.

Voting headlines for the GEF in the first quarter of 2017 were as follows:

Total company meetings taking place	29	
Total resolutions (management and shareholder proposals)	525	
Total company proposals in the period	488	
Total shareholder proposals in the period	37	
Votes in line with Management recommendations	502	96%
Votes opposing Management recommendations	23	4%
Shareholder proposals supported by LPP I	6	16%

Proposals by Subject Matter

Elect directors / Board members	230
Agree management / Board remuneration	77
Generic meeting procedures (open, close, convene, adjourn)	53
Discharge the Board / management	33
Proposals relating to share capital	29
Auditors & Auditor remuneration	28
Dividends	15
Other (Miscellaneous)	12
Financial Statements and other Statutory Reports	11
	<u>488</u>

LPP I supported 6 shareholder resolutions in Q1. These were resolutions which reflected the rights of shareholders on themes we see regularly at company meetings:

- proxy access - resolutions seeking the ability (through a change in byelaw) for long-term shareowners to place alternative board candidates on the company's proxy card (ballot) in order for them to be voted on at the company's annual shareowner meeting;
- lobbying – resolutions requesting a more complete disclose of information on lobbying policy, activities, and payments.

At the AGM of Tyson Foods (largest American-owned processor and marketer of chicken, beef, and pork) LPP I voted in favour of three shareholder proposals as follows:

- the production of a report on the company's lobbying policies, procedures, expenditures, and oversight;

- a proposal to adopt a "proxy access" bylaw requiring Tyson to allow shareholders to nominate persons for election to the Board;
- a proposal to adopt and implement a water stewardship policy designed to reduce risks of water contamination at Tyson-owned facilities, its suppliers, and facilities under contract to Tyson.

The third proposal addressed exposure to environmental, reputational, and financial risks associated with water pollution from animal feed and byproducts and reflected that the company currently does not disclose specific policies, initiatives, or management oversight mechanisms the company has implemented to address effluent discharges and runoff from company-owned facilities, contract farmers, and suppliers.

A detailed report on Q1 voting activity for the GEF has been placed within the Members Reading Room for reference.

In due course LPP will begin to publish voting information for the GEF on its website. This reflects LPP's commitment to transparency under the principles of the UK Stewardship Code and is a move which will enable client funds and members of the public to begin accessing summary voting reports retrospectively online.

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

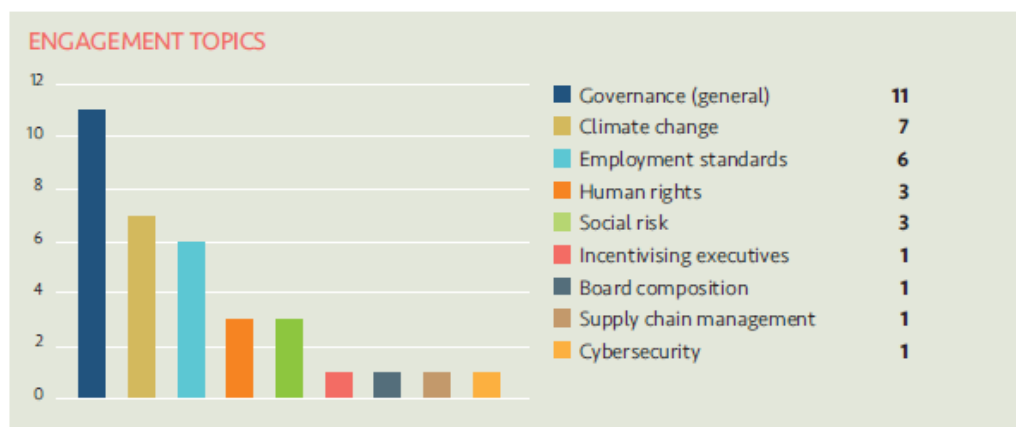
LAPFF has historically been LCPF's preferred engagement partner. The Forum exists to promote the specific investment interests of local authority pension funds as asset owners. 73 of the 89 LGPS funds are now members (with combined assets of over £200bn). LCPF has been a Forum member of long standing. On behalf of LCPF, LPP I attends LAPFF business meetings, seeks to influence debate, exercises the Fund's voting rights, drafts responses and feedback to consultations and identifies opportunities for participation in wider initiatives.

On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf.

A copy of LAPFF's Q1 2017 Engagement Report has been placed within the members reading room for reference.

Quantified across thematic topics, Q1 engagement activity by LAPFF was as follows:

Company Engagement



LAPFF's most recent quarterly Business Meeting took place on 11th April 2017 and was attended by the RI Manager. Headlines from the meeting included the following matters:

Forum Officers' Report

Following Durham Pension Fund's decision to join LAPFF the number of member funds now stands at 73 (82%). All 8 LGPS pools have funds which are members of LAPFF.

Details of "an offer" for LGPS pools to participate in LAPFF is under development and will be considered by the Executive before being presented to the membership later in the year.

Campaign on Reliable Accounts (Update)

LAPFF is working collaboratively on an initiative addressing the failure of companies to report in compliance with the Companies Act. The campaign contends that companies are agreeing dividends and other disbursements illegally due to not having figures within their accounts on distributable versus non-distributable reserves. At the Business Meeting members agreed to LAPFF writing to the Big 4 firms to highlight requirements placed specifically on auditors under Section 92 of the Companies Act which relies upon financial detail which is not currently being reported systematically.

Framework for a Climate Change Investment Policy

The Business Meeting received a proposed framework for a climate change investment policy intended to help Funds by guiding their approach to the risks and opportunities that may result from the impact of climate change. Forum members commented on the draft policy and the need for it to reflect the reality of their current position as well as aspirations for the future in order to be inclusive and realistic. In response to member dialogue on the draft, LAPFF has organised an event on climate change scheduled for 22 June 2017 at which funds will have the opportunity to share real world insight and help to influence the format of the final policy guidance. The RI Manager will participate and share insight on behalf of LCPF and LPFA.

Cyber Risk Engagement Proposal

The business meeting received a proposal for a collaborative engagement on cyber security working in partnership with the Principles of Responsible Investment. Members

supported LAPFF undertaking a focused, small scale direct engagement with companies where cyber risk is material. The engagement 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.

Approval Process for Issues-based Engagement

The meeting received a proposal formalising the process for member funds being able to make requests for LAPFF to undertake issues based engagement on subjects or issues they consider a priority.

UK Pension Fund Responsible Investment Roundtable

This collaborative group involves some of the largest pension funds in the UK and is a forum for investors to work together on responsible investment matters as part of regularly sharing insight and resources. Attention focusses on issues identified as priorities by group members, an approach which enables funds to collaborate informally with one another by agreement. In addition themes arise on which a larger group of investors may agree to collaborate formally in order to exert collective joint influence as responsible asset owners.

During the last quarter attention has focussed on a joint engagement with large asset management firms who did not support climate resilience resolutions consistently during the 2016 proxy voting season. LPP participated in a joint engagement which focussed on clarifying how managers integrate environmental, social and governance considerations into voting practices and the extent to which they are using engagement to encourage companies into greater disclosure on how they are planning for the impact climate change on their business future.

Transition Pathway Initiative

LPP has become a named supporter of the Transition Pathway Initiative (TPI). The TPI is an asset owner-led initiative resourced by the London School of Economics and the Grantham Institute which is designed to define what the transition to low carbon looks like for companies in high-impact sectors such as oil and gas, mining and electricity generation.

The TPI

- Evaluates and tracks the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition;
- Evaluates how companies' future carbon performance would compare to the international targets and national pledges made as part of the Paris Agreement;
- Publishes the results of this analysis through an online tool.

At its launch on 11th January 2017 the TPI published Management Quality Assessments for 20 large companies in the oil and gas sector and 20 large companies in the electricity utilities sector. By the end of 2017 MQ and Carbon Performance assessments will have been produced for between 120 and 150 companies, with coverage and scope due to be extended further in 2018. Companies are categorised into one of five levels based on an assessment of the information they disclose which must be in the public domain.

LPP has committed to using the Toolkit to inform its approach to engagement on climate change. The toolkit is available at the following link.
<http://www.lse.ac.uk/GranthamInstitute/tpi/the-toolkit/>

5. Shareholder Litigation

Shareholder litigation offers a route for recovering financial losses where asset values have been diminished as a result of financial misconduct. Activity forms part of seeking to hold companies to account for the quality of their corporate governance arrangements and their protection of investor interests.

LPP I has recently employed 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 for Q1 2017 was the first to provide information on cases identified for LCPF holdings (legacy assets). The figures reflect that a long backward look has been undertaken as part of service take on by IPS. The number of cases in Q1 is not representative of the ordinary volume of new cases arising within a single quarter:

Total cases identified where LCPF had holdings within the class period	47
Claims confirmed and filed on behalf of LCPF	7
Claims potentially identified but subject to further review	5
Confirmation of no entitlement to join a class action	35

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.

The Pensions Regulator - New Investment Guidance for DB Schemes

In March 2017 the Pensions Regulator released new Investment Guidance for the Trustees of defined benefit pension schemes which is available from the Regulator's website <http://www.thepensionsregulator.gov.uk/guidance/db-investment.aspx>. The guidance provides assistance in meeting standards set out in Code of Practice 3 (The Defined Benefit Funding Code) and provides practical information and illustrative examples across six sections;

- Governance;
- Investing to Fund DB;
- Matching Assets;

- Growth Assets;
- Implementation and Monitoring.

Governance includes a sub-section on Investment Stewardship in which trustees are encouraged to consider how and by whom the ownership rights associated with their investments are being exercised.

Investing to Fund DB includes subsections relating to stewardship and responsible investment themes which the Committee may find useful, particularly those on developing investment beliefs, the consideration of financial and non-financial factors, sustainability, setting an appropriate investment strategy, understanding investment risks and monitoring.

It is notable that within the section on financial and non-financial factors the Regulator has clarified that where trustees think environmental, social and governance (ESG) factors or ethical issues are financially material, they should be taken into account when making investment decisions. Also of note are several practical which reference Funds who identify that climate risk has the potential to significantly affect the value of investments and wish to reflect this within their beliefs, strategies and approaches. Whilst the examples are theoretical rather than real world, the emphasis being given to climate change risk (through these reoccurring references) is interesting and new.

Manager monitoring includes examples which reference the approach to Responsible Investment and the actions taken to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making. The following suggestions are included for reporting requirements relating to stewardship;

- any ESG events / issues and any material changes to the ESG risks and opportunities in the portfolio;
- voting activity summary;
- engagement summary.

Principles of Responsible Investment – reflections on the 2017 reporting process

Since the Committee last met the Fund has formally reported against the Principles of Responsible Investment (PRI) for the first time. LCPF became a PRI signatory in March 2015 but has not reported against the framework previously (there being a grace period for the first 12 months of being a signatory). The annual reporting deadline is 31 March.

Annual reporting is undertaken entirely online. Responses have to be given to a detailed array of indicators designed to capture the Fund's overall approach and specific efforts and activities undertaken during the previous 12 months.

The document at **Appendix 1** is the Fund's full Transparency Report for 2017 which is the ultimate output of the reporting process.

Transparency Reports for each signatory are made publicly available from the PRI website following the assessment of annual reporting submissions. Each signatory will receive a confidential Assessment Report which confirms the PRI's scoring of their efforts against an underlying assessment methodology and their position relative to their peer group. We are advised by the PRI that this is likely to happen during June 2017.

This first experience of reporting has shown the process to be very detailed and to consume considerable time and effort. Explaining underlying contractual and procedural arrangements and providing detail on specific examples of activity is especially onerous

first time around but dedicating adequate time is essential as the Transparency Report which is made public is a composite of responses to more than 60 individual indicators.

Some specific learning points have arisen from the experience of working through the detailed reporting framework. One of the greatest difficulties was in clearly defining a demarcation between LCPF as an asset owner signatory and LPP as a provider who fits the PRI's definition of a fiduciary manager. It is LCPF rather than LPP which is the PRI signatory, but there are currently limited places in which the Fund formally sets out RI requirements and how they inform what is required of LPP in terms of stewardship activity and monitoring against this. For example the Fund's Statement of Investment Principles (SIP) which contained a level of detail on the Fund's preferred approach to RI was superseded by an Investment Strategy Statement in October 2016 which lacked this detail. Similarly, the timing of the redrafting of the Fund's statement of compliance with the UK Stewardship Code meant it could not be referred to in detail within the 2017 return.

PRI signatories are not aiming for compliance with a single formulaic approach. Arrangements must meet signatory needs and deliver processes matched to their underlying purpose and local investment beliefs. The PRI recognises that signatories will be at varying stages and will follow different methods for seeking to evolve their approach. Continuing to make progress is the core requirement. Consideration of the ways LCPF could seek to demonstrate it has defined its RI beliefs, set out expectations of LPP and is monitoring and holding LPP to account for delivery against these standards is a potentially fruitful way to demonstrate further progress over the next 12 months and something the Fund may wish to explore.

Statement of Compliance with the UK Stewardship Code

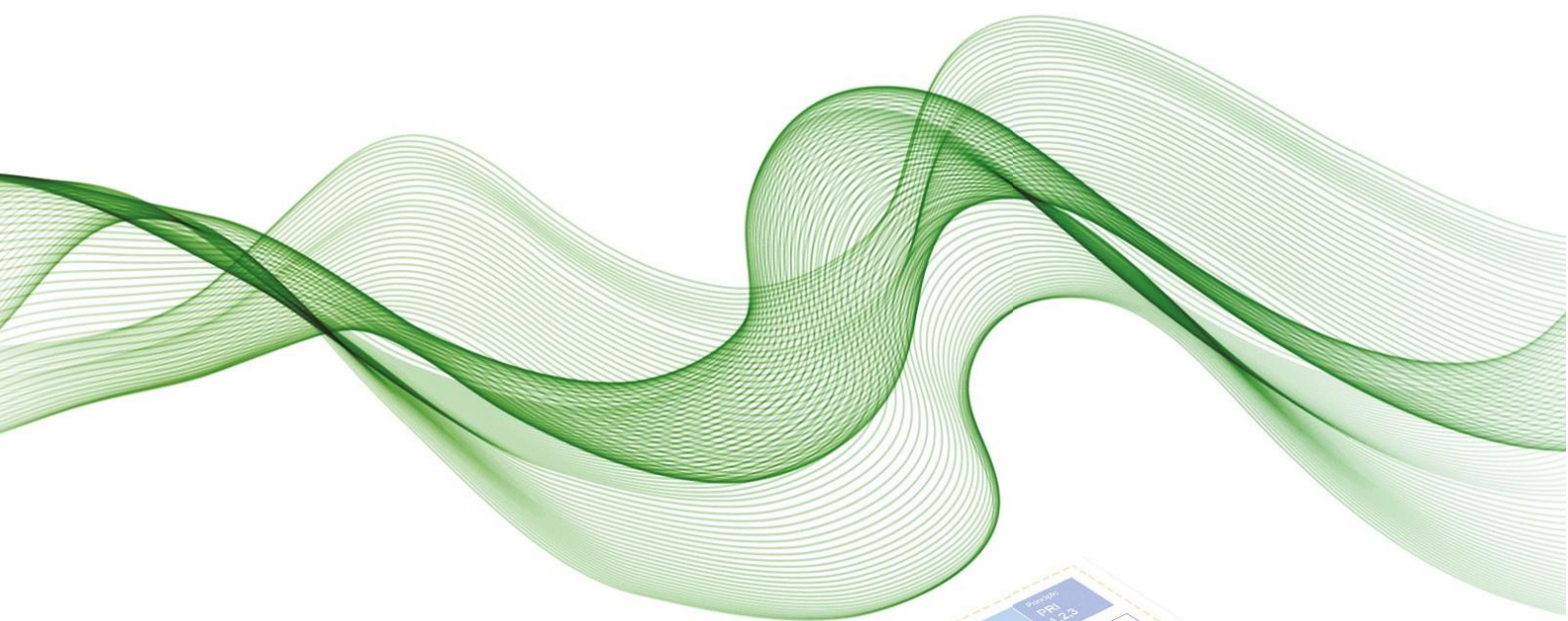
An updated statement of compliance with the UK Stewardship Code has been drafted for the Fund and submitted to the Financial Reporting Council for assessment. The need for an updated statement was twofold;

- to reflect the practical and regulatory changes which have accompanied the establishment of the Local Pensions Partnership and the transition to assets under pooled management arrangements;
- as part of the introduction of "tiering" by the FRC in 2016 to encourage greater detail and transparency of disclosure.

Under the FRC's new approach, signatories to the Code are tiered according to the quality of their disclosure against the seven principles of the Code and supporting guidance. Asset owner statements are categorised into one of two tiers, Tier 1 (high quality with transparent disclosure) or Tier 2 (satisfactory, improved transparency warranted).

A copy of the Fund's new statement of compliance appears at **Appendix 2**.

The Chair of the Pension Fund Committee approved the statement for submission to the FRC under the urgent business procedure after members of the Lancashire Local Pension Board had been given the opportunity to provide comments on an initial draft. The Committee will be advised about the outcome of the tiering decision once this has been communicated by the FRC. On the completion of the assessment process the Fund's new statement will be published on the FRC website and LCPF will be re-instated as a signatory to the Code.




LEA 02		Reason for interaction	
Type of engagement	Individual/ internal staff engagements	Collaborative engagements	Service provider engagements
Individual/ internal staff engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:
Collaborative engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:
Service provider engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to enhance corporate ESG disclosure <input type="checkbox"/> Other specify:

RI TRANSPARENCY REPORT

2017

Lancashire County Pension Fund

About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the [PRI website](#), ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2016 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six [Principles for Responsible Investment](#). It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
🔍	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Fixed income AUM breakdown	🔒	n/a							✓
OO 08	Segregated mandates or pooled funds	✓	Public							✓
OO 09	Breakdown of AUM by market	✓	Public							✓
OO 10	RI activities for listed equities	✓	Public							✓
OO 11	RI activities in other asset classes	✓	Public							✓
OO 12	Modules and sections required to complete	✓	n/a							✓
OO End	Module confirmation page	✓	-							

Strategy and Governance				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
SG 01	RI policy and coverage	✓	Public							✓
SG 02	Publicly available RI policy or guidance documents	✓	Public						✓	
SG 03	Conflicts of interest	✓	Public							✓
SG 04		✓	Public							✓
SG 05	RI goals and objectives	✓	Public							✓
SG 06	Main goals/objectives this year	✓	Public							✓
SG 07	RI roles and responsibilities	✓	Public							✓
SG 08	RI in performance management, reward and/or personal development	✓	Public							✓
SG 09	Collaborative organisations / initiatives	✓	Public				✓	✓		
SG 10	Promoting RI independently	✓	Public				✓			
SG 11	Dialogue with public policy makers or standard setters	✓	Public				✓	✓	✓	
SG 12	ESG issues in strategic asset allocation	✓	Public	✓						
SG 13	Long term investment risks and opportunity	✓	Public	✓						
SG 14	Allocation of assets to environmental and social themed areas	✓	Public	✓						
SG 15	ESG issues for internally managed assets not reported in framework	✓	Public							✓
SG 16	ESG issues for externally managed assets not reported in framework	✓	Public							✓
SG 17	Innovative features of approach to RI	✓	Public							✓
SG End	Module confirmation page	✓	-							

Indirect – Manager Selection, Appointment and Monitoring				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
SAM 01	Role of investment consultants/fiduciary managers	✓	Public				✓			
SAM 02	RI factors in selection, appointment and monitoring across asset classes	✓	Public	✓						
SAM 03	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public							✓
SAM 04	ESG incorporation strategies	✓	Public	✓	✓					
SAM 05	Selection processes (LE and FI)	✓	Public	✓						
SAM 06	Evaluating engagement and voting practices in manager selection (listed equity/fixed income)	✓	Public		✓					
SAM 07.1	Appointment processes (listed equity/fixed income)	✓	Public	✓						
SAM 07.2-5	Appointment processes (listed equity/fixed income)	✓	Public	✓						
SAM 08	Monitoring processes (listed equity/fixed income)	✓	Public	✓						
SAM 09	Monitoring on active ownership (listed equity/fixed income)	✓	Public	✓						
SAM 10	Percentage of (proxy) votes	⚙	n/a		✓					
SAM 11	Percentage of externally managed assets managed by PRI signatories	✓	Public	✓						
SAM 12	Examples of ESG issues in selection, appointment and monitoring processes	⚙	Public	✓					✓	
SAM 13	Disclosure of RI considerations	✓	Public						✓	
SAM End	Module confirmation page	✓	-							

Direct - Listed Equity Incorporation				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public							✓
LEI 02	Reporting on strategies that are <10% of actively managed listed equities	🔒	n/a							✓
LEI 03	Percentage of each incorporation strategy	✓	Public	✓						
LEI 04	Type of ESG information used in investment decision	✓	Public	✓						
LEI 05	Information from engagement and/or voting used in investment decision-making	✓	Public	✓						
LEI 06	Types of screening applied	🔒	n/a	✓						
LEI 07	Processes to ensure screening is based on robust analysis	🔒	n/a	✓						
LEI 08	Processes to ensure fund criteria are not breached	🔒	n/a	✓						
LEI 09	Types of sustainability thematic funds/mandates	🔒	n/a	✓						
LEI 10	Review ESG issues while researching companies/sectors	✓	Public	✓						
LEI 11	Processes to ensure integration is based on robust analysis	✓	Public	✓						
LEI 12	Aspects of analysis ESG information is integrated into	✓	Public	✓						
LEI 13	ESG issues in index construction	🔒	n/a	✓						
LEI 14	How ESG incorporation has influenced portfolio composition	-	n/a	✓						
LEI 15	Measurement of financial and ESG outcomes of ESG incorporation	-	n/a	✓						
LEI 16	Examples of ESG issues that affected your investment view / performance	-	n/a	✓						
LEI 17	Disclosure of approach to ESG incorporation	✓	Public		✓				✓	
LEI End	Module confirmation page	✓	-							

Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Public		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 04	Objectives for engagement activities	✓	Public		✓					
LEA 05	Process for identifying and prioritising collaborative engagement	✓	Public		✓					
LEA 06	Objectives for engagement activities	✓	Public		✓					
LEA 07	Role in engagement process	✓	Public		✓		✓			
LEA 08	Monitor / discuss service provider information	✓	Public		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Public	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	🔒	n/a		✓					
LEA 12	Engagement methods	🔒	Public		✓					
LEA 13	Engagements on E, S and/or G issues	🔒	n/a		✓					
LEA 14	Companies changing practices / behaviour following engagement	✓	Public		✓					
LEA 15	Examples of ESG engagements	✓	Public		✓					
LEA 16	Disclosure of approach to ESG engagements	✓	Public		✓				✓	
LEA 17	Voting policy & approach	🔒	n/a	✓	✓	✓				
LEA 18	Typical approach to (proxy) voting decisions	🔒	n/a		✓					
LEA 19	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 20	Confirmation of votes	🔒	n/a		✓					
LEA 21	Securities lending programme	🔒	n/a		✓					
LEA 22	Informing companies of the rationale of abstaining/voting against management	🔒	n/a		✓					
LEA 23	Percentage of (proxy) votes cast	🔒	n/a		✓					
LEA 24	Proportion of ballot items that were for/against/abstentions	🔒	n/a		✓					
LEA 25	Shareholder resolutions	🔒	n/a		✓					
LEA 26	Examples of (proxy) voting activities	🔒	n/a		✓					
LEA 27	Disclosing voting activities	🔒	n/a		✓				✓	
LEA End	Module confirmation page	✓	-							

Lancashire County Pension Fund

Reported Information

Public version

Organisational Overview

PRI disclaimer

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Basic Information

OO 01	Mandatory	Public	Gateway/Peering	General
-------	-----------	--------	-----------------	---------

OO 01.1 Select the type that best describes your organisation or the services you provide.

- ☒ Non-corporate pension or superannuation or retirement or provident fund or plan
- ☐ Corporate pension or superannuation or retirement or provident fund or plan
- ☐ Insurance company
- ☐ Foundation
- ☐ Endowment
- ☐ Development finance institution
- ☐ Reserve - sovereign or government controlled fund
- ☐ Family office
- ☐ Other, specify

OO 02	Mandatory	Public	Peering	General
-------	-----------	--------	---------	---------

OO 02.1 Select the location of your organisation's headquarters.

United Kingdom

OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- ☒ 1
- ☐ 2-5
- ☐ 6-10
- ☐ >10

OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

FTE

3

OO 02.4 Additional information. [Optional]

Lancashire County Pension Fund (LCPF) directly employs 3fte staff and receives a full range of pension services from the Local Pensions Partnership (LPP) which employs 100fte staff.

OO 03	Mandatory	Public	Descriptive	General
-------	-----------	--------	-------------	---------

OO 03.1

Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- ☐ Yes
☒ No

OO 04

Mandatory

Public

Gateway/Peering

General

OO 04.1

Indicate the year end date for your reporting year.

31/12/2016

OO 04.2

Indicate your total AUM at the end of your reporting year, excluding subsidiaries you have chosen not to report on.

	trillions	billions	millions	thousands	hundreds
Total AUM		6	887	849	525
Currency	GBP				
Assets in USD		8	769	647	863

OO 06

Mandatory

Public

Descriptive

General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

OO 06.1

How you would like to disclose your asset class mix.

- ☐ as percentage breakdown
☒ as broad ranges

	Internally managed (%)	Externally managed (%)
Listed equity	10-50%	10-50%
Fixed income	0	0
Private equity	0	<10%
Property	0	10-50%
Infrastructure	<10%	<10%
Commodities	0	0
Hedge funds	0	0

Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	0	<10%
Other (1), specify	<10%	10-50%
Other (2), specify	0	0

	'Other (1)' specified
--	-----------------------

Global Credit

OO 06.2	Publish our asset class mix as per attached image [Optional].
---------	---

OO 08	Mandatory to Report Voluntary to Disclose	Public	Peering	General
-------	---	--------	---------	---------

New selection options have been added to this indicator. Please review your prefilled responses carefully.

OO 08.1	Provide a breakdown of your organisation's externally managed assets between segregated mandates and pooled funds.
---------	--

Asset class breakdown	Segregated mandate(s)	Pooled fund(s)
[a] Listed equity	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50 %
[f] Private equity	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %
[g] Property	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %
[h] Infrastructure	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %
[n] Cash	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %
[o] Other (1), specify	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50 %	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50 %
Total externally managed assets	<i>Please ensure the entire table (both columns combined) totals to 100%</i>	

OO 09	Mandatory to Report Voluntary to Disclose	Public	Peering	General
-------	---	--------	---------	---------

OO 09.1	Indicate the breakdown of your organisation's AUM by market.
---------	--

Developed Markets	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50 %
Emerging, Frontier and Other Markets	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50 %
<i>Total</i>	<i>100%</i>

Gateway asset class implementation indicators

OO 10	Mandatory	Public	Gateway	General
-------	-----------	--------	---------	---------

OO 10.1

Select the direct or indirect ESG incorporation activities your organisation implemented for listed equities in the reporting year.

- ☒ We incorporate ESG in our investment decisions on our internally managed assets
- ☒ We address ESG incorporation in our external manager selection, appointment and/or monitoring processes
- ☐ We do not incorporate ESG in our directly managed listed equity and/or we do not address ESG incorporation in our external manager selection, appointment and/or monitoring processes.

OO 10.2

Select the direct or indirect engagement activities your organisation implemented for listed equity in the reporting year.

- ☒ We engage with companies on ESG factors via our staff, collaborations or service providers
- ☒ We require our external managers to engage with companies on ESG issues on our behalf
- ☐ We do not engage directly and do not require external managers to engage with companies on ESG factors.

OO 10.3

Select the direct or indirect voting activities your organisation implemented for listed equity in the reporting year

- ☐ We cast our (proxy) votes directly or via dedicated voting providers
- ☒ We require our external managers to vote on our behalf
- ☐ We do not cast our (proxy) votes directly and do not require external managers to vote on our behalf

OO 11	Mandatory	Public	Gateway	General
-------	-----------	--------	---------	---------

OO 11.1

Select the internally managed asset classes in which you addressed ESG incorporation into your investment decisions and/or your active ownership practices (during the reporting year).

- ☒ Infrastructure
- ☒ Other (1)
- ☐ None of the above

	'Other (1)' [as defined in OO 05]
--	-----------------------------------

Global Credit

OO 11.2	Select the externally managed assets classes where you addressed ESG incorporation and/or active ownership in your external manager selection, appointment and/or monitoring processes (during the reporting year)
----------------	--

- ☒ Private equity
- ☒ Property
- ☒ Infrastructure
- ☐ Cash
- ☒ Other (1)
- ☐ None of the above

	'Other (1)' [as defined in OO 05]
--	-----------------------------------

Global Credit

Lancashire County Pension Fund

Reported Information

Public version

Strategy and Governance

PRI disclaimer

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Investment policy

SG 01

Mandatory

Public

Core Assessed

General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1

Indicate if you have an investment policy that covers your responsible investment approach.

☒ Yes

SG 01.2

Indicate the components/types and coverage of your policy.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input type="checkbox"/> Formalised guidelines on environmental factors <input type="checkbox"/> Formalised guidelines on social factors <input type="checkbox"/> Formalised guidelines on corporate governance factors <input type="checkbox"/> Asset class-specific RI guidelines <input type="checkbox"/> Sector specific RI guidelines <input checked="" type="checkbox"/> Screening / exclusions policy <input checked="" type="checkbox"/> Engagement policy <input checked="" type="checkbox"/> (Proxy) voting policy <input type="checkbox"/> Other, specify (1) <input type="checkbox"/> Other, specify(2)	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

SG 01.3

Indicate if the investment policy covers any of the following

- ☒ Your organisation's definition of ESG and/or responsible investment and it's relation to investments
- ☒ Your investment objectives that take ESG factors/real economy influence into account
- ☒ Processes / approaches to incorporating ESG
- ☒ Time horizon of your investment
- ☐ Governance structure of organisational ESG responsibilities
- ☒ ESG incorporation approaches
- ☒ Active ownership approaches
- ☐ Reporting
- ☐ Other RI considerations, specify (1)
- ☐ Other RI considerations, specify (2)

SG 01.4

Indicate what norms you have used to develop your investment policy that covers your responsible investment approach.

- ☐ UN Global Compact Principles
- ☐ UN Guiding Principles on Business and Human Rights
- ☐ Universal Declaration of Human Rights
- ☐ International Bill of Human Rights
- ☐ International Labour Organization Conventions
- ☐ United Nations Convention Against Corruption
- ☐ OECD Guidelines for Multinational Enterprises
- ☒ Other, specify (1)

other (1) description

The Fund is a member of LAPFF whose policies are based on law, regulation, codes and policies relevant to responsible investment (reflecting all above norms).

- ☐ Other, specify (2)
- ☐ Other, specify (3)
- ☐ None of the above

SG 01.5

Describe your organisation's investment principles, and overall investment strategy, and how they consider ESG factors and real economy impact.

Investment Objectives

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due.

In order to meet this overriding objective the Pension Fund Committee maintains an investment policy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;

The Fund will use its influence as a large institutional investor to encourage responsible long-term behaviour in the enterprises in which it invests.

☐ No

SG 02**Mandatory****Public****Core Assessed****PRI 6**

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 02.1

Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.

- ☒ Policy setting out your overall approach

URL/Attachment

☒ URL

URL

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

☒ Attachment (will be made public)

Attachment

[Lancashire County Pension Fund Strategy Statement 2016.pdf](#)

☐ Screening / exclusions policy

☐ Engagement policy

☒ (Proxy) voting policy

URL/Attachment

☒ URL

URL

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

☒ Attachment (will be made public)

Attachment

[Lancashire County Pension Fund Strategy Statement 2016.pdf](#)

☐ We do not publicly disclose our investment policy documents

SG 02.2	Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.
----------------	---

☒ Your organisation's definition of ESG and/or responsible investment and it's relation to investments

URL/Attachment

☒ URL

	URL
--	-----

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

☐ Attachment

☒ Your investment objectives that take ESG factors/real economy influence into account

	URL/Attachment
--	----------------

☒ URL

	URL
--	-----

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

☐ Attachment

☒ Processes / approaches to incorporating ESG

	URL/Attachment
--	----------------

☒ URL

	URL
--	-----

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

☐ Attachment

☐ Time horizon of your investment

☒ ESG incorporation approaches

	URL/Attachment
--	----------------

☒ URL

	URL
--	-----

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

☐ Attachment

☒ Active ownership approaches

	URL/Attachment
--	----------------

☒ URL

URL

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

☐ Attachment

☐ We do not publicly disclose any investment policy components

SG 02.3

Indicate if your organisation's investment principles, and overall investment strategy is publicly available

☒ Yes

Url

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

☐ No

SG 02.4

Additional information [Optional].

Under the Local Government Pensions Scheme (LGPS) Investment Regulations 2016 which came into force on 1st November 2016 it became a requirement for every Local Government Pension Fund to publish an Investment Strategy Statement (ISS).

ISSs have taken the place of Statements of Investment Principles (SIPs) and have been introduced to accommodate asset pooling between LGPS Funds.

Lancashire County Pension Fund published its first ISS in October 2016. The statement is available from the Fund's website along with the SIP it superceded plus a range of other documents which provide additional detail and context on the Fund's approach to governance and stewardship as part of responsible investment.

SG 03

Mandatory

Public

Core Assessed

General

SG 03.1

Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.

☒ Yes

SG 03.2

Describe your policy on managing potential conflicts of interest in the investment process.

Lancashire County Pension Fund is administered by Lancashire County Council.

Under the cabinet structure within local government, management of the pension fund is a non-executive function. Decision making on Investment Strategy is by a Pension Fund Committee comprising 14 County Councillors and 7 voting co-optees which reports directly to Full Council and is supported by a Head of Fund as responsible officer.

Potential conflicts of interest are managed in accordance with the County Council's Code of Conduct for Elected Members and its Code of Conduct for Employees.

The approach is to ensure Members (and the officers and advisors supporting them) have a clear understanding of what a potential conflict of interest is, how such conflicts may arise, and what they must do to ensure that no actual conflict materialises.

All members of the Pension Fund Committee are required to submit a formal record of their interests on an annual basis and to declare any interests which relate to forthcoming items of business. Where an interest exists in any upcoming item of business at a Committee meeting an independent assessment will be made

of the materiality of the interest and the appropriateness of excluding the person from participation in a decision.

☐ No

SG 03.3	Additional information. [Optional]
----------------	------------------------------------

The Local Pensions Partnership is the Fund's provider of investment management services.

Local Pensions Partnership Investments Limited (LPP I) is responsible for putting the Fund's investment strategy into implementation. LPP I is an FCA regulated entity with a Conflicts of Interest Policy which establishes the parameters of good governance in the management of conflicts.

The Policy identifies the types of conflicts and potential conflicts which may arise and the approach to managing these through robust governance arrangements which include segregation of functions, conflict management controls and an annual disclosure of interests protocol.

SG 04	Voluntary	Public	Descriptive	General
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SG 04.1	Indicate if your organisation has a process for identifying and managing incidents that occur within portfolio companies.
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☐ Yes

☒ No

SG 04.2	Describe your process on managing incidents
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The Fund does not identify incidents directly but its provider of investment management services has a monitoring process.

Local Pensions Partnership Investments Limited routinely tracks issues with investee companies in order to identify those requiring management. Monitoring includes the consideration of ESG issues and if a material matter arises it will trigger a conversation with the external manager seeking their insight and involvement or prompt further research which may result in contact with the company concerned.

Objectives and strategies

SG 05	Mandatory	Public	Gateway/Core Assessed	General
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SG 05.1	Indicate if and how frequently your organisation sets and reviews objectives for its responsible investment activities.
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- ☐ Quarterly or more frequently
- ☐ Biannually
- ☐ Annually
- ☐ Less frequently than annually
- ☒ Ad-hoc basis
- ☐ It is not reviewed

SG 05.2	Additional information. [Optional]
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Whilst the Pension Fund Committee receives a report from LPP on Responsible Investment activity on a quarterly basis the review of underlying objectives is undertaken on an adhoc basis in response to unfolding events and with the benefit of evolving insight.

As a member of the Local Authority Pension Fund Forum the Fund participates in LAPFFs annual review of the objectives for its RI activities. The Fund contributes to the agreement of the Forum's annual workplan and the review of its RI Policies and Guides.

SG 06	Voluntary	Public	Descriptive	General
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SG 06.1	List the main responsible investment objectives that your organisation set for the reporting year.
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	Responsible investment processes
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- ☐ Provide training on ESG incorporation
- ☐ Provide training on ESG engagement
- ☐ Improved communication of ESG activities within the organisation
- ☐ Improved engagement to encourage change with regards to management of ESG issues
- ☐ Improved ESG incorporation into investment decision making processes
- ☒ Other, specify (1)

Launching the Local Pensions Partnership with the London Pensions Fund Authority and building RI into new management and investment arrangements as part of pooling.

	Key performance indicator
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The inclusion of stewardship and responsible investment requirements within the Advisory and Management Agreement with LPP Investments Ltd as the Fund's investment manager.

	Progress achieved
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Achieved in full.

The Advisory and Management Agreement (AMA) with Local Pensions Partnership Investments Ltd includes a formal requirement for LPP to support the Fund as a responsible investor and to deliver and report against the commitments the Fund has made as a signatory to the PRI.

The LPP I Responsible Investment Policy explains the approach to stewardship through which our investment strategy is put into implementation and includes specific reference to the PRI Principles.

- ☐ Other, specify (2)
- ☐ Other, specify (3)

	Financial performance of investments
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- ☐ Increase portfolio performance by consideration of ESG factors
- ☐ Other, specify (1)
- ☐ Other, specify (2)
- ☐ Other, specify (3)

ESG characteristics of investments

- ☐ Over or underweight companies based on ESG characteristics
- ☐ Improve ESG ratings of portfolio
- ☐ Setting carbon reduction targets for portfolio
- ☐ Other, specify (1)
- ☐ Other, specify (2)
- ☐ Other, specify (3)

Other activities

- ☒ Joining and/or participation in RI initiatives

Key performance indicator

Represented at the Local Authority Pension Fund Forum (via quarterly Business Meetings and the Annual Conference) and influencing the Forum's work plan and focus.

Progress achieved

Achieved in full through the offices of the Responsible Investment Manager (LPP) who has attended business meetings, drafted responses to surveys and consultations, liaised with the Forum and its officers and submitted suggestions for the inclusion of new ideas within the evolving workplan.

The Fund's membership of LAPFF is one of the main routes for exercising ownership influence in collaboration with other investors. It is a priority for the Fund to remain connected with the Forum, informed about its initiatives and supportive of its work in order to ensure our interests are being represented and met.

- ☐ Encouraging others to join a RI initiative
- ☐ Documentation of best practice case studies
- ☐ Using case studies to demonstrate engagement and ESG incorporation to clients
- ☐ Other, specify (1)
- ☐ Other, specify (2)
- ☐ Other, specify (3)

SG 06.2	Additional information.
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The government's pooling agenda for Local Government Pension Schemes has accelerated joint working between funds and prompted the creation of a Cross Pool Collaboration Group (CPCG) to share insight between the emerging pools.

A Responsible Investment sub-group to the CPCG has been formed to ensure each pool is giving due consideration to stewardship and ESG matters and RI practitioners are linking with each other, sharing expertise and working collaboratively to increase the RI focus of LGPS funds who are less developed in this area.

The Local Pensions Partnership has been present at each of the RI Sub-group meetings, representing the Lancashire Fund and LPFA, creating links with other funds and meeting jointly with representative bodies including the Financial Reporting Council and the DCLG.

Governance and human resources

SG 07	Mandatory	Public	Core Assessed	General
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SG 07.1	Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.
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	Roles present in your organisation
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- ☒ Board members or trustees
 - ☒ Oversight/accountability for responsible investment
 - ☐ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
- ☒ Other Chief-level staff or head of department, specify
 - Head of Fund**
 - ☒ Oversight/accountability for responsible investment
 - ☐ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Portfolio managers
- ☐ Investment analysts
- ☐ Dedicated responsible investment staff
- ☒ External managers or service providers
 - ☒ Oversight/accountability for responsible investment
 - ☒ Implementation of responsible investment
 - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Investor relations
- ☐ Other role, specify (1)
- ☐ Other role, specify (2)

SG 07.2	For the roles for which you have RI oversight/accountability or implementation responsibilities, indicate how you execute these responsibilities.
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Pension Fund Committee (Oversight)

The Pension Fund Committee fulfils the responsibilities of Lancashire County Council as the Administering Authority for the Lancashire County Pension Fund. Committee members are jointly responsible for ensuring appropriate arrangements are in place for the effective stewardship of the Fund's assets including the exercise of any ownership rights (including voting rights) attached to investments and the approach to taking environmental, social and governance (ESG) considerations into account as part of decision-making.

The Committee sets the tenor and agrees the terms of the Fund's relationship with its provider of investment management services the Local Pensions Partnership (LPP). The Fund's stewardship requirements have been set out formally within an Advisory and Management Agreement (AMA) and within an Investment Strategy Statement (ISS) which describe the Fund's approach and the standards they require.

The Committee receives regular reports on Responsible Investment activities from LPP as part of monitoring the practical execution of the stewardship activities undertaken on its behalf. This includes a quarterly report on shareholder voting.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and of the Pensions and Lifetime Savings Association which represent and advocate proactively on behalf of Pension Funds as long term investors. The insight and best practice shared by these organisations help to enrich and update the Fund's approach and also signpost to potential collaborations and joint investor actions they may wish to join.

Head of Fund (Oversight)

The Head of Fund supports the Pension Fund Committee members in setting standards for stewardship and liaises directly with LPP on its approach to execution, both to ensure standards are being applied and in response to any specific questions from Committee members and stakeholders.

External Managers/Service Providers (Implementation)

The Fund's approach to stewardship (including the requirements identified within the AMA and ISS) is implemented in practice by LPP. This is done in line with the LPP Responsible Investment Policy which describes the beliefs, standards, procedures and activities through which the fiduciary responsibilities of client pension funds will be fulfilled. The Policy explicitly recognises the requirement to comply with the principles UK Stewardship Code and to deliver against the commitments of clients who are signatories to the PRI.

The arrangements for oversight and implementation of responsible investment by LPP include the following:

- Stewardship Committee chaired by the LPP I Chief Investment Officer which meets quarterly
- Dedicated Responsible Investment Manager
- Internal Portfolio Managers responsible for the integration of ESG within due diligence and active ownership practices

The Fund is a beneficial owner of shares in listed companies through its investment in a Global Equities Pool managed by LPP. The arrangements for voting all shares within the pool are overseen centrally by LPP. Votes are executed by an external provider of proxy voting services in line with an agreed voting policy unless LPP instructs a different stance. The Fund receives quarterly reports from LPP on shareholder voting.

Wider ownership responsibilities are exercised by LPP through monitoring and engagement focussed on identifying material issues and considering them in light of long term shareholder interests and the circumstances at play within individual companies rather formulaically. LPP portfolio Managers and Analysts use a range of information sources to gain insight on ESG issues at individual companies and to identify areas of risk or issues of concern for follow-up.

Where LPP appoint external managers the approach to stewardship and ESG is considered as part of manager selection. External managers are required to support the Fund's commitment to RI and to help it fulfil and report against the 6 principles.

LPP actively seeks opportunities for collaboration with other investors as part of trying to gain maximum impact from stewardship resources. New insights are gained through linking into broader networks in order to learn from others. Opportunities to act collectively are supported where they are likely to achieve a greater influence than acting alone would do and when they directly address the long term interests of pension fund beneficiaries.

SG 07.3	Indicate the number of dedicated responsible investment staff your organisation has.			
	Number			
0				
SG 07.4	Additional information. [Optional]			
<p>The Local Pensions Partnership (LPP Investments Ltd) has a dedicated Responsible Investment Manager who supports the Fund in this area, through sharing expertise and insight, developing policy and practice, linking with wider networks and initiatives, leading on the delivery of stewardship and RI activities and monitoring and reporting on progress.</p> <p>The RI Manager sits on the Stewardship Committee, is a member of the Investment Team and reports to the Chief Investment Officer.</p>				
08	Voluntary	Public	Additional Assessed	General
SG 08.1	Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.			

Board members/Board of trustees

- ☒ Responsible investment included in personal development and/or training plan

SG 08.2

Describe any activities undertaken during the reporting year to develop and maintain Board members' skills and knowledge in relation to responsible investment.

At the request of the Fund, Local Pensions Partnership Investments Ltd delivered a workshop on Responsible Investment to members of the Pension Fund Committee and Local Pension Board (December 2016). The session helped to interpret changes brought about by the new LGPS Investment Regulations and by LGPS asset pooling. It also encouraged a focus on the needs of the Fund as an asset owner receiving services from a dedicated provider of investment management services.

The Pension Fund Committee is receiving quarterly reports on the Responsible Investment activity undertaken on its behalf by the Local Pensions Partnership which provide an opportunity for asking questions and considering further objectives.

Members of the Pension Fund Committee are encouraged to identify and attend external conferences and events which can help to expand their insight and experience.

During the reporting year the Committee sent delegates to the Local Authority Pension Fund Forum's Annual Conference where they networked with other LGPS funds and considered stewardship issues as part of asset pooling. In particular this flagged up how the Fund's status as an asset owner might change (to become beneficial rather than direct) and highlighted the importance of specifying the Fund's stewardship requirements to investment providers.

- ☐ None of the above

Other C-level staff or head of department

Head of Fund

- ☐ Responsible investment KPIs and/or goals included in objectives
- ☐ Responsible investment included in appraisal process
- ☐ Variable pay linked to responsible investment performance
- ☐ Responsible investment included in personal development and/or training plan
- ☒ None of the above

SG 08.3

Provide any additional information on your organisation's performance management, reward and/or personal development processes in relation to responsible investment.

The Head of Fund provides direct support to the Pension Fund Committee and encourages members to gain the knowledge and insight required to fulfil their joint responsibility for operating effective stewardship arrangements on behalf of the Fund and its beneficiaries.

SG 08.4

Describe the level of experience board members/trustees/chief-level staff have with incorporating ESG factors into investment decision-making processes.

Members of the Pension Fund Committee and the Head of Fund have a good understanding of the rationale for Responsible Investment and the importance of incorporating ESG factors into investment decision-making. The Fund took the decision to become a signatory to the PRI on the basis of this insight and conviction. LPP's Responsible Investment Policy has recently given members additional detail and context which has reconfirmed the relevance of ESG factors to the Fund's long term investment horizon and reinforced that ESG issues are a material financial concern for Pension Funds.

Promoting responsible investment

SG 09

Mandatory

Public

Core Assessed

PRI 4,5

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 09.1

Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

☒ Principles for Responsible Investment

Your organisation's role in the initiative during the reporting period (see definitions)

- ☒ Basic
☐ Moderate
☐ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.
[Optional]

The Fund is a relatively new signatory to the PRI and is reporting against the principles for the first time in 2017.

During the reporting year the Fund has responded to a detailed PRI consultation (Sustainable Financial System, Principles, Impact - JUNE 2016) which was launched in order to inform the Blueprint for Responsible Investment.

- ☐ AFIC – La Commission ESG
- ☐ Asian Corporate Governance Association
- ☐ Australian Council of Superannuation Investors
- ☐ BVCA – Responsible Investment Advisory Board
- ☐ CDP Climate Change
- ☐ CDP Forests
- ☐ CDP Water
- ☐ CFA Institute Centre for Financial Market Integrity
- ☐ Code for Responsible Investment in SA (CRISA)
- ☐ Code for Responsible Finance in the 21st Century
- ☐ Council of Institutional Investors (CII)
- ☐ ESG Research Australia
- ☐ Eumedion
- ☐ EVCA – Responsible Investment Roundtable
- ☐ Extractive Industries Transparency Initiative (EITI)
- ☐ Global Investors Governance Network (GIGN)
- ☐ Global Impact Investing Network (GIIN)
- ☐ Global Real Estate Sustainability Benchmark (GRESB)
- ☐ Green Bond Principles
- ☐ Institutional Investors Group on Climate Change (IIGCC)
- ☐ Interfaith Center on Corporate Responsibility (ICCR)
- ☐ International Corporate Governance Network (ICGN)
- ☐ Investor Group on Climate Change, Australia/New Zealand (IGCC)
- ☐ International Integrated Reporting Council (IIRC)
- ☐ Investor Network on Climate Risk (INCR)/CERES
- ☒ Local Authority Pension Fund Forum

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
- ☒ Moderate
- ☐ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.
[Optional]

The Fund has attended the AGM and quarterly business meetings of LAPFF and also sent delegates to the annual conference. The Fund has responded to questionnaires, provided feedback on specific questions, supplied holdings information and offered insight on potential new initiatives and the extent to which these would assist the Fund as an asset owner.

The Fund has sent delegates to seminars organised by LAPFF and offered opinion on the future shape of LAPFF as it evolves to accommodate asset pooling within the LGPS.

- ☐ Principles for Sustainable Insurance
- ☐ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify
- ☐ Responsible Finance Principles in Inclusive Finance
- ☐ Shareholder Association for Research and Education (Share)
- ☐ United Nations Environmental Program Finance Initiative (UNEP FI)
- ☐ United Nations Global Compact
- ☒ Other collaborative organisation/initiative, specify

The Fund has shared insight with members of the UK Pension Fund Responsible Investment Roundtable Group

Your organisation's role in the initiative during the reporting year (see definitions)

- ☒ Basic
- ☐ Moderate
- ☐ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

The UK Pension Fund Responsible Investment Roundtable Group is an informal association of UK Pension Funds who are seeking to learn from each other and to act collaboratively on issues of shared concern. The Fund joined the group shortly before pooling its assets with LPFA to form the Local Pensions Partnership in April 2016. Participation was focussed primarily on learning from other funds with a more developed approach to RI and identifying issues on which it could share insight and ideas and contribute to mutually beneficial goals.

Since the launch of the Local Pensions Partnership the Fund's membership of the group has transitioned over to the Responsible Investment Manager (LPP) who is actively participating in events and supporting developing initiatives around joint engagement efforts.

- ☐ Other collaborative organisation/initiative, specify
- ☐ Other collaborative organisation/initiative, specify
- ☐ Other collaborative organisation/initiative, specify

SG 10	Mandatory	Public	Core Assessed	PRI 4
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SG 10.1

Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

- ☒ Yes

SG 10.2

Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.

- ☐ Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations
- ☒ Provided financial support for academic or industry research on responsible investment
- ☐ Encouraged better transparency and disclosure of responsible investment practices across the investment industry
- ☐ Spoke publicly at events and conferences to promote responsible investment
- ☐ Wrote and published in-house research papers on responsible investment
- ☐ Encouraged the adoption of the PRI
- ☐ Wrote articles on responsible investment in the media.
- ☐ Other, specify

☐ No

SG 10.3

Describe any additional actions and initiatives that your organisation has taken part in during the reporting year to promote responsible investment [Optional]

The Fund was a founding authority for the LGPS National Procurement Framework for Stewardship and ESG Services during 2016.

The framework is designed to enable LGPS (and potentially other public sector pension funds) to access service providers able to support their core stewardship needs (Voting, engagement, analytics and research/special projects). In providing support to the development of the framework the Fund has contributed to ensuring small funds with limited resources can more easily contract with providers who have been quality assured and have indicated how they are able to offer added value to clients using the framework to procure services.

SG 11	Voluntary	Public	Additional Assessed	PRI 4,5,6
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SG 11.1

Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or regulators in support of responsible investment in the reporting year.

- ☒ Yes
 - ☐ Yes, individually
 - ☒ Yes, in collaboration with others

SG 11.2

Select the methods you have used.

- ☐ Endorsed written submissions to governments, regulators or public policy-makers developed by others
- ☐ Drafted your own written submissions to governments, regulators or public-policy markers
- ☒ Participated in face-to-face meetings with government members or officials to discuss policy
- ☐ Other, specify

SG 11.3

Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.

- ☐ Yes, publicly available
- ☒ No
- ☐ No

SG 11.4	Provide a brief description of the main topics your organisation has engaged with public policy-makers or regulators on.
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The Fund has endorsed LAPFF's work on climate change (shareholder resolutions - Aiming for A).

Through the RI Subgroup to the LGPS Cross Pool Collaboration Group, the Fund has contributed thoughts and insight into the DCLG's development of guidance on Stewardship and Responsible Investment as part of the new requirement for Funds to publish Investment Strategy Statements.

Implementation not in other modules

SG 12	Mandatory	Public	Descriptive	PRI 1
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 12.1	Indicate if your organisation executes scenario analysis and/or modelling in which the risk profile of future ESG trends at portfolio level is calculated.
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- ☐ We execute scenario analysis which includes factors representing the investment impacts of future environmental trends
- ☐ We execute scenario analysis which includes factors representing the investment impacts of future social trends
- ☐ We execute scenario analysis which includes factors representing the investment impacts of future governance trends
- ☐ We execute other scenario analysis, specify
- ☒ We do not execute such scenario analysis and/or modelling

SG 12.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
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- ☐ We do the following
- ☒ We do not consider ESG issues in strategic asset allocation

SG 13	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1
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SG 13.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following you act on.
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- ☐ Changing demographics
- ☒ Climate change

SG 13.2

Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

- ☐ Established a climate change sensitive or climate change integrated asset allocation strategy
- ☒ Targeted low carbon or climate resilient investments
- ☐ Reduced portfolio exposure to emissions intensive or fossil fuel holdings
- ☐ Used emissions data or analysis to inform investment decision making
- ☐ Sought climate change integration by companies
- ☐ Sought climate supportive policy from governments
- ☐ Other, specify
- ☐ None of the above

SG 13.3

Indicate which of the following tools you use to manage emissions risks and opportunities

- ☐ Carbon footprinting
- ☐ Scenario testing
- ☐ Disclosure on emissions risk to clients/trustees/management/beneficiaries
- ☐ Target setting for emissions risk reduction
- ☐ Encourage internal and/or external portfolio managers to monitor emissions risk
- ☐ Emissions risk monitoring and reporting are formalised into contracts when appointing managers
- ☐ Other, specify
- ☒ None of the above

Please explain why not

LPP are currently looking at the tools and metrics available to identify the level of exposure faced through the listed equities asset class. This is a next step for the Fund and has been awaiting the pooling of listed equities with the London Pensions Fund Authority to create the Global Equities Pool managed by LPP which was launched on 1st November 2016.

- ☐ Resource scarcity
- ☐ Technology developments
- ☐ Other, specify(1)
- ☐ Other, specify(2)
- ☐ None of the above

SG 14

Mandatory to Report Voluntary to Disclose

Public

Descriptive

PRI 1

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 14.1

Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

- ☐ Yes
- ☒ No

SG 15	Mandatory	Public	Descriptive	General
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SG 15.1	Describe how you address ESG issues for internally managed assets for which a specific PRI asset class module has yet to be developed or for which you are not required to report because your assets are below the minimum threshold.			
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DRAFT

Asset Class	Describe what processes are in place and the outputs or outcomes achieved
Listed equity - (proxy) voting	<p>The Local Pensions Partnership (LPP) is the Fund's provider of investment management services.</p> <p>The totality of the Fund's investment in listed equities is via a Global Equities Pool managed by LPP.</p> <p>Shareholder voting is managed centrally by LPP to ensure a consistent approach across the portfolio. An external provider of proxy voting services oversees ballot management and vote execution.</p> <p>Voting is in line with a baseline voting policy unless LPP identifies circumstances in which an alternative stance is more appropriate, in which case it will instruct a different vote. LPP reviews upcoming meetings for issues where it is appropriate to support shareholder resolutions or to oppose management recommendations to protect the long term financial interests of client funds as investors.</p> <p>Shareholder voting is an important route for exercising ownership responsibilities and seeking to influence companies to adopt high standards of corporate governance and develop sustainable business practices.</p> <p>A quarterly review of voting is a standing agenda item for the LPP Stewardship Committee both as a basis for identifying themes, trends and issues for follow-up with managers and providing summary information to the Fund on voting undertaken within the period.</p>
Infrastructure	<p>The Fund's portfolio of infrastructure investments includes direct investments managed internally by Local Pensions Partnership Investments Ltd (LPP I).</p> <p>LPP I has procedures in place for ensuring that the commitment (set out within its Responsible Investment Policy) to incorporate ESG issues into investment analysis and decision-making processes is being fulfilled in practice across all asset classes.</p> <p>The LPP I Investment Governance and Due Diligence Procedure directs how the firm will perform due diligence in the selection and ongoing monitoring of investments. It is a requirement under this procedure for all due diligence to routinely include the consideration of ESG matters. Due diligence will reflect the time horizon over which an investment is likely to extend which in the case of direct investments in infrastructure may involve a significant period of association which has different risk implications to investments of shorter duration but the potential for exerting greater influence.</p> <p>Post investment ESG issues will be raised as part of regular conversations with investee companies and may also be addressed as part of LPPI's representation on a company's board (through a directorship or observer status).</p>
Other (1) [as defined in Organisational Overview module]	<p>The Fund's portfolio of investments in Global Credit includes some investments managed directly (internally) by Local Pensions Partnership Investments Ltd (LPP I).</p> <p>Local Pensions Partnership Investments Ltd (LPP I) has procedures in place for ensuring that the commitment (set out within its Responsible Investment Policy) to incorporate ESG issues into investment analysis and decision-making processes is being fulfilled in practice across all asset classes.</p> <p>The LPP I Investment Governance and Due Diligence Procedure directs how the firm will perform due diligence in the selection and ongoing monitoring of investments. It is a requirement under this procedure for all due diligence to routinely include the consideration of ESG matters.</p> <p>Due diligence will reflect the time horizon over which the investment will extend and the risk associated with the business in this period, including its planning for the future.</p> <p>Post investment ESG issues will be raised as part of regular conversations with investee companies and may also be addressed as part of LPPI's representation on a company's board (through a directorship or observer status).</p>

SG 16	Mandatory	Public	Descriptive	General
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SG 16.1	Describe how you address ESG issues for externally managed assets for which a specific PRI asset class module has yet to be developed or for which you are not required to report because your assets are below the minimum threshold.
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Asset Class	Describe what processes are in place and the outputs or outcomes achieved
Private equity	<p>The Fund's portfolio of private equity investments comprises funds managed by external GPs who are monitored and overseen by LPP. All new investments entered into since the launch of LPP in April 2016 have included consideration of the GP's approach to RI/ESG as part of the due diligence leading to manager selection.</p> <p>Manager monitoring routinely includes the discussion of any material ESG issues arising and how these are being addressed by the manager concerned.</p> <p>Where LPP separately identifies ESG issues within the companies in which it has interests via PE funds these are raised with the GP concerned.</p>
Infrastructure	<p>The Fund's portfolio of infrastructure investments comprises funds managed by external GPs, co-investment projects and direct investments managed internally by the Local Pensions Partnership Investments Ltd.</p> <p>For externally managed assets ESG issues are addressed as part of manager selection and as part of the detailed due diligence undertaken prior to making the decision to invest.</p> <p>The identification of post investment ESG issues forms part of the ongoing process of monitoring which feeds into regular conversations with fund managers. In addition, dialogue may take place through LPP's representation on GP advisory boards.</p>
Other (1) [as defined in Organisational Overview module]	<p>The Fund's externally managed investments in Global Credit are via funds managed by GPs who are monitored and overseen by Local Pensions Partnership Investments Ltd. All investments entered into since the launch of LPP in April 2016 have incorporated the identification of any material ESG issues as part of the due diligence leading to manager selection.</p> <p>Manager monitoring includes the discussion of any material ESG issues arising and how these are being addressed by the manager concerned.</p> <p>Where LPP separately identifies material ESG issues or concerns these are raised with the GP.</p>

Innovation

SG 17	Voluntary	Public	Descriptive	General
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SG 17.1	Indicate whether any specific features of your approach to responsible investment are particularly innovative.
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- ☐ Yes
☒ No

Lancashire County Pension Fund

Reported Information

Public version

Indirect – Manager Selection, Appointment and Monitoring

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Overview

SAM 01	Mandatory	Public	Core Assessed	PRI 4
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

SAM 01.1 Indicate whether your organisation uses investment consultants and/or fiduciary managers.

- ☐ Yes, we use investment consultants
- ☒ Yes, we use a fiduciary manager that delegates management of some or all of our assets to third-party managers.

SAM 01.4 Indicate if your organisation considers responsible investment in the monitoring processes for fiduciary managers.

- ☒ Responsible investment is considered when monitoring our fiduciary manager

SAM 01.5 Indicate whether your organisation considers any of the following responsible investment factors in the monitoring of fiduciary managers

- ☐ Including responsible investment as a standard agenda item at performance review meetings
- ☒ Discussing whether the manager has acted in accordance with your overall investment beliefs on responsible investment and ESG factors
- ☒ Discussing whether the manager has acted in accordance with your organisation's overall strategy on responsible investment and ESG factors
- ☒ Discussing whether the manager has acted in accordance with your organisation's overall policy on responsible investment and ESG factors
- ☐ Reviewing the manager's PRI Transparency or Assessment reports
- ☐ Reviewing the manager's responsible investment reporting (excluding PRI generated reports)
- ☐ Reviewing ESG characteristics of the portfolio
- ☐ Reviewing the impact of ESG factors on financial performance
- ☐ Encouraging your managers to consider joining responsible investment initiatives/organisations or participate in collaborative projects with other investors
- ☐ Including responsible investment criteria as a formal component of overall manager performance evaluation
- ☐ Other general aspects of your monitoring; specify

SAM 01.6 Describe the approach you take to monitoring your fiduciary managers and the reason(s) for this approach [Optional].

The Pension Fund Committee receives quarterly reports on Responsible Investment activity from Local Pensions Partnership Investments Ltd (as their provider of Investment Management Services).

Reports address the approach the Committee has set for stewardship and Responsible Investment within their Investment Strategy Statement plus any additional priorities identified for action.

LPP I's Responsible Investment Policy explains the beliefs, standards, procedures and activities through which fiduciary responsibilities are fulfilled. The policy explicitly recognises a requirement to comply with the UK Stewardship Code and to deliver against the commitments of Funds who are signatories to the Principles of Responsible Investment. The best practice principles laid out within these two external standards for Responsible Investment activity provide an objective framework for judging the effectiveness of LPP.

The Committee considers LPP I's performance on an ongoing basis and where it has additional requirements or questions these are discussed with LPP via the Head of Fund.

- ☐ We do not consider responsible investment in the monitoring processes for fiduciary managers
- ☐ No, we do not use investment consultants or fiduciary managers.

SAM 02	Mandatory	Public	Gateway	PRI 1
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SAM 02.1	Indicate for which of the following externally managed asset classes your organisation, and/or your investment consultants, consider responsible investment factors in investment manager: (a) Selection, (b) Appointment (investment management agreements/contracts), and (c) Monitoring
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Select all that apply

Asset classes	(a) Selection	(b) Appointment	(c) Monitoring
Listed equity	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Property	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

SAM 02.2	Provide a brief description of how your organisation includes responsible investment considerations in your investment manager selection, appointment and monitoring processes.
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Local Pensions Partnership Investments Ltd (LPP I) has procedures in place for ensuring that the commitment (set out within its Responsible Investment Policy) to incorporate ESG issues into investment analysis and decision-making processes is being fulfilled in practice.

The LPP I Investment Governance and Due Diligence Procedure directs how the firm will perform due diligence in the selection and ongoing monitoring of investments. Under this procedure it is a requirement for all due diligence to routinely include the consideration of ESG matters in compliance with LPP I's Responsible Investment Policy.

The procedure is put into practice through defined processes for the selection and monitoring of external managers and for the selection and monitoring of investments managed directly by LPP I. Both processes include a requirement for material ESG matters to be identified as part of the selection process in order that they can be considered within decision-making and picked up within ongoing monitoring activity as appropriate. For each investment, a due diligence checklist is prepared which evidences that due diligence has been fully and appropriately undertaken and this must be signed off by the Compliance Team as part of the investment decision being finalised.

Within the Investment Team, LPP I has a dedicated Responsible Investment Manager who contributes to assessing the ESG/RI capabilities of prospective managers and supports investment staff in developing their insight into the materiality of different ESG considerations within different asset classes.

LPP I asks external managers how material ESG considerations are being identified and incorporated into their investment processes. Managers are required to support the policies LPP I has in place for ensuring decision-making is in line with responsible investment practice and considers the long term financial interests of pension fund beneficiaries.

All investments, whether they are managed internally or externally, are subject to ongoing review. Monitoring is applied against all mandates and incorporates the exchange of information on any material ESG/RI issues as part of ongoing conversations. Separately, the RI Manager is in contact with external managers and their ESG specialists (where these are in place) as part of encouraging knowledge sharing on key themes, explaining client priorities and identifying opportunities for working collaboratively.

Listed Equity and Fixed Income Strategies

SAM 03	Mandatory to Report Voluntary to Disclose	Public	Gateway	General
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SAM 03.1 Provide a breakdown of your externally managed listed equities and fixed income by passive, active quant and, active fundamental and other active strategies.

Listed equity (LE)		Passive	
	0		
		Active - quantitative (quant)	
	0		
		Active - fundamental and active - other	
	100		
	100%		

SAM 03.2 Additional information [Optional].

The totality of the Fund's investment in listed equities is via its ownership of units in a Global Equities Pool managed by Local Pensions Partnership Investments Ltd.

The Global Equities Pool is 100% actively managed.

SAM 04	Mandatory	Public	Gateway	PRI 1,2
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SAM 04.1 Indicate which of the following ESG incorporation strategies you require your external manager(s) to implement on your behalf:

	Active investment strategies
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Active investment strategies	Listed Equity				
Screening	<input type="checkbox"/>				
Thematic	<input type="checkbox"/>				
Integration	<input checked="" type="checkbox"/>				
None of the above	<input type="checkbox"/>				

SAM 04.3

Additional information. [Optional]

All managers are required to integrate the consideration of material ESG considerations within their investment decision-making.

As part of their in-house approach to responsible investment and ESG, managers may elect to apply screening in addition to integration.

Selection

SAM 05

Mandatory

Public

Core Assessed

PRI 1

SAM 05.1

Indicate what RI-related information your organisation typically covers in the majority of selection documentation for your external managers

	LE						Property	
Investment strategy and how ESG objectives relate to it	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
ESG incorporation requirements	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
ESG reporting requirements	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Other	<input type="checkbox"/>						<input type="checkbox"/>	
No RI information covered in the RFPs	<input type="checkbox"/>						<input type="checkbox"/>	

SAM 05.2

Explain how your organisation evaluates the investment manager's ability to align between your investment strategy and their investment approach

Strategy

	LE							Property	
Assess the time horizon of the investment manager's investment strategy	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Assess the quality of investment policy and its reference to ESG	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Assess the investment approach and how ESG objectives are implemented in the investment process (asset class specific)	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Assess the ESG definitions to be used	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Other	<input type="checkbox"/>							<input type="checkbox"/>	
None of the above	<input type="checkbox"/>							<input type="checkbox"/>	

ESG people/oversight

	LE							Property	
Assess ESG expertise of investment teams	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Review the ownership of the ESG implementation	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Review how is ESG implementation enforced /ensured	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	
Other	<input type="checkbox"/>							<input type="checkbox"/>	
None of the above	<input type="checkbox"/>							<input type="checkbox"/>	

Process/portfolio construction/investment valuation

	LE						Property	
Review the process ensuring the quality of the ESG data used	<input checked="" type="checkbox"/>						<input type="checkbox"/>	
Review and agree the investment decision making process (and ESG data use in it)	<input type="checkbox"/>						<input type="checkbox"/>	
Review and agree the ESG incorporation strategy impact of ESG analysis on investment decisions	<input type="checkbox"/>						<input type="checkbox"/>	
Review and agree how the manager is targeting returns and ESG objectives	<input type="checkbox"/>						<input type="checkbox"/>	
Review and agree how the manager identifies, measures and manages ESG risk	<input type="checkbox"/>						<input type="checkbox"/>	
Review and agree return and risk in combination at a portfolio level (portfolio construction) and ESG objectives	<input type="checkbox"/>						<input type="checkbox"/>	
Review how ESG materiality is evaluated by the manager in the monitored period	<input type="checkbox"/>						<input type="checkbox"/>	
Review process for defining and communicating on ESG incidents	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Other, specify	<input type="checkbox"/>						<input type="checkbox"/>	
None of the above	<input type="checkbox"/>						<input type="checkbox"/>	

SAM 05.3

Describe the selection process

- ☒ Review responses to RfP, RfI, DDQ etc.
- ☐ Review Limited Partners' Responsible Investment Due Diligence Questionnaire (PE DDQ)
- ☒ Review publicly available information
- ☐ Review assurance process
- ☒ Review PRI Transparency Reports
- ☐ Request and discuss PRI Assessment Reports
- ☒ Meetings with the potential shortlisted managers
- ☐ Site visits to potential managers offices
- ☐ Other, specify

SAM 05.4

When selecting external managers does your organisation set any of the following:

	LE						Property	
ESG score	<input type="checkbox"/>						<input type="checkbox"/>	
ESG weight	<input type="checkbox"/>						<input type="checkbox"/>	
Real world economy targets	<input type="checkbox"/>						<input type="checkbox"/>	
Other RI considerations	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
None of the above	<input type="checkbox"/>						<input type="checkbox"/>	

If you select any 'Other' option(s), specify

In selecting external managers, LPP I seeks to assess the degree of alignment between a prospective manager's investment approach and the LPP I Responsible Investment Policy which reflects the Fund's requirements as a responsible asset owner.

It is not a requirement for managers to be signatories to the PRI (though this is desirable).

Prospective managers are assessed on their openness to delivering against the commitments of client pension funds who are signatories to the PRI and on their willingness to align with, support and report on their RI activities as part of supporting and working with LPP I as a long term responsible investment manager.

SAM 06	Mandatory	Public	Additional Assessed	PRI 2
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SAM 06.1

Indicate how your organisation typically evaluates the manager's active ownership practices in the majority of the manager.

Engagement

	LE				
Review the manager's engagement policy	<input checked="" type="checkbox"/>				
Review the manager's engagement process (with examples and outcomes)	<input checked="" type="checkbox"/>				
Ensure that engagement outcomes feed back into the investment decision-making process	<input type="checkbox"/>				
Other engagement issues in your selection process specify	<input checked="" type="checkbox"/>				
None of the above	<input type="checkbox"/>				

If you select any 'Other' option(s), specify

Review the manager's approach to working collaboratively with other investors either by supporting wider initiatives or via their membership of representative organisations and associations.

(Proxy) voting

	LE
Review the manager's voting ability within different ownership rights	<input type="checkbox"/>
Review the manager's voting policy	<input checked="" type="checkbox"/>
Ensure that voting outcomes feed back into the investment decision-making process	<input type="checkbox"/>
Other active ownership voting issues in your selection process; specify	<input checked="" type="checkbox"/>
None of the above	<input type="checkbox"/>

If you select any 'Other' option(s), specify

The totality of the Fund's investment in listed equities is via its ownership of units in the Global Equities Pool managed by LPP I.

LPP I vote the equities within the Global Equities Pool centrally rather than devolving this to individual asset managers.

As part of assessing the effectiveness of listed equity managers, LPP will review their approach to voting as this is a good indicator of their stewardship approach and their commitment to active ownership overall.

The focus is on the voting approach in general, and not simply the manager's voting policy.

LPP are interested in

- what information sources are used by the asset manager to inform voting decisions,
- whether voting is informed by portfolio management insight or is a separate specialist function,
- whether the manager consistently votes with company management,
- whether they have supported or filed/co-filed shareholder resolutions,
- what investor collaborations they are involved with,
- what information they publicly disclose about voting,
- what information they are prepared to disclose confidentially to client funds as part of demonstrating their activity and assisting the client to report on stewardship to stakeholders.

SAM 06.2	Describe how you assess if the manager's engagement approach is effective.
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- ☐ Impact on investment decisions
- ☐ Impact on company / asset level
- ☐ Impact on ESG profile or the portfolio
- ☐ Evidence of changes in corporate practices
- ☒ Other, specify

Assessment is currently mainly subjective and qualitative. It is based more on the activity level than the outcomes achieved, though we do ask for examples and case studies which demonstrate a positive impact.

- ☐ None of the above

SAM 06.3	Describe how you assess if the manager's voting approach is effective/appropriate
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- ☐ Impact on investment decisions
- ☐ Impact on ESG profile or the portfolio
- ☐ Evidence of changes in corporate practices
- ☐ Other, specify
- ☒ None of the above

SAM 06.4	Additional information [OPTIONAL]
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LPP ask what information sources are used by the asset manager to inform voting decisions, whether voting is informed by portfolio management insight or is a separate specialist function, whether the manager consistently votes with company management, whether they have supported or filed/co-filed shareholder resolutions, what investor collaborations they are involved with, what information they publicly disclose about voting, what information they are prepared to disclose confidentially to client funds as part of demonstrating their activity and assisting the client to report on stewardship to stakeholders.

Appointment

SAM 07.1	Mandatory	Public	Core Assessed	PRI 1
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SAM 07.1	Indicate if in the majority of cases and where the structure of the product allows, your organisation does any of the following as part of the manager appointment
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- ☐ Sets standard or ESG benchmarks
- ☒ Defines ESG objectives
- ☐ Sets incentives and controls linked to the objectives
- ☒ Requires reporting on these objectives
- ☐ None of the above
- ☐ None of the above, we invest only in pooled funds and have a thorough selection process

SAM 07.2-5	Mandatory	Public	Core Assessed	PRI 1
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SAM 07.2	Provide an example per asset class of your benchmarks, objectives, incentives/controls and reporting requirements that would typically be included in your managers' appointment.
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Asset class

- ☒ Listed equity (LE)

Benchmark

- ☒ We do not set benchmarks

Objectives

- ☐ Voting, specify
☐ Engagement, specify
☒ Integration, specify

Investment Management Agreements (IMA) are in place which define responsible investment as the integration of environmental, social and governance (ESG) factors into investment decision-making and associated stewardship activities.

IMAs include a requirement for Managers to establish appropriate systems and guidelines to ensure the identification and consideration of relevant environmental, social and governance factors as a routine part of investment decision making and ownership practices. This requirement recognises that such factors are directly relevant to the objective of value creation under a long-term buy and hold approach.

- ☐ Investment restrictions, specify
☐ Strategy, specify
☐ Other, specify

Incentives and controls

- ☒ We do not set incentives and controls

Reporting requirements

- ☐ Ad-hoc/when requested
☐ Annually
☒ Bi-annually
☐ Quarterly
☐ Monthly

- ☒ Property

Benchmark

- ☒ We do not set benchmarks

Objectives

- ☐ Other, specify
☐ Voting, specify
☐ Engagement, specify
☒ Integration, specify

Overseen and monitored by LPP I, the Fund's investments in property are managed by a specialist external manager. Appointment included the requirement to support a commitment to long term

responsible investment by incorporating the six PRI principles into the overall investment approach. The Investment Guidelines which form part of the Investment Management Agreement include a section on environmental risks and sustainability which set a minimum BREEAM rating of excellent (or equivalent) for new construction and a minimum BREEAM rating of Very Good (or equivalent) for buildings subject to major refurbishment.

- ☐ Investment restrictions, specify
- ☐ Strategy, specify

Incentives and controls

- ☒ We do not set incentives and controls

Reporting requirements

- ☐ Monthly
- ☒ Quarterly
- ☐ Bi-annually
- ☐ Annually
- ☐ Ad-hoc/when requested

SAM 07.3

Explain how your organisation evaluates the reporting capacity of the manager to meet your reporting requirements during the selection process

	LE						Property	
Agree upon ESG reporting requirements	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Review ESG reporting processes and capacity in place	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Agree processes for raising ad-hoc ESG issues	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Other, specify	<input type="checkbox"/>						<input type="checkbox"/>	
None of the above	<input type="checkbox"/>						<input type="checkbox"/>	

SAM 07.4

Explain which of these actions your organisation might take if any of the requirements are not met

- ☐ Discuss requirements not met and set project plan to rectify
- ☐ Review performance in more detail
- ☐ Place investment manager on a “watch list”
- ☒ Investigate reason for non-compliance
- ☐ Require action plan from the manager
- ☐ Negotiate fees
- ☐ Failing all actions, terminate contract with the manager
- ☐ Other, specify
- ☐ No actions are taken if any of the requirements are not met

Monitoring

SAM 08

Mandatory

Public

Core Assessed

PRI 1

SAM 08.1

When monitoring managers, indicate which of the following types of responsible investment information your organisation typically reviews and evaluates from the investment manager in meetings/calls

	LE						Property	
ESG objectives linked to investment strategy	<input type="checkbox"/>						<input type="checkbox"/>	
Investment restrictions and any controversial investment decisions	<input type="checkbox"/>						<input type="checkbox"/>	
ESG incorporation objectives (with examples)	<input checked="" type="checkbox"/>						<input type="checkbox"/>	
ESG portfolio characteristics	<input type="checkbox"/>						<input type="checkbox"/>	
How ESG materiality has been evaluated by the manager in the monitored period	<input type="checkbox"/>						<input type="checkbox"/>	
Information on any ESG incidents	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
Metrics on the real economy influence of the investments	<input type="checkbox"/>						<input type="checkbox"/>	
PRI Transparency Reports	<input type="checkbox"/>						<input type="checkbox"/>	
PRI Assessment Reports	<input type="checkbox"/>						<input type="checkbox"/>	
Other general RI considerations in investment management agreements; specify	<input type="checkbox"/>						<input checked="" type="checkbox"/>	
None of the above	<input type="checkbox"/>						<input type="checkbox"/>	

If you select any 'Other' option(s), specify

In monitoring the specialist property manager, reference is made to the ESG content of quarterly monitoring reports which routinely includes a section on sustainability initiatives detailing progress against existing initiatives such as the installation of photovoltaic panels and the improvement of building energy efficiency ratings.

SAM 08.2

When monitoring external managers, does your organisation set any of the following to measure compliance/progress

	LE						Property	
ESG score	<input type="checkbox"/>						<input type="checkbox"/>	
ESG weight	<input type="checkbox"/>						<input type="checkbox"/>	
Real world economy targets	<input type="checkbox"/>						<input checked="" type="checkbox"/>	
Other RI considerations	<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>	
None of the above	<input type="checkbox"/>						<input type="checkbox"/>	

If you select any 'Other' option(s), specify

Managers are asked to focus on and share details of ESG related activity they have undertaken during the reporting period and to share specific examples. They are also encouraged to disclose any collaborative initiatives they have been involved with and any new risks or issues they have identified, perhaps in association with impending regulation or other changes.

SAM 09	Mandatory	Public	Additional Assessed	PRI 1
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SAM 09.1 When monitoring managers, indicate which of the following active ownership information your organisation typically reviews and evaluates from the investment manager in meetings/calls

Engagement

	LE				
Report on engagements undertaken (outcomes and examples)	<input checked="" type="checkbox"/>				
Account on engagement ESG impacts	<input type="checkbox"/>				
Other RI considerations relating to engagement in investment management agreements; specify	<input checked="" type="checkbox"/>				
None of the above	<input type="checkbox"/>				

If you select any 'Other' option(s), specify

Participation in any wider investor initiatives or collaborations

(Proxy) voting

	LE
Report on voting undertaken (with outcomes and examples)	<input type="checkbox"/>
Report on voting decisions taken	<input checked="" type="checkbox"/>
Other RI considerations relating to (proxy) voting in investment management agreements; specify	<input type="checkbox"/>
None of the above	<input type="checkbox"/>

Outputs and outcomes

SAM 11	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1
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SAM 11.1	Indicate approximately what percentage (+/- 5%) of your externally managed assets are managed by PRI signatories.
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	%
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30

SAM 11.2	Describe how you ensure that best RI practice is applied to managing your assets
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- ☐ Encourage improved RI practices with existing investment managers
- ☐ Move assets over to investment managers with better RI practices
- ☒ Other, specify

Our focus in the reporting year has been on building RI into our Advisory and Management Agreement with the Local Pensions Partnership to ensure the standards we require as PRI signatories form part of the stewardship approach and practices exercised by all managers acting on the Fund's behalf.

Going forward we will be turning attention to developing our approach to monitoring the fulfilment of our requirements by our investment providers.

	Measures
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Specific content on RI/ESG included within the Asset and Management Agreement with the Local Pensions Partnership. Inclusion of the 6 PRI Principles within the AMA has ensured an objective basis for on-going assessment.

- ☐ None of the above

SAM 12 (Flagged)	Mandatory	Public	Additional Assessed	PRI 1,6
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SAM 12.1	Provide examples of how ESG issues have been addressed in the manager selection, appointment and/or monitoring process for your organisation during the reporting year.
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- ☒ Add Example 1

Topic or issue	Manager Selection
Conducted by	<input checked="" type="checkbox"/> Internal staff
Asset class	<input checked="" type="checkbox"/> All asset classes <input type="checkbox"/> Listed Equity <input type="checkbox"/> Property
Scope and process	<p>The Local Pensions Partnership (LPP) was launched in April 2016.</p> <p>The transfer of investment management and advisory services from former arrangements to new arrangements under LPP management has involved lengthy and detailed legal, contractual and commercial processes. As part of the transition, emphasis was placed on specifying Responsible Investment requirements as part of the governance and stewardship arrangements to be put in place.</p> <p>The Fund is a relatively recent signatory to the PRI and is reporting for the first time in 2017. The steps we have taken to ensure our commitment to Responsible Investment is reflected in the asset management arrangements we have put in place with LPP and is the key way in which we have acted to address ESG issues in manager selection.</p> <p>Through the standards we have agreed with LPP, we have ensured it is a requirement for all managers working on behalf of the Fund to integrate the consideration of material ESG factors within investment decision-making and to help us deliver against the PRI principles.</p> <p>Our approach to monitoring the delivery of our requirements will evolve as we begin to consider our needs and priorities in further detail.</p>
Outcomes	<p>Our Advisory and Management Agreement with the Local Pensions Partnership includes an explicit requirement for investment management to incorporate ESG. This requirement extends to all asset classes.</p> <p>Our Investment Strategy Statement (ISS) was published in October 2016 and complies with new requirements implemented under the LGPS Management and Investment of Funds Regulations 2016 to have a policy on how ESG considerations are taken into account and how ownership rights are exercised. Our approach is to ensure these are a natural and integrated part of the way in which investment risks and opportunities are being identified, assessed and managed.</p> <p>The Local Pensions Partnership is in dialogue with the external managers who are managing the Fund's interests and is assessing their approach to RI/ESG matters and their stewardship on behalf of the Fund as part of monitoring.</p>

☒ Add Example 2

Topic or issue	Manager Monitoring
Conducted by	<input checked="" type="checkbox"/> Internal staff
Asset class	<input type="checkbox"/> All asset classes <input checked="" type="checkbox"/> Listed Equity <input type="checkbox"/> Property
Scope and process	<p>On behalf of the Fund, LPP has agreed stewardship reporting requirements with each external manager of listed equities within the Global Equities Pool. These arrangements ensure a flow of information on stewardship activities as a basis for assessing performance and identifying examples of best practice.</p> <p>Monitoring includes both a quarterly dialogue and a more detailed annual review. As part of the 2016 annual review process managers were asked to provide an overview of their approach to Responsible Investment and of any changes made to this in the past 12 months, addressing:</p> <ul style="list-style-type: none"> • how they ensure RI practices and the consideration of ESG issues are integrated into the investment processes • how the ESG-related risks identified as part of investment analysis are taken into account within investment selection • current ESG themes • activities undertaken as part of protecting investor interests (voting, supporting/co-filing shareholder resolutions, engagement, collaboration, lobbying, research, thought leadership). • any practical challenges faced in fulfilling the requirements of clients committed to Responsible Investment and how they are working to overcome these. <p>Responses indicated managers are evolving and updating their policies in order to be able to explain to clients how they approach ESG and provide evidence of their stewardship activity (some quantified/some qualitative)</p>
Outcomes	<p>Managers are aware of the priority placed on RI by the Fund and are generally being responsive to the need to cover RI/ESG matters within their monitoring to LPP.</p> <p>Monitoring information includes both quantified and qualitative data. Quantification tends to focus on the number of engagements undertaken (which show a growth trend) and on the shareholder voting record (the number of meetings/resolutions voted, the proportion of votes supporting /opposing company management, support given to shareholder resolutions).</p> <p>Monitoring information is used by LPP to assess the performance of external managers against the underlying requirement for Responsible Investment practices in line with the PRI principles. The insight and information managers provide helps LPP to identify examples of good practice and opportunities for broader collaboration. It is also used to assist the Fund in reporting to beneficiaries and stakeholders on the stewardship of Fund assets.</p>

☒ Add Example 3

Topic or issue	Monitoring Process
Conducted by	<input checked="" type="checkbox"/> Internal staff
Asset class	<input type="checkbox"/> All asset classes <input type="checkbox"/> Listed Equity <input checked="" type="checkbox"/> Property
Scope and process	<p>The Fund's investment manager for property assets is an external specialist overseen and monitored by LPP.</p> <p>Whilst the manager has always had a focus on the identification and management of environmental risks this was not always being reflected in the monitoring information routinely shared. In response to expressed interest in this subject (both the due diligence preceding investment decisions and the programmes underway on assets in ownership) the scope of the information being provided has increased as part of due diligence and quarterly monitoring which now includes a specific section on sustainability.</p>
Outcomes	<p>Quarterly reports contain a specific section on sustainability which identifies any issues arising during the quarter (such as new regulatory requirements) plus commentary and figures on the latest progress with initiatives underway such as the installation of photovoltaic panels and the improvement of building energy efficiency ratings.</p>

- ☐ Add Example 4
☐ Add Example 5
☐ We are not able to provide examples

Communication

SAM 13	Mandatory	Public	Core Assessed	PRI 6
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SAM 13.1	Indicate if your organisation proactively discloses any information about responsible investment considerations in your indirect investments.
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- ☒ Yes, we disclose information publicly

provide URL

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

provide URL

<http://council.lancashire.gov.uk/ieListMeetings.aspx?Committeed=183>

SAM 13.2

Indicate if the level of information you disclose to the public is the same as that disclosed to clients and/or beneficiaries.

☒ Yes

SAM 13.3

Indicate what type of information your organisation proactively discloses to the public and clients and/or beneficiaries about your indirect investments.

☒ How responsible investment considerations are included in manager selection, appointment and monitoring processes

☒ Details of the responsible investment activities carried out by managers on your behalf

☐ E, S and/or G impacts and outcomes that have resulted from your managers' investments and active ownership

☐ Other, specify

☐ No

☐ Yes, we disclose information to clients/beneficiaries only

☐ We do not proactively disclose information to the public and/or clients/beneficiaries

Lancashire County Pension Fund

Reported Information

Public version

Direct - Listed Equity Incorporation

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Overview

LEI 01	Mandatory to Report Voluntary to Disclose	Public	Gateway	General
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LEI 01.1	Provide a breakdown of your internally managed listed equities by passive, active - quantitative (quant), active - fundamental and active - other strategies.
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Percentage of internally managed listed equities

	Passive
0	
	Active - quantitative (quant)
0	
	Active - fundamental and active - other
100	
	Total
100%	

ESG incorporation in actively managed listed equities

Implementation processes

LEI 03	Mandatory	Public	Gateway	PRI 1
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEI 03.1	Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed listed equities and (2) the breakdown of your actively managed listed equities by strategy or combination of strategies (+/- 5%)
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ESG incorporation strategy (select all that apply)

- ☐ Screening alone (i.e. not combined with any other strategies)
- ☐ Thematic alone (i.e. not combined with any other strategies)
- ☒ Integration alone (i.e. not combined with any other strategies)

Percentage of active listed equity to which the strategy is applied	<div> <div></div> <div>%</div> </div> 100
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- ☐ Screening and Integration strategies
- ☐ Thematic and integration strategies
- ☐ Screening and thematic strategies
- ☐ All three strategies combined
- ☐ We do not apply incorporation strategies

Total actively managed listed equities
--

100%

LEI 03.2

Describe your organisation's approach to incorporation and the reasons for choosing the particular ESG incorporation strategy/strategies.

The Global Equities Pool managed by LPP is actively managed.

It is a requirement under the Investment Management Agreements (mandates) in place for ESG considerations to be integrated into investment decision-making by all managers.

Managers are not precluded from implementing other incorporation approaches (in line with their in-house approach to responsible investment and ESG) so long as these are complementary to integration.

The choice of integration reflects the Fund's commitment to the PRI principles and its recognition that the consideration of ESG is about identifying ESG issues which are material within the context of individual investment decisions. ESG issues vary by asset class, jurisdiction, geography and time horizon and the consideration of ESG factors within the specific parameters which apply is the best approach to identifying risks and recognising opportunities in a rapidly changing investment landscape.

LEI 04	Voluntary	Public	Additional Assessed	PRI 1
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LEI 04.1

Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.

Type of ESG information

- ☒ Raw ESG company data

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☐ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Company-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☐ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Sector-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☐ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☒ Country-related analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☐ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☐ Screened stock list
- ☒ ESG issue-specific analysis or ratings

Indicate who provides this information

- ☒ ESG research provider
- ☒ Sell-side
- ☒ In-house – specialised ESG analyst or team
- ☒ In-house – analyst or portfolio manager
- ☐ Other, specify

LEI 04.2

Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies.

Local Pensions Partnership Investments Ltd uses ESG information from a range of sources to identify material issues as part of stock selection decisions, post investment monitoring and engagement activity.

Information on ESG is sourced from external providers of ESG research (e.g. Bloomberg/ISS) and from analysis produced by other organisations such as CDP and Carbon Tracker Initiative. A growing range of ESG data is becoming available online direct from desktop applications and via internet search.

Information is sought which illuminates the risks and opportunities associated with a potential investment within its current (and potential future) context and ideally in comparison with a relevant peer group.

Further analysis of information from external sources may be undertaken in-house by Analysts, Portfolio Managers or the Responsible Investment Manager as part of performing investment due diligence.

LEI 04.3	Indicate if you incentivise brokers to provide ESG research.
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- ☐ Yes
☒ No

LEI 05	Voluntary	Public	Additional Assessed	PRI 1
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LEI 05.1	Indicate if your organisation has a process through which information derived from ESG engagement and/or (proxy) voting activities is made available for use in investment decision-making.
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- ☒ Engagement
 - ☒ We have a systematic process to ensure the information is made available.
 - ☐ We occasionally make this information available.
 - ☐ We do not make this information available.

LEI 05.2	Additional information. [Optional]
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Through the oversight of the Local Pensions Partnership's Stewardship Committee which meets quarterly, relevant company specific and thematic information derived from engagement and collaboration is communicated to the internal portfolio manager for listed equities for use in investment decision-making.

(C) Implementation: Integration of ESG issues

LEI 10	Mandatory	Public	Core Assessed	PRI 1
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LEI 10.1	Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.
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ESG issues	Coverage/extent of review on these issues
Environmental	<div>Environmental</div> <p><input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly</p> <p><input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly</p> <p><input type="radio"/> We do not review environmental issues</p>
Social	<div>Social</div> <p><input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly</p> <p><input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly</p> <p><input type="radio"/> We do not review social issues</p>
Corporate Governance	<div>Corporate Governance</div> <p><input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly</p> <p><input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly</p> <p><input type="radio"/> We do not review corporate governance issues</p>

LEI 11	Voluntary	Public	Additional Assessed	PRI 1
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LEI 11.1

Indicate which processes your organisation uses to ensure ESG integration is based on a robust analysis.

- ☒ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products
- ☒ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☐ Company information and/or ratings on ESG are updated regularly
- ☐ A periodic review of the quality of the research undertaken or provided is carried out
- ☐ Structured, regular ESG specific meetings between responsible investment staff and the fund manager or within the investments team
- ☐ ESG risk profile of a portfolio against benchmark
- ☐ Other, specify
- ☐ None of the above

LEI 11.2

Describe how ESG information is held and used by your portfolio managers.

- ☒ ESG information is held within centralised databases or tools and it is accessible by all relevant staff
- ☒ ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff
- ☐ Systematic records are kept that capture how ESG information and research was incorporated into investment decisions
- ☐ Other, specify
- ☐ None of the above

LEI 12**Mandatory to Report Voluntary to Disclose****Public****Core Assessed****PRI 1**

New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEI 12.1

Indicate which aspects of investment analysis you integrate ESG information into.

- ☒ Economic analysis
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Industry analysis
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Quality of management
 - ☒ Systematically
 - ☐ Occasionally
- ☒ Analysis of company strategy
 - ☒ Systematically
 - ☐ Occasionally
- ☐ Portfolio construction
- ☐ Fair value/fundamental analysis
- ☐ Other, specify

Communication**LEI 17****Mandatory****Public****Core Assessed****PRI 2,6****LEI 17.1**

Indicate if your organisation proactively discloses information on your approach to ESG incorporation in listed equity.

- ☒ We disclose it publicly

Provide URL

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

Provide URL

<http://council.lancashire.gov.uk/ieListMeetings.aspx?Committeed=183>

LEI 17.2

Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

☒ Yes

LEI 17.3

Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

- ☒ Broad approach to ESG incorporation
- ☐ Detailed explanation of ESG incorporation strategy used

LEI 17.4

Indicate how frequently you typically report this information.

- ☐ Quarterly or more frequently
- ☐ Biannually
- ☒ Annually
- ☐ Less frequently than annually
- ☐ Ad-hoc/when requested
- ☐ No
- ☐ We disclose it to clients and/or beneficiaries only
- ☐ We do not proactively disclose it to the public and/or clients/beneficiaries

LEI 17.7

Additional information. [Optional]

The Fund's approach to ESG incorporation (its policy on this) is set out within its Investment Strategy Statement which is available from the Fund's website and is reviewed annually.

Lancashire County Pension Fund

Reported Information

Public version

Direct - Listed Equity Active Ownership

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Engagement

Overview

LEA 01	Mandatory	Public	Core Assessed	PRI 2
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 01.1	Indicate whether your organisation has a formal engagement policy.
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- ☐ Yes
☒ No

LEA 01.5	Additional information [optional]
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The Fund does not have a formal engagement policy but engagement forms part of our approach to responsible investment which is described in our Investment Strategy Statement.

The active ownership we require of the Local Pensions Partnership as our provider of investment management services is set out in the Advisory and Management Agreement and extends to all external managers working on behalf of the Fund via the Investment Management Agreements (mandates) agreed with them.

LEA 02	Mandatory	Public	Gateway	PRI 1,2,3
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LEA 02.1	Indicate the method of engagement, giving reasons for the interaction.
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Type of engagement	Reason for interaction
Individual/Internal staff engagements	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input type="checkbox"/> To encourage improved/increased ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via internal staff
Collaborative engagements	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved/increased ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via collaborative engagements
Service provider engagements	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved/increased ESG disclosure <input checked="" type="checkbox"/> Other, specify The Fund is a member of the Local Authority Pension Fund Forum which ensures the specific investment interests of Local Government Pensions Schemes are represented <input type="checkbox"/> We do not engage via service providers

LEA 02.2 Additional information. [Optional]

The Fund does not engage directly and individually with companies on its own behalf but is a member of representative groups such as the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association through which it engages collaboratively as a Local Government Pension Scheme.

The Local Pensions Partnership (LPP) is the manager of the Global Equities Pool in which the Fund's interests in listed equity are invested. The Global Equities Pool encompasses both internally and externally managed equities.

The listed equities managed internally by LPP are subject to engagement directly with the companies concerned in circumstances where intervention is warranted to protect the long term financial interests of beneficiaries. As an asset manager LPP is also a member of collaborative groups and representative organisations through which it works collaboratively to support initiatives which further responsible investment practices and promote joint engagement with other pension funds and investment managers.

Process

Process for engagements run internally

LEA 03	Mandatory	Public	Core Assessed	PRI 2
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 03.1

Indicate whether your organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff.

- ☐ Yes
☒ No

LEA 04**Mandatory****Public****Core Assessed****PRI 2**

New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 04.1

Indicate if you define specific objectives for your engagement activities.

- ☒ Yes
- ☐ Yes, for all engagement activities
 - ☒ Yes, for the majority of engagement activities
 - ☐ Yes, for a minority of engagement activities
 - ☐ We do not define specific objectives for engagement activities carried out by internal staff.

LEA 04.2

Indicate if you monitor the actions that companies take following your engagements.

- ☒ Yes
- ☐ Yes, in all cases
 - ☒ Yes, in the majority of cases
 - ☐ Yes, in the minority of cases
 - ☐ We do not monitor the actions that companies take following engagement activities carried out by internal staff.

LEA 04.3

Indicate whether your organisation defines milestones and goals for engagement activities carried out by internal staff.

- ☐ Yes
☒ No

LEA 04.5

Additional information. [Optional]

The direct engagement with investee companies undertaken by LPP investment staff is issues driven and in response to specific concerns which are monitored and reviewed.

In addition to issues driven engagement activity, LPP has identified some more thematic priorities which are a basis for identifying opportunities (through the organisations and wider networks it belongs to) for engaging collaboratively alongside other investors.

These key themes are

- investor access to decision relevant information (standards of company disclosure)
- board diversity and independent representation on company boards
- effective arrangements for executive remuneration
- recognition and planning for systemic challenges (including risks faced from climate change)

Process for engagements conducted via collaborations

LEA 05	Mandatory	Public	Core Assessed	PRI 2
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 05.1 Indicate whether your organisation has a formal process for identifying and prioritising collaborative engagements

- ☐ Yes
☒ No

LEA 06	Mandatory	Public	Core Assessed	PRI 2
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 06.1 Indicate if you define specific objectives for your engagement activities carried out collaboratively.

- ☒ Yes
 - ☐ Yes, for all engagement activities
 - ☒ Yes, for the majority of engagement activities
 - ☐ Yes, for a minority of engagement activities☐ We do not define specific objectives for engagement activities carried out collaboratively.

LEA 06.2 Indicate if you monitor the actions companies take following your collaborative engagements.

- ☒ Yes
 - ☐ Yes, in all cases
 - ☒ Yes, in the majority of cases
 - ☐ Yes, in the minority of cases☐ We do not monitor the actions that companies take following engagement activities carried out collaboratively

LEA 06.3 Indicate whether your organisation defines milestones and goals related to engagement activities carried out via collaborations.

- ☐ Yes
☒ No

LEA 06.5 Additional information. [Optional]

The Fund recognises that the Local Pensions Partnership (LPP) and external managers overseen by LPP are best placed to identify the specific issues on which collaborative engagement is merited for individual companies and to recognise the best opportunities for addressing broader themes/priorities in collaboration with other asset owners.

For engagements led by the Local Authority Pension Fund Forum the Fund receives a quarterly update on the subject and quantum of activity undertaken and progress against key initiatives.

Process for engagements conducted with/on your behalf by service providers

LEA 07	Mandatory	Public	Core Assessed	PRI 2,4
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 07.1 Indicate if you play a role in the engagement process that your service provider conducts on your behalf.

☒ Yes

LEA 07.2 Indicate the role(s) you play in engagements that your service provider conducts on your behalf.

- ☐ Discuss the topic (or ESG issue(s)) of engagement
- ☐ Discuss the rationale for engagement
- ☐ Discuss the objectives of the engagement
- ☐ Select the companies to be engaged with
- ☐ Discuss the frequency/intensity of interactions with companies
- ☐ Discuss progress towards the engagement objectives
- ☐ Monitor and review outcomes that have been achieved from the engagement
- ☐ Discuss next steps for engagement activity
- ☐ Participate directly in certain engagements with your service provider
- ☐ Ad hoc monitoring and review of engagement processes.
- ☒ Other, specify

The Fund provides data on its holdings, responds to requests for feedback and shares its priorities for engagement with the Local Authority Pension Fund Forum.

☐ No

LEA 08	Mandatory	Public	Core Assessed	PRI 2,6
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LEA 08.1 Indicate whether you monitor and/or discuss the following information provided to you by your service provider

Please select all that apply

- ☐ The subject (or ESG issue(s)) of engagement
- ☐ The objectives of the engagement
- ☐ The rationale for engagement
- ☐ The frequency/intensity of interactions with companies
- ☐ Progress towards achieving engagement goals
- ☐ Outcomes that have been achieved from the engagement
- ☐ Next steps for engagement activity
- ☒ Other, specify

The Fund receives quarterly reports on RI activity which include details and examples of initiatives and collaborations LPP is participating in on behalf of clients.

- ☐ None of the above

General processes for all three groups of engagers

LEA 09	Voluntary	Public	Additional Assessed	PRI 1,2
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LEA 09.1 Indicate if insights gained from your engagements are shared with your internal or external investment managers.

Type of engagement	Insights shared
Individual/Internal staff engagements	<input type="radio"/> Yes, systematically <input checked="" type="radio"/> Yes, occasionally <input type="radio"/> No
Collaborative engagements	<input type="radio"/> Yes, systematically <input checked="" type="radio"/> Yes, occasionally <input type="radio"/> No
Service provider engagements	<input type="radio"/> Yes, systematically <input checked="" type="radio"/> Yes, occasionally <input type="radio"/> No

LEA 09.2 Additional information. [Optional]

Where the Fund or LPP receive insight through collaborative engagement or service provider engagement which it is appropriate to share with other managers this happens on an adhoc basis. In particular, examples of best practice or opportunities to join initiatives are promoted to others in order to maximise the support they receive and increase the impetus and impact they can achieve.

LEA 10	Mandatory	Public	Gateway	PRI 2
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LEA 10.1 Indicate if you track the number of engagements your organisation participates in.

Type of engagement	Tracking engagements
Individual / Internal staff engagements	<input type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input checked="" type="radio"/> We do not track
Collaborative engagements	<input type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input checked="" type="radio"/> We do not track and cannot estimate our engagements
Service provider engagements	<input type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input checked="" type="radio"/> We do not track and cannot estimate our engagements

LEA 10.2 Additional information. [OPTIONAL]

The Fund does not track the number of engagements it participates in through the actions of its service providers in a systematic way.

It does receive quarterly reports from the Local Authority Pension Fund Forum on the engagement activity undertaken on behalf of member funds and, on an annual basis, external managers are asked by LPP for information on their stewardship activity which contains summary data on the incidence of engagement activity. However, this is not in a standard format which would support collation or an estimation of the quantum of coverage at this point.

Outputs and outcomes

LEA 12 (Flagged)	Voluntary	Public	Additional Assessed	PRI 2
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LEA 12.1

Indicate which of the following your engagement involved.

☒ Letters to outline the engagement and the objectives

- ☒ In some cases
- ☐ In majority cases
- ☐ In all cases

☒ Meetings and/or calls with the appropriate team

- ☒ In some cases
- ☐ In majority cases
- ☐ In all cases

☐ Visits to operations☒ Roadshows

- ☒ In some cases
- ☐ In majority cases
- ☐ In all cases

☒ ESG research

- ☒ In some cases
- ☐ In majority cases
- ☐ In all cases

☐ Other, specify**LEA 14****Voluntary****Public****Descriptive****PRI 2****LEA 14.1**

Indicate whether you track the number of cases during the reporting year where a company changed its practices, or made a formal commitment to do so, following your organisation's and/or your service provider's engagement activities.

- ☐ Yes
- ☒ No

LEA 15**Voluntary****Public****Descriptive****PRI 2****LEA 15.1**

Provide examples of the engagements that your organisation or your service provider carried out during the reporting year.

☒ Add Example 1

Topic or ESG issue	Environment - sustainability
Conducted by	<input type="checkbox"/> Individual / Internal <input type="checkbox"/> Collaborative <input checked="" type="checkbox"/> Service provider
Objectives	Encourage companies to set out their strategic approach to global climate and energy challenges
Scope and Process	Working within a wider collaboration (Aiming for A) to co-file strategic resilience resolutions at the AGMs of major oil producers
Outcomes	Company engagement and some company commitments to change their strategy analyses and reporting to account for a two degree scenario

☒ Add Example 2

Topic or ESG issue	Social - Employee rights
Conducted by	<input type="checkbox"/> Individual / Internal <input type="checkbox"/> Collaborative <input checked="" type="checkbox"/> Service provider
Objectives	Address serious shortcomings in measures to protect labour rights in the workplace
Scope and Process	Support a resolution calling for independent human capital management assessment
Outcomes	Further engagement with the company to encourage improvement

☒ Add Example 3

Topic or ESG issue	Governance - Board Diversity
Conducted by	<input type="checkbox"/> Individual / Internal <input checked="" type="checkbox"/> Collaborative <input type="checkbox"/> Service provider
Objectives	Encourage companies to step up their efforts to achieve the aim of women holding one third of FTSE 350 board positions by 2020.
Scope and Process	Letter to the Financial Times representing a group of UK asset owners, re-emphasising the importance of efforts to increase diversity through appointment processes routinely accessing a wider pool of talent.
Outcomes	Letter published and a subsequent response published from Hampton-Alexander Review reiterating the importance of efforts by companies on this critical governance issue.

- ☐ Add Example 4
- ☐ Add Example 5
- ☐ Add Example 6
- ☐ Add Example 7
- ☐ Add Example 8
- ☐ Add Example 9
- ☐ Add Example 10

Communication

LEA 16	Mandatory	Public	Core Assessed	PRI 2,6
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LEA 16.1 Indicate whether your organisation proactively discloses information on its engagements.

- ☐ We disclose it publicly
- ☐ We disclose it to clients and/or beneficiaries only
- ☒ We do not proactively disclose it to the public and/or clients/beneficiaries.

Lancashire County Pension Fund Stewardship Code Compliance Statement

Introduction

Lancashire County Pension Fund (LCPF) is a defined benefit pension scheme administered by Lancashire County Council on behalf of members of the Local Government Pension Scheme (LGPS) within the geographical area of Lancashire.

The Fund recognises that effective stewardship arrangements protect the financial interests of scheme beneficiaries and contribute to enhancing the value of the Fund's investments. LCPF takes its fiduciary responsibilities very seriously, realising the importance of monitoring investee companies and using ownership rights to encourage responsible corporate behaviour which builds value over the long term.

LCPF is committed to responsible investment and to responsible asset ownership. Our approach is to ensure material Environmental, Social and Governance factors are routinely incorporated into investment analysis and decision-making and our ownership influence is used proactively. Through shareholder voting and through wider engagement activities we seek to work in collaboration with other investors.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from the Local Pensions Partnership (LPP). LPP is a not-for-profit pension services organisation which is a collaboration between LCPF and the London Pensions Fund Authority in which both organisations are founding shareholders. LCPF's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

LCPF has described its approach to discharging stewardship responsibilities within an Investment Strategy Statement (ISS) which is publicly available from the Fund's website [here](#).

Our ISS places stewardship arrangements within the broader context of investment governance and investment implementation and explains the demarcation of responsibilities between LCPF as an LGPS pension fund responsible for setting investment strategy and putting appropriate stewardship arrangements in place, and LPP as the Fund's provider of pension services whose procedures and practices fulfil the investment strategy and implement the approach to stewardship and responsible investment.

LCPF discharges its stewardship responsibilities as an asset owner by putting appropriate arrangements in place for ensuring that procedures for the selection, monitoring and management of assets invested in by the Fund are aligned with the UK Stewardship Code. Ensuring suitable arrangements are in place includes

specifying standards within contractual documents and monitoring performance against these on an ongoing basis.

The Fund's stewardship requirements have been formally set out within an Advisory and Management Agreement (AMA) with LPP I which includes the requirement to comply with the principles of both the UK Stewardship Code and the UN-backed Principles of Responsible Investment. LCPF requires LPP I to apply these standards to all asset classes as an integral part of its management of the Fund's portfolio and to ensure that any agents appointed to work on behalf of the Fund are also encouraged and supported to comply.

LPP I's execution of the Fund's stewardship requirements is in line with a Responsible Investment Policy which is available from the company's website [here](#). The policy sets out the beliefs, standards, procedures and activities which underpin LPP I's fulfilment of fiduciary responsibilities on behalf of client pension funds.

LCPF discloses the details of its stewardship arrangements and activities by reporting against the Principles of Responsible Investment assessment framework. A copy of the Fund's Transparency Report will be publicly available from the [PRI website](#) at the conclusion of the annual reporting and assessment process.

Principle 2

Institutional investors should have an effective policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund has a clear and effective policy on the management of conflicts of interest which requires actual and potential conflicts to be identified, managed and disclosed.

The arrangements in place reflect the responsibilities of participants with strategic and operational roles on behalf of the Fund including;

- Pension Fund Committee Members (Elected County Councillors);
- Officers of Lancashire County Council;
- External advisors to LCPF;
- LPP and other external delivery partners
- Lancashire Local Pension Board

The approach is to anticipate the conflicts of interests which may arise from these roles and from the wider relationships and personal interests of the individuals involved.

Under Lancashire County Council's constitution (available from the authority's website) both elected members and County Council officers are subject to written Codes of Conduct which include expectations and procedures for managing any conflicts of interest associated with their roles. Potential conflicts of interest are managed in accordance with the County Council's Code of Conduct for Elected Members and its Code of Conduct for Employees.

The approach is to ensure Members (and the officers and advisors supporting them) have a clear understanding of what a potential conflict of interest is, how such conflicts may arise, and what they must do to ensure that no actual conflict (or the appearance of one) is allowed to materialise in practice.

All members of the Pension Fund Committee are required to submit a formal record of their interests on an annual basis. At the commencement of each Pension Fund Committee meeting Committee members and officers are required to make a declaration of any relevant interests they hold which relate to forthcoming items of business. Where an interest exists in any upcoming item an independent assessment is made of the materiality of the interest and the appropriateness of excluding the person from participation in discussion and consequent decision making. Details of all declarations made and the action taken in response are formally recorded within the minutes of the relevant meeting.

The Lancashire Local Pension Board (LLPB) assists Lancashire County Council in its role as Scheme Manager and is made up of 9 members comprising an independent Chair, 4 scheme member representatives and 4 employer representatives. The LLPB has its own Code of Conduct and Conflict of Interests Policy for Members, Officers and Advisors which is publicly available from the Pension Fund website [here](#) (see Annex 'A' to the Terms of Reference).

Specific arrangements exist for the management of conflicts of interest by LPP I as the Fund's provider of investment management services. LPP I is an FCA authorised entity with a Conflicts of Interest Policy which establishes the parameters of good governance in the management of conflicts. The Policy applies to all staff and identifies the types of conflicts and potential conflicts which may arise and the approach to managing these through robust governance arrangements which include the segregation of functions, conflict management controls and an annual Disclosure of Interests Protocol. A copy of the LPP I Conflicts of Interest Policy is available from LPP on request.

Principle 3

Institutional investors should monitor their investee companies.

Encouraging strong corporate governance by investee companies is a core part of responsible investment practice. LCPF has made a commitment to using its influence as an institutional investor to encourage sustainable business practices and decision-making which is aligned with the long term best interests of shareholders. These commitments are reflected within the stewardship arrangements LCPF has agreed with LPP I.

The day-to-day monitoring of investee companies is best undertaken by Investment Managers with detailed knowledge of the enterprises within their portfolios and an understanding of the business risks and opportunities they face. The assets under management by LPP I are monitored by members of the in-house Investment Team or by external asset managers appointed and overseen by LPP I. Company monitoring provides continuing insight on financial performance and underlying business and market characteristics but also identifies issues related to broader

corporate responsibility and to Environmental, Social and Governance matters as part of the ongoing evaluation of company risk and sustainability.

Monitoring activity typically incorporates information from a range of sources including company reporting, news media, real time market metrics, and the insight of research and ratings providers. Wider insights from NGOs, trade unions, regulators and other representative groups are also referenced as appropriate. External managers appointed by LPP I are encouraged to share any material company insights with LPP I as part of regular monitoring calls.

Insight gained from company monitoring informs LPP I's use of the Fund's ownership rights as an institutional investor. The main focus of engagement activity is shareholder voting and participation in wider investor collaborations, though influence is also exerted through representation on company boards and limited partner advisory panels. Engagement is time consuming and resource intensive and achieving the critical mass needed to have impact requires effective partnership and collaboration. On LCPF's behalf, LPP I seeks opportunities to work with other responsible investors as part of wider initiatives which concentrate collective stewardship resources and seek to achieve greater reach and influence than is possible acting alone.

LCPF is a member of the Local Authority Pension Fund Forum and the Pensions and Lifetime Savings Association and supports both organisations in their campaigns and initiatives on behalf of investors. Examples of the themes the Fund has engaged on as part of wider collaborations include:

- Climate change risk, sustainability and the global transition to low carbon;
- Executive remuneration;
- Transparency and effective disclosure within corporate reporting;
- Diversity and independent representation on company boards.

The LCPF Pension Fund Committee receives quarterly reports on Responsible Investment issues from LPP I which describe activity against the Fund's responsible investment objectives. Responsible Investment reports routinely include records of shareholder voting and offer insight and commentary on investor initiatives and engagements underway.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship.

Shareholder voting and collaborative company engagement are the principal ways in which stewardship is escalated on the Fund's behalf. LCPF's preferred approach is to engage with investee companies in order to raise matters of material concern directly with them. Shareholder voting offers a direct and regular opportunity for dialogue with investee companies and is used to signal investor concerns and to encourage the alignment of company and shareholder interests.

Shareholder voting is both a right and a responsibility of ownership. To ensure a consistent and informed approach the oversight of shareholder voting has been delegated to LPP I. Voting is managed centrally by LPP I rather than being at the discretion of individual investment managers. However, as part of their stewardship of the Fund's assets individual managers are expected to monitor and engage with investee companies to escalate material matters. Decision-making on the most appropriate route for addressing issues identified through ongoing monitoring of investee companies is at the discretion of each manager in accordance with their in-house policy. Managers are required to report to LPP I periodically on their engagement activities.

Investment Management Agreements between LPP I and external investment managers appointed to manage the Fund's assets include a requirement to support for the Principles of Responsible Investment and to encourage corporate governance best practice. Managers are encouraged to share insight and information and required to report on their stewardship activities as an integral part of manager monitoring undertaken by LPP I.

As part of its broader stewardship oversight, LPP I reviews how accepted standards of corporate governance best practice are being reflected across the portfolio. This can identify issues where a more thematic approach may be appropriate. Thematic engagements can involve making direct contact with individual companies on specific issues but will more often involve participation in broader investor collaborations to build an impetus for improvement in core characteristics such as board diversity and independent oversight, succession-planning, executive remuneration and shareholder rights across a range of companies. LPP I will work alongside General Partners, Limited Partners, other Asset Managers, and representative investor groups as appropriate.

On the Fund's behalf, LPP I has arrangements in place for monitoring emerging shareholder litigation and any financial interest in the companies involved. Where appropriate, the Fund will participate in shareholder litigation in order to recover losses and address wrongdoing.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

LCPF welcomes opportunities to work in partnership with other investors and to participate in collective initiatives which address shared stewardship priorities. The Fund recognises that investor influence is most likely to be fruitful when collective resources are being pooled and a consistent message is being amplified by the participation of a number of like-minded investors with a significant collective stake-holding. The involvement of leading investor associations adds the further benefit of specific expertise and representative influence.

LCPF is a member of a number of organisations which provide the opportunity to align with and give support to collaborative initiatives. These include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings

Association and the Principles of Responsible Investment. In addition, LCPF's interests are being represented through the wider network of investor organisations LPP I is connected with as an Asset Manager.

The Fund's principal engagement partner is LAPFF. The Forum is a membership organisation which represents the specific interests of LGPS funds as institutional investors and a number of collaborations leading to collective engagement on behalf of LGPS funds have arisen from initiatives co-ordinated by LAPFF. LCPF is also collaborating regularly with other LGPS funds via LPP I's participation in a Responsible Investment sub-group to the Cross Pool Collaboration Group which was established as part of the implementation of LGPS pooling arrangements. The sub-group brings stewardship and responsible Investment practitioners from each of the 8 pools together to discuss collective stewardship issues and the most effective approaches to common challenges.

LPP I is affiliated with a broad range of representative investor groups and seeks to work collaboratively with these and other parties (including Limited Partners, General Partners) to support initiatives which promote corporate governance best practice and protect the interests of pension funds as long term investors. LPP I's Responsible Investment Manager frances.deakin@localpensionspartnership.org.uk is the contact for all potential collaborative engagements.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

LCPF has a clear policy on shareholder voting which is set out within the Fund's ISS. Shareholder voting is recognised to be an important route for influencing companies to adopt sustainable business practices and to develop corporate governance arrangements aligned with protecting shareholder value.

Since the Fund's listed equity investments were pooled in November 2016 LCPF has owned units within a Global Equities Pool managed by LPP I rather than shares in underlying companies. As a beneficial co-owner LCPF is not entitled to direct shareholder voting but the Fund has influenced the voting arrangements put in place by LPP I which are required to meet the stewardship standards agreed with the Fund.

LCPF receives voting alerts from LAPFF which provide additional insight on forthcoming matters due to be voted on at company meetings. LAPFF voting alerts are routinely shared with LPP I and, where appropriate, LPP I will seek to align voting with other investors as part of working collectively to increase the impetus for companies to listen, acknowledge and address issues of concern.

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recommendations, and the recording and reporting facilities available via an online voting platform.

Voting recommendations reflect an agreed voting policy which is actively reviewed on an annual basis and updated to reflect emerging issues and trends. The detail of forthcoming ballots is reviewed by LPP I via the online voting platform to identify upcoming issues where it may be appropriate to depart from the voting recommendation. In cases where a different vote is instructed the underpinning rationale for the support given to a shareholder resolution (or opposition to a management proposals) is recorded.

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

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

LCPF reports on stewardship and voting activities in a variety of ways.

The Fund describes its approach to stewardship within an Investment Strategy Statement which is publically available from the Fund website. The Pension Fund Committee reviews existing stewardship policies and arrangements on a regular basis. Details of the review process are reported within the agenda and papers of the Pension Fund Committee which are publicly available from the Lancashire County Council website.

The Fund's Annual Report provides a comprehensive review of arrangements and activities including insight into the stewardship of Fund investments. The Annual Report is publicly available from the [LCPF website](#).

The Pension Fund Committee receives quarterly reports on Responsible Investment activity from LPP I. Reports form part of the papers of the Pension Fund Committee which are publicly available from the [Lancashire County Council website](#).

LCPF has disclosed the details of its stewardship arrangements and described the activities it has undertaken as a responsible investor by reporting against the Principles of Responsible Investment (PRI) assessment framework for the first time in 2017. A copy of the Transparency Report for each signatory is made publicly available on the PRI website at the conclusion of the annual assessment phase.

Pension Fund Committee

Meeting to be held on 30 June 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
- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

The following external training events/conferences have been attended by members of the Committee since the last meeting:

23rd March 2017 – SPS Local Authority Investments Pooling Issues Conference in London attended by County Councillor A Schofield.

27th March 2017 - Workshop on the Local Pension Partnership at County Hall, Preston attended by County Councillors K Ellard, D Borrow, G Dowding G Gooch, A Schofield, J Sedgewick, Councillor E Pope and Mr P Crewe.

27th April 2017 - Pensions Age Spring Conference "Aiming High" in London attended by Councillor Pope

15th-17th May 2017 PLSA Local Authority Conference at the De Vere Cotswold Water Park, Gloucestershire, attended by Mr P Crewe

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 under the Scheme of Delegation to Heads of Service	April to May 2017	Mike Neville (01772) 533431

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

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: (All Divisions);
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Transaction of Urgent Business - revised Statement of Compliance with the UK Stewardship

(Appendix 'A' refers)

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

Executive Summary

This report sets out details of a decision taken by the Director of Governance, Finance and Public Services on the 3rd May, 2017, under the procedure for dealing with matters of Urgent Business in relation to the approval of a revised Statement of Compliance with the UK Stewardship Code for the Lancashire County Council Pension Fund (LCPF).

In accordance with Standing Order 21(1) a copy of the decision was circulated to the appropriate Group spokespersons for information.

Recommendation

The Committee is asked to note the report.

Background and Advice

At the meeting on the 2nd December, 2016, the Pension Fund Committee noted a report regarding the LCPF being temporarily delisted as a signatory to the UK Stewardship Code for a period of 6 months pending the Fund's development of an Investment Strategy Statement.

The Lancashire Local Pension Board received a report on stewardship matters at the meeting on the 11th April 2017 which included an update on the Statement of Compliance.

During consideration of the report the Board discussed the requirement to revise the Statement of Compliance with the UK Stewardship Code and noted the previous decision to temporarily delist the LCPF. It was reported that the revised Statement of Compliance was being drafted and the Board noted that, once finalised, the revised Statement would be circulated to the Chair/Deputy Chair of the Pension Fund Committee and Board members for comment and approval before being submitted to the Financial Reporting Council for assessment.

A copy of the draft revised Statement of Compliance was circulated to all members of the Lancashire Local Pension Board by email on the 25th April 2017 with a request that any comments be received by the 2nd May, 2017. Some comments were received as a result of the consultation and the Statement was amended in accordance with points made.

A copy of the final version of the revised Statement of Compliance which was subsequently circulated to the Chair and Deputy Chair of the Pension Fund Committee for comment is attached as Appendix 'A'.

Reason for the Use of the Urgent Business Procedure

The temporary delisting of the LCPF as a signatory to the UK Stewardship Code for a period of 6 months pending the Fund's development of an Investment Strategy Statement was due to come to an end before the next scheduled meeting of the Pension Fund Committee on the 30th June 2017.

Consultations

All members of the Lancashire Local Pension Board were consulted on the draft revised Statement of Compliance and comments received were taken into account when finalising the Statement.

The Chair and Deputy Chair of the Pension Fund Committee were consulted on the proposal. A response was received from the Chair in support of the proposed course of action.

Implications:

This item has the following implications, as indicated:

Risk management

DCLG published guidance on producing an investment strategy statement as required under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 in September 2016. In a change to previous arrangements the guidance requires Administering Authorities to become signatories to the UK Stewardship Code and to state how they implement the seven principles and guidance of the Code. The Statement of Compliance with the UK Stewardship Code for LCPF is in fulfilment of new requirements under the DCLG Guidance.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Urgent Business item	May 2017	M Neville 01772 533431

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

**Lancashire County Pension Fund
Stewardship Code Compliance Statement**

Introduction

Lancashire County Pension Fund (LCPF) is a defined benefit pension scheme administered by Lancashire County Council on behalf of members of the Local Government Pension Scheme (LGPS) within the geographical area of Lancashire.

The Fund recognises that effective stewardship arrangements protect the financial interests of scheme beneficiaries and contribute to enhancing the value of the Fund's investments. LCPF takes its fiduciary responsibilities very seriously, realising the importance of monitoring investee companies and using ownership rights to encourage responsible corporate behaviour which builds value over the long term.

LCPF is committed to responsible investment and to responsible asset ownership. Our approach is to ensure material Environmental, Social and Governance factors are routinely incorporated into investment analysis and decision-making and our ownership influence is used proactively. Through shareholder voting and through wider engagement activities we seek to work in collaboration with other investors.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from the Local Pensions Partnership (LPP). LPP is a not-for-profit pension services organisation which is a collaboration between LCPF and the London Pensions Fund Authority in which both organisations are founding shareholders. LCPF's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

LCPF has described its approach to discharging stewardship responsibilities within an Investment Strategy Statement (ISS) which is publicly available from the Fund's website [here](#).

Our ISS places stewardship arrangements within the broader context of investment governance and investment implementation and explains the demarcation of responsibilities between LCPF as an LGPS pension fund responsible for setting investment strategy and putting appropriate stewardship arrangements in place, and LPP as the Fund's provider of pension services whose procedures and practices fulfil the investment strategy and implement the approach to stewardship and responsible investment.

LCPF discharges its stewardship responsibilities as an asset owner by putting appropriate arrangements in place for ensuring that procedures for the selection,

monitoring and management of assets invested in by the Fund are aligned with the UK Stewardship Code. Ensuring suitable arrangements are in place includes specifying standards within contractual documents and monitoring performance against these on an ongoing basis.

The Fund's stewardship requirements have been formally set out within an Advisory and Management Agreement (AMA) with LPP I which includes the requirement to comply with the principles of both the UK Stewardship Code and the UN-backed Principles of Responsible Investment. LCPF requires LPP I to apply these standards to all asset classes as an integral part of its management of the Fund's portfolio and to ensure that any agents appointed to work on behalf of the Fund are also encouraged and supported to comply.

LPP I's execution of the Fund's stewardship requirements is in line with a Responsible Investment Policy which is available from the company's website [here](#). The policy sets out the beliefs, standards, procedures and activities which underpin LPP I's fulfilment of fiduciary responsibilities on behalf of client pension funds.

LCPF discloses the details of its stewardship arrangements and activities by reporting against the Principles of Responsible Investment assessment framework. A copy of the Fund's Transparency Report will be publicly available from the [PRI website](#) at the conclusion of the annual reporting and assessment process.

Principle 2

Institutional investors should have an effective policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund has a clear and effective policy on the management of conflicts of interest which requires actual and potential conflicts to be identified, managed and disclosed.

The arrangements in place reflect the responsibilities of participants with strategic and operational roles on behalf of the Fund including;

- Pension Fund Committee Members (Elected County Councillors);
- Officers of Lancashire County Council;
- External advisors to LCPF;
- LPP and other external delivery partners
- Lancashire Local Pension Board

The approach is to anticipate the conflicts of interests which may arise from these roles and from the wider relationships and personal interests of the individuals involved.

Under Lancashire County Council's constitution (available from the authority's website) both elected members and County Council officers are subject to written Codes of Conduct which include expectations and procedures for managing any conflicts of interest associated with their roles. Potential conflicts of interest are managed in accordance with the County Council's Code of Conduct for Elected Members and its Code of Conduct for Employees.

The approach is to ensure Members (and the officers and advisors supporting them) have a clear understanding of what a potential conflict of interest is, how such conflicts may arise, and what they must do to ensure that no actual conflict (or the appearance of one) is allowed to materialise in practice.

All members of the Pension Fund Committee are required to submit a formal record of their interests on an annual basis. At the commencement of each Pension Fund Committee meeting Committee members and officers are required to make a declaration of any relevant interests they hold which relate to forthcoming items of business. Where an interest exists in any upcoming item an independent assessment is made of the materiality of the interest and the appropriateness of excluding the person from participation in discussion and consequent decision making. Details of all declarations made and the action taken in response are formally recorded within the minutes of the relevant meeting.

The Lancashire Local Pension Board (LLPB) assists Lancashire County Council in its role as Scheme Manager and is made up of 9 members comprising an independent Chair, 4 scheme member representatives and 4 employer representatives. The LLPB has its own Code of Conduct and Conflict of Interests Policy for Members, Officers and Advisors which is publicly available from the Pension Fund website [here](#) (see Annex 'A' to the Terms of Reference).

Specific arrangements exist for the management of conflicts of interest by LPP I as the Fund's provider of investment management services. LPP I is an FCA authorised entity with a Conflicts of Interest Policy which establishes the parameters of good governance in the management of conflicts. The Policy applies to all staff and identifies the types of conflicts and potential conflicts which may arise and the approach to managing these through robust governance arrangements which include the segregation of functions, conflict management controls and an annual Disclosure of Interests Protocol. A copy of the LPP I Conflicts of Interest Policy is available from LPP on request.

Principle 3

Institutional investors should monitor their investee companies.

Encouraging strong corporate governance by investee companies is a core part of responsible investment practice. LCPF has made a commitment to using its influence as an institutional investor to encourage sustainable business practices and decision-making which is aligned with the long term best interests of shareholders. These commitments are reflected within the stewardship arrangements LCPF has agreed with LPP I.

The day-to-day monitoring of investee companies is best undertaken by Investment Managers with detailed knowledge of the enterprises within their portfolios and an understanding of the business risks and opportunities they face. The assets under management by LPP I are monitored by members of the in-house Investment Team or by external asset managers appointed and overseen by LPP I. Company monitoring provides continuing insight on financial performance and underlying business and market characteristics but also identifies issues related to broader

corporate responsibility and to Environmental, Social and Governance matters as part of the ongoing evaluation of company risk and sustainability.

Monitoring activity typically incorporates information from a range of sources including company reporting, news media, real time market metrics, and the insight of research and ratings providers. Wider insights from NGOs, trade unions, regulators and other representative groups are also referenced as appropriate. External managers appointed by LPP I are encouraged to share any material company insights with LPP I as part of regular monitoring calls.

Insight gained from company monitoring informs LPP I's use of the Fund's ownership rights as an institutional investor. The main focus of engagement activity is shareholder voting and participation in wider investor collaborations, though influence is also exerted through representation on company boards and limited partner advisory panels. Engagement is time consuming and resource intensive and achieving the critical mass needed to have impact requires effective partnership and collaboration. On LCPF's behalf, LPP I seeks opportunities to work with other responsible investors as part of wider initiatives which concentrate collective stewardship resources and seek to achieve greater reach and influence than is possible acting alone.

LCPF is a member of the Local Authority Pension Fund Forum and the Pensions and Lifetime Savings Association and supports both organisations in their campaigns and initiatives on behalf of investors. Examples of the themes the Fund has engaged on as part of wider collaborations include:

- Climate change risk, sustainability and the global transition to low carbon;
- Executive remuneration;
- Transparency and effective disclosure within corporate reporting;
- Diversity and independent representation on company boards.

The LCPF Pension Fund Committee receives quarterly reports on Responsible Investment issues from LPP I which describe activity against the Fund's responsible investment objectives. Responsible Investment reports routinely include records of shareholder voting and offer insight and commentary on investor initiatives and engagements underway.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship.

Shareholder voting and collaborative company engagement are the principal ways in which stewardship is escalated on the Fund's behalf. LCPF's preferred approach is to engage with investee companies in order to raise matters of material concern directly with them. Shareholder voting offers a direct and regular opportunity for dialogue with investee companies and is used to signal investor concerns and to encourage the alignment of company and shareholder interests.

Shareholder voting is both a right and a responsibility of ownership. To ensure a consistent and informed approach the oversight of shareholder voting has been delegated to LPP I. Voting is managed centrally by LPP I rather than being at the discretion of individual investment managers. However, as part of their stewardship of the Fund's assets individual managers are expected to monitor and engage with investee companies to escalate material matters. Decision-making on the most appropriate route for addressing issues identified through ongoing monitoring of investee companies is at the discretion of each manager in accordance with their in-house policy. Managers are required to report to LPP I periodically on their engagement activities.

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Agenda Item 17

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

Document is Restricted

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Agenda Item 18

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Agenda Item 19

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Agenda Item 20

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Agenda Item 21

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