

Lancashire County Council

Pension Fund Committee

Friday, 8th June, 2018 at 10.30 am in Committee Room 'C' (The Duke of Lancaster 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 - 2) |
| 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 the 23rd March 2018

To be confirmed, and signed by the chair. | (Pages 3 - 16) |
| 5. | Lancashire Local Pension Board - Annual Report 2017/18 | (Pages 17 - 24) |
| 6. | Annual Governance Statement 2017/18 | (Pages 25 - 34) |
| 7. | Annual Administration Report 2017/18 | (Pages 35 - 46) |
| 8. | 2017/18 Full year budget monitoring report | (Pages 47 - 54) |
| 9. | Lancashire County Pension Fund Budget 2018/19 | (Pages 55 - 60) |
| 10. | Internal audit assurance | (Pages 61 - 70) |
| 11. | Feedback from members of the Committee on pension related training, conferences and events. | (Pages 71 - 74) |
| 12. | Review of Committee Member Training Record for 2017/18 | (Pages 75 - 84) |

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| 13. Responsible Investment | (Pages 85 - 98) |
| 14. Scheme Member representative on the Lancashire Local Pension Board. | (Pages 99 - 106) |
| 15. Urgent Business
An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading. | |
| 16. Proposed changes to meeting dates in December 2018 and March 2019 | (Pages 107 - 108) |
| 17. Date of Next Meeting
The next meeting of the Committee will be held at 10.00am on Thursday 5 th July 2018 in Committee Room 'C' The Duke of Lancaster Room at County Hall, Preston. | |
| 18. 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 press and 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) | |
| 19. Local Pensions Partnership Q4 Report | (Pages 109 - 128) |
| 20. Lancashire County Pension Fund Performance Overview March 2018 | (Pages 129 - 142) |
| 21. Investment Panel Report | (Pages 143 - 156) |
| 22. The Local Pensions Partnership Strategic Plan and Budget | (Pages 157 - 212) |

23. Lancashire County Pension Fund - Risk Register (Pages 213 - 222)

24. Review of the Local Pensions Partnership (Pages 223 - 224)

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

Constitution, Membership and Terms of Reference of the Committee

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 and Advice

At the meeting on the 24th May 2018 the full County Council approved the membership of various Committees and related appointments for 2018/19. 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	J Mein
S Clarke	E Pope
G Dowding	A Riggott
C Edwards	A Schofield
K Ellard	K Snape
T Martin	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 – District, Borough and City Councils
Councillor I Moran – District Borough and City Councils
Ms J Eastham – 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](#) is available to view at Article 7 (Other Committees of the County Council) of the Constitution.

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
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 23rd March, 2018 at 10.00 am in Committee Room 'C' (The Duke of Lancaster Room) - County Hall, Preston

Present:

County Councillor Eddie Pope (Chair)

County Councillors

J Burrows	K Ellard
S Clarke	J Mein
C Crompton	A Riggott
B Dawson	M Salter
G Dowding	A Schofield
C Edwards	

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Ron Whittle, (Blackburn with Darwen
Borough Council Representative)
Councillor David Borrow, (District Leaders Group)
Jennifer Eastham, FE/HE Institutions representative

Independent Advisers

A Devitt and E Lambert

1. Apologies

Apologies for absence were received from Councillor M Smith.

The Chair welcomed Mr Rule, Mr Smith and Mr Pattinson from the Local Pensions Partnership and Mr MaGahon from Grant Thornton to the meeting and reported that LCPF and the LPFA had jointly won the 2018 Pensions Age Pension Scheme Innovation Award.

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 the 12th December 2017

Resolved: That the Minutes of the meeting held on the 12th December 2017 are confirmed as an accurate record and signed by the Chair.

4. LCPF Pension Administration Strategy Statement

It was reported that following a review by Officers of the Fund a revised draft Pension Administration Strategy Statement (PASS) had been drafted which extended the number of employer and fund performance standards to be measured and introduced charges to be levied on any scheme employer where performance fell short of the expected standards.

When considering the report the Committee noted that the Fund aimed to comply with a number of requirements in advance of the statutory deadlines set out in the PASS. The level of resources required to comply with the contents of the PASS was discussed and in response to a query it was suggested that details of the CIPFA benchmarking statistics be circulated to members of the Committee outside of the meeting for information. Reference was also made to the charges for late or underpayment of employer contributions and the Head of Fund undertook to clarify whether or not such payments would be per occasion.

It was also noted that the draft PASS would be referred to the Lancashire Local Pension Board for consideration.

Resolved:

1. That the Pension Administration Strategy Statement (PASS) set out in Appendix 'A' to the report presented is approved for consultation with Fund employers.
2. That the frequency of charges for the late or underpayment of employer contributions set out in the PASS be clarified before the document is finalised and approved.
3. That a report on the outcome of the consultation referred to at 1 above be presented to the Committee on the 8th June 2018.
4. That further information regarding CIPFA benchmarking statistics be circulated to all members of the Committee outside of the meeting for information.
5. **Lancashire County Pension Fund - Admissions and Termination Policy**

It was reported that on the 15th September, 2017, the Committee had approved the consultation process in relation to the revised Admissions and Termination Policy for the Fund.

The Head of Fund informed the meeting that two responses had been received during the consultation period which ended on the 20th December, 2017. Details of the responses were presented and it was noted that neither response was considered to require any changes being made to the draft policy.

Resolved: That the revised Admissions and Termination Policy, as set out at Appendix 'A' to the report presented, is approved and implemented on the 1st April 2018.

6. LCPF December 2017 budget monitoring report

The Committee considered a report on the income and expenditure of the Fund for the period 1st April to 31st December, 2017, together with a comparison to the budget for the same period and a full year forecast with comparison for the full year budget to the 31st March 2018.

In response to a query regarding the figures in the report for the net surplus before realised and unrealised profits on investments the Head of Fund clarified that investment income had proved to be higher than had been predicted when the budget assumptions were made and any dividend income would be reinvested.

Resolved:

1. That the analysis of variances between actual results and the budgeted income and expenditure for the period 1st April to 31st December 2017, as set out in the report presented, is noted.
2. That the forecast full year financial performance against budget, as set out in the report presented, is noted.

7. LCPF External Audit Plan 2017/18

Mr McGahon from Grant Thornton presented a report regarding the External Auditors Annual Audit Plan for the 2017/18 financial year, which set out in broad terms the programme of work which the auditor would focus on.

During consideration of the report it was noted that the total fee for the audit was expected to be £35,906. In response to a query the Head of Fund noted that whilst this was similar to the fee for previous years she would check the proposed fees and report back. The Committee also discussed materiality and it was suggested that a breakdown be provided in the final audit report regarding any trivial matter (less than £3.604 million) where the difference was over £1 million.

Resolved:

1. That the Audit Plan for 2017/18 as set out in the Appendix to the report presented, is noted.
2. That clarification be sought with regard to the fee to be charged for the external audit specified at 1 above and details circulated to members of the Committee outside of the meeting for information.
3. That the report produced as a result of the external audit specified at 1 above include a breakdown regarding any trivial matter (less than £3.604 million) where the difference was over £1 million.

8. Revised 2018/19 Workplan for Lancashire Local Pension Board

Mr Bourne, the Chair of the Lancashire Local Pension Board, presented a report on the proposed 2018/19 work plan for the Board which had been designed to ensure that the responsibilities set out in the Terms of Reference could be met.

It was noted that the Board intended to review the Local Pension Partnership (LPP) Administration Transformation Plan in April 2018 and it was suggested that an update on the structure of LPP should be presented as part of the LPP update report to the next meeting of the Committee.

Resolved:

1. That the 2018/19 work plan for the Lancashire Local Pension Board, as set out in Appendix 'A' to the report presented, is noted.
2. That an update report regarding the Local Pension Partnership structure be presented to the next meeting of the Committee as part of the LPP update report.

9. Investment Strategy Statement

It was reported that although within the recommended three year timeframe for review it had been considered appropriate to review the current Investment Strategy Statement following the change to Strategic Asset Allocations and performance benchmarks by the Investment Panel which had been approved at the previous Committee.

The Committee considered the revised ISS, as set out at Appendix 'A' to the report and noted that it would include reference to the Responsible Investment Policy referred to elsewhere on the agenda should it be approved. With regard to the section on Infrastructure it was agreed that the text be amended to clarify that investments would be made 'predominantly in the UK or otherwise in OECD nations'.

In response to a query Mr Rule, Chief Investment Officer and Managing Director - Investments from the Local Pensions Partnership (LPP) informed the meeting that consideration was being given to developing a model which would enable LPP work with others to invest in residential developments in the future.

Resolved:

1. That the Infrastructure section of the Investment Strategy Statement set out at Appendix 'A' to the report presented, be amended to read '...predominantly in the UK or otherwise in OECD nations.'
2. That, subject to the amendment specified at 1 above, the Investment Strategy Statement is approved.

10. Report of the Responsible Investment Working Group

County Councillor Ellard, the Chair of the Responsible Investment Working Group, presented a report which set out a number of recommendations on how

the Fund could further support responsible investment, including draft Responsible Investment and Climate Change Policies.

The Committee agreed some minor amendments to the proposed Responsible Investment Policy which are highlighted in the revised version attached as an Annex to these Minutes. With regard to the proposed Climate Change Policy it was suggested that reference be made in the first paragraph to stranded assets and that further work was required on the draft, including reviewing it against the LAPFF Climate Change Investment Policy, before a final version could be presented for approval.

Resolved:

1. That the amended Responsible Investment Policy, set out as an Annex to these Minutes, is approved.
2. That the first paragraph of the draft Climate Change Policy, set out at Appendix 'B' to the report presented, be amended to include 'via stranded assets' after the words 'shareholder value'.
3. That the amended Climate Change policy referred to at 2 above be referred to the Responsible Investment Working Group for further discussion with Officers at the Local Pensions Partnership with a view to a comprehensive policy being presented to the Committee in December 2018.
4. That the response of the Working Group to the request from Councillor M Smith for a reduction in the investments in fossil fuels and tobacco/alcohol referred to it by the Committee on the 1st December 2017 is noted.
5. That future reporting by the Local Pension Partnership should include a 'Dashboard' as set out at Appendix 'C' to the report presented, and focus initially on Global Equities and Infrastructure to be followed by Real Estate, Social Housing and Property in the future.

11. Responsible Investment

The Committee considered an update report on a range of responsible investment matters. In response to a query regarding a shareholder resolution on an environmental issue which the Local Pensions Partnership (LPP) had not supported Mr Rule undertook to provide further information on the reasoning behind the decision referred to in the report and inform members of the Committee outside of the meeting.

Resolved:

1. That the update on responsible investment set out in Appendix 'A' to the report presented, is noted.

2. That LPP provide members of the Committee with further information outside of the meeting regarding the reasoning behind the shareholder decision not to support a resolution on a specific environmental theme as referred to in Appendix 'A'.

12. Feedback from members of the Committee on pension related training since the last meeting.

A report was presented on internal and external pension related training conferences/events which had taken place since the last meeting.

The Committee received positive feedback from various members of the Committee regarding specific conferences/internal training events they had attended. It was also reported that County Councillors E Pope, J Burrows, J Fillis, T Martin, J Mein A Riggott and A Schofield together with co-opted members P Crewe and R Whittle had attended the workshop held on the 14th March 2018 on the Local Pension Partnership.

Resolved: That the report and feedback from individual members regarding the training events or conferences attended since the last meeting is noted.

13. LCPF Training Policy

The Head of Fund reported that as the current LCPF Training Policy had been approved in January 2016 a review had been undertaken and a number of minor changes were proposed to the policy, a revised version of which was set out at Appendix 'A' to the report. It was further reported that Training Plan for 2018 which set out various planned training events (including internal workshops/pre-Committee briefings and external conferences) had also been developed and was set out at Appendix 'B' to the report.

In considering the report the Committee recognised that the CIPFA Framework required all members of the Committee to have a broad knowledge of pensions and it was intended to undertake a training needs analysis to identify any gaps in knowledge which could be addressed through future training.

Resolved:

1. That the Lancashire County Pension Fund Training Policy, as set out at Appendix 'A' to the report presented is approved.
2. That the Committee agree to meet the requirements of the Training Policy which forms part of the Fund's wider risk management arrangements.
3. That all members of the Committee complete a training needs analysis to inform the development of the Training Plan for 2018 and beyond.

14. Urgent Business

No items of urgent business were raised under this heading.

15. Date of Next Meeting and additional meeting in July 2018

It was noted that the next scheduled meeting would be held on the 8th June 2018 at 10.30am (preceded by the usual 30 minute briefing) in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

It was also reported that after consulting members of the Committee arrangements had been made for an additional meeting to be held at 10.00am on the 5th July, 2018, in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston to consider the LCPF accounts.

Resolved: That an additional meeting be held at 10.00am on the 5th July, 2018, in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston to consider the LCPF accounts before they are submitted to the Audit, Risk and Governance Committee on the 30th July 2018 for approval.

16. Exclusion of Press and Public

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

17. Local Pensions Partnership Q3 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 Director of Strategic Programmes and Group Company Secretary from the Local Pension Partnership updated the Committee on the performance of the Fund for the third quarter of the year.

It was reported that over the period the dedicated pension helpdesk had answered 96% of calls against a target of 90% and in response to a request for further information The Director undertook to provide more detailed breakdown of activity by the helpdesk to the next meeting. The Committee also noted that additional training on cyber security, GDPR and employer risk was scheduled for an internal workshop in November 2018.

Resolved:

1. That the report and updates presented at the meeting are noted.
2. That a detailed breakdown of activity by the dedicated pension helpdesk over the next quarter be presented to the Committee on the 8th June 2018.

18. 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).

Ms Devitt, an Independent Adviser to the Committee, presented her detailed report on the macro economic factors in the current market and their likely impact on investments together with a breakdown of individual asset class performance since the last meeting.

The Committee was also advised of decisions taken by the Investment Panel at the meeting in November 2017.

Resolved: That the report of the Investment Panel is noted.

19. Lancashire County Pension Fund Performance Overview December 2017

(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).

Mr Lambert, an Independent Adviser to the Committee presented a report on the performance of the Lancashire County Pension Fund and drew attention to key areas such as the level of contributions and the performance of individual investment portfolios.

Resolved: That the summary of performance up to the 31st December 2017, as set out in Appendix 'A' to the report presented, is noted.

Annex

Lancashire County Pension Fund (LCPF) Responsible Investment Policy

1. Introduction

This policy defines the commitment of Lancashire County Pension Fund (the Fund) to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the LGPS Management and Investment of Funds Regulations (2016) and the Fund's fiduciary duty to act in the best long-term interest of our members. The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

2. Responsible Investment Values and Principles

The Funds' values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

Responsible Investment Values:

Consultative	The Funds' RI priorities are a reflection of the views of its members (through consultation with the Local Pension Board), and of evolving best practice within the pension arena.
Being Proactive	A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty.
Engagement	<p>The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour.</p> <p>We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs.</p>
Collaborative	The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member.
Flexible	The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities.

Responsible Investment Principles

The Funds' RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on all our investments. Our RI principles inform the stewardship arrangements we have agreed with the Local Pensions Partnership as our provider of pension administration and investment management services.

A summary of the key Responsible Investment principles:

- Effective management of financially material ESG risks will support the Fund's requirement to protect returns over the long term;

- Apply a robust approach to effective stewardship;
- Seek sustainable returns from well governed and sustainable assets;
- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and Environmental, Social and Governance (ESG) best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of LCPF's RI policy is through the activities of Local Pension Partnership Investments Ltd (LPPI) an FCA regulated Investment Manager responsible for 100% of the Fund's assets which are managed within pooled arrangements.

3. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPP I on the issues of greatest importance to us. It also helps us to monitor the stewardship activities they undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change;
- Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices and address excessive corporate pay differentials;

The above mentioned are our main priorities. However there are a number of other RI issues which are of interest to the Fund and will be subject to review, including:

- Ethical practices regarding off shore investments and tax havens;
- Companies with a proven record of supporting the Living Wage;
- Encouraging investment pan Lancashire;
- Reducing investments in products such as plastics, tobacco and alcohol.

Climate change

LCPF recognise the imperative to address climate change as a systemic and long-term investment concern for the fund, as it poses material risks across all asset classes with the potential for loss of shareholder value. The Fund will endeavour to carry out the following:

- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global transition to a low-carbon economy and for the future emissions reduction

targets under the Paris Agreement or other appropriate initiatives. Where they are not, and opportunities for engagement and reform of the company or project are not possible or do not exist, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through increased costs or increased investment risk).

- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

Corporate Governance

The Fund will, through our asset managers, promote high standards of employment practice and reasonable and equitable pay differentials for employees. This will be done through actively seeking companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPP I is a named supporter of the Workforce Disclosure Initiative (WDI), a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".

4. Responsible Investment Implementation

The implementation of Fund's approach to Responsible Investment divides into four areas of activity.

a) Voting Globally.

The Fund recognise that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contributes to enhancing the value of the Fund's investments. All aspects of shareholder voting is a fundamental part of the Fund compliance with the UK Stewardship Code.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from Local Pensions Partnership (LPP). The Fund'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.

All aspects of shareholder voting are carried out in line with the LPP I 'Shareholder Voting Policy' which can be viewed at <https://www.localpensionspartnership.org.uk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fLPPI+Shareholder+Voting+Policy+July+2017.pdf>

The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

The responsible investment priority areas identified by the fund for voting purposes are:

1. Action on Climate Change;
2. Strong corporate governance, with particular emphasis on reducing pay differentials;
3. Improving Employment Practices.

b) Engagement through Partnerships.

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns and it does this through the Local Authority Pension Fund Forum (LAPFF) and joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapffforum.org

LCPF are members of LAPFF and as such representatives of the Fund attend and contribute to the quarterly business meetings.

c) Shareholder Litigation.

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active Investing.

LCPF do not invest directly but, on behalf of the Fund, LPP I actively seeks sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. Such investments include renewable and clean energy, and affordable housing.

As part of its commitment to Active Ownership LPP I seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

Finally, LCPF does not have any strategic asset allocations in specific areas in relation to RI and ESG. This is reviewed to ensure it is still appropriate by the investment panel on a 12 monthly basis.

e) Divestment.

The Fund may at its discretion prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment (either through increased costs or increased investment risks).

5. Definitions

Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.
ESG	Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.
Governance	The process and principles by which a company or organisation undertakes its business. For LCPF, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.
Active Ownership	Refers to the responsibility of LCPF to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

Lancashire Local Pension Board - Annual Report 2017/18

(Appendix 'A' refers)

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

Executive Summary

The approval of the 2017/18 annual report of the Lancashire Local Pension Board for inclusion in the LCPF Annual report which will be considered by the Pension Fund Committee on the 5th July 2018.

Recommendation

The Committee is asked to consider and approve the 2017/18 Annual report of the Lancashire Local Pension Board, as set out at Appendix 'A', so that it can be incorporated into the LCPF Annual Report which will be presented to the Committee on the 5th July 2018 for approval.

Background and Advice

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

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

The annual report for 2017/18 is attached as Appendix 'A'. The Committee is asked to consider and approve the report so that it can be incorporated into the LCPF Annual Report which will be presented to the Committee on the 5th July 2018 for approval.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
Attendance Sheets from Lancashire Local Pension Board	July 2017 – April 2018	Mike Neville OCE (01772) 533431
Training record for individual members of the Lancashire Local Pension Board	1 st May 2017 - 30 th April 2018	

Reason for inclusion in Part II, if appropriate

N/A

Lancashire Local Pension Board – Annual Report 2017/18

This is my third report as the first Independent Chair of the Lancashire Local Pension Board (LLPB). Last year I commented that after two years' operation as a Board we had a much clearer view of our role, and how we could both fulfil our duties and add value. I noted three areas we expected to focus on in the interest of all our stakeholders, but particularly the employers and members whom we represent. The first was to encourage appropriate governance procedures and monitoring of the London Pensions Partnership (LPP), the company which the Fund has set up together with the London Pension Fund Authority to manage their assets, liabilities and administration. We need the assurance that it is at all times acting in the Fund's interest. Secondly, we asked the Pension Fund Committee (PFC) to provide us with comfort that the major changes LPP were proposing to the administration function would not involve any risk to the service. Finally, we would continue to look at how to improve engagement with employers and members.

In this report, I will start by reminding readers of the mechanics of the LLPB, then explain how we have fulfilled our legal duty of scrutiny, before going on to comment on each of the three areas above in more detail.

Membership of the Pension Board

The LPB has nine members, four Employer representatives who were chosen to be representative of the Fund's employers, four Scheme Member representatives originally elected in a public election and myself as the Independent Chair. During the year three members of the LLPB resigned and I would like to thank them all for their service during the first three years operation of the Board. The two employer representatives have been replaced by County Councillor Christian Wakeford and Tony Pounder, and I welcome them both to the Board.

The vacant scheme member representative position was advertised by email and on the Your Pension Service website in March 2018. When the LLPB was originally established, we held an election to fill the scheme member vacancies but this time we took the view that this was not a cost-effective way of filling a single vacancy, and that the categorisation of member representatives into active, deferred and pensioner classes was too restrictive. The Terms of Reference of the Board have therefore been amended to refer to scheme members who will represent all elements of the Fund membership, giving us more flexibility and making it easier to attract/recruit candidates. Since the year end, we have held interviews and a suitable candidate has been selected from a strong field and will be formally appointed in due course.

The LLPB meets four times a year and we also create Working Groups if we feel they are needed. In my capacity as Chair I am also on occasion invited to attend

PFC meetings, to present reports and advise the Committee on the work of the Board and I have attended three out of the of the four Committees held during the year.

Attendance of Board members at meetings of the Pension Board

Details of individual members' attendance at Board meetings together with changes to the membership of the Board are set out in Annex 'A' to this report.

Training

The Board has a small internal budget, which is used primarily to defray the cost of Members' attendance at training events or conferences. During the year £12,518.33 was spent on the costs of running the Board and training.

The LLPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. Members are actively encouraged to join internal training sessions held jointly with the members of the Pension Fund Committee. During the year, internal training workshops were held on the risk register, LPP administration operations, Investment Strategy and GDPR (the new data protection regulations). Members are also notified of and encouraged to attend external training conferences/event to extend their knowledge and meet other LPB members.

In addition we conduct a gap analysis of training needs once a year as part of our own annual appraisal, which becomes an agenda item at our next meeting. The table below shows the number of training events each Board member attended during the year.

Name	Internal event attended	External events attended
W Bourne	1	3
County Councillor C Wakeford	1	0
S Browne	2	1
S Thompson	2	0
C Gibson	0	1
K Haigh	7	2
R Harvey	7	2
Y Moulton	4	1
J Hall	0	0

Information about the Board, including minutes and public papers, are available on can be viewed on the [Your Pension Service website](#) the Pension Fund

Much of the work in the past year has been on internal changes and developments resulting from the creation of LPP and I give more details below. However, it has been important that we do not neglect our regular function of monitoring compliance with all the regulations and guidance from the Pensions Regulator, the DCLG (now the MHCLG) and other sources, as well as service level agreements with LPP. We agree a detailed Work Plan at the beginning of each year to ensure that we cover everything within our remit and at every meeting we review the assurance statements given to us. In some cases, such as the Key Performance Indicators or notification of any breach of regulations, we see the detail behind the headline statement. 2018's plan can be seen in the agenda for the [April 2018 Board](#).

One challenge for the LLPB results from the outsourcing of a large part of the Fund's functions to LPP, whose staff therefore create many of the assurance statements which we rely on when we review compliance, but may themselves also form part of the subject matter. In this context, we place particular importance on who else has reviewed the assurance statements and the independent auditor reports, both internal and external. If we are not content, we will ask to see the detail behind the statements.

Our second legal duty is to assist the Pension Fund Committee. As part of that, we regularly review and comment on formal documents which they are considering. I would like to highlight the Risk Register, a revised Responsible Investment policy, the measures put in place ahead of the introduction of two new European Directives (MIFID II and GDPR), compliance with The Pension Regulator's Code of Practice 14 and the annual communications report. In all these cases except for the last, our role was to review and make suggestions to the Board before they finally approved the reports. In the case of the Risk Register, we made substantial recommendations on how to improve its presentation and how the Board's activities could be a significant mitigating factor across a range of risks.

I mentioned last year that we would keep a careful eye on the procedures in place to monitor LPP's performance. The Fund's ability to fulfil its fiduciary duty and thereby pay pensions in full on time, depends on LPP providing an effective service to it. We highlighted last year that we had concerns that there was insufficient governance resource dedicated in this area, and recommended both an increase in the Fund's governance resource and also an independent review. A year later there have been three separate reviews from a legal, compliance and operational perspective, which give us greater confidence. We will continue to monitor this topic going forward, as good governance is a continual process and not a one-off project.

Throughout the year we monitored LPP's project to redesign the administration processes to deliver a better service to its clients, including LCPF. Our objective in the last year, within the limits of our remit, was to gain what assurance we could that the process of change did not involve any risk to the level of service provided to

members in the short term. The project is nearing completion and we will be evaluating the improvements in service levels over the next financial year.

We have also, jointly with the LPFA, commissioned an external review of LPP's effectiveness now that the company has been fully operational for two years. We wish to have third-party assurance that it is cost-effective for both Funds, in terms of its establishment but also looking forward. We will also spend time in the next year on reviewing communications to members and employers.

After three years of operation we believe the LLPB has established itself as a valuable part of the Fund's governance. We are using our collective knowledge and experience to try and ensure that members and employers' interests are not lost in the more complex structures which the creation of LPP has inevitably involved. Apart from the activities outlined above, I expect the focus over the next year to be more on our core functions, i.e. monitoring compliance with the regulations and assisting the PFC to run the Fund where we can.

I will end by once again thanking the officers at LCPF who support us in our duties. As part of our annual Board appraisal I speak individually to each member, and I can record unanimous agreement that we are ably and effectively supported by the team at LCPF. In my view it is important that we recognise that publicly in this report.

William Bourne

Independent Chair of the Lancashire Local Pension Board.

May 2018

Name	Representing	4 th July 2017	17 th October 2017	16 th January 2018	24 th April 2018
W Bourne	Chair	✓	✓	✓	✓
County Councillor C Wakeford	Employer rep (LCC)	✓	✓	✓	✓
S Browne	Employer rep (LCC)	✓	✓	Absent	N/A
T Pounder	Employer rep (LCC)	N/A	N/A	N/A	Apologies
S Thompson	Employer rep (Unitary, City, Borough Councils, Police & Fire)	✓	✓	✓	✓
C Gibson	Employer rep (Others)	✓	✓	✓	✓
K Haigh	Scheme member rep	✓	✓	✓	✓
R Harvey	Scheme member rep	✓	✓	✓	✓
Y Moulton	Scheme member rep	Apologies	✓	✓	✓
J Hall	Scheme member rep	✓	✓	Resigned	Resigned
Changes to the membership of the Board <ol style="list-style-type: none"> County Councillor T Martin was replaced by County Councillor C Wakeford following the local government elections in May 2017 S Browne resigned in March 2018 and was replaced by T Pounder appointed in April 2018 J Hall resigned October 2017 and the resulting vacancy for a scheme member representative will be filled following interviews in April 2018. 					

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: (All Divisions);
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Annual Governance Statement 2017/18

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

The AGS is a review of the governance arrangements for 2017/2018 and is produced to be incorporated into the statement of accounts.

Recommendation

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

Background and Advice

The Annual Governance Statement (AGS) is required to ensure that those charged with governance are able to review the governance arrangements for the year. The AGS is then incorporated into the statement of accounts. Although the Fund is covered by the County Council's governance arrangements a separate AGS in relation to the Fund is required as the overall statement prepared by the County Council will not cover the activities of the Fund in sufficient detail to provide the necessary assurance.

The statement 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 and to provide assurance on governance as part of the process of preparing the Fund's report and accounts.

In compiling the Statement reliance has been placed on the Pension Fund Governance Policy and the contractual arrangements with Local Pensions Partnership. 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	November 2013	Abigail Leech (01772) 530808

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

Lancashire County Pension Fund – Annual Governance Statement 2017/18

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 2018 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 172,074 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members.

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 to view at

<https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf>

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 7 core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

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

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 2018.

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 a clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Lancashire Local Pension Board.

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

The Head of Fund reviews 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 are responsible for establishing the strategic objectives of the Fund through a rolling 3 year strategic Plan and for monitoring the 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 the Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund

Reports on the performance against 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.

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.

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.

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. 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, meet the needs of the Fund in terms of effective delivery of the Investment Strategy. 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 the Fund has continued to develop and update its risk register. Key areas of risk include:

- Investment and Funding Risk – all financial risks associated with the fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – the temporary risks associated with change. Once the change is embedded, the risk lies in one of the other categories above.

Through the use of a detailed Risk Management Framework, LCPF maintain a detailed risk register covering all the risks identified within the four main risk groups. Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced.

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit, Risk 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 by either the Fund's or LPP's custodian. LPP Investments Limited is a Financial Conduct Authority (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 Fund participates in the National Fraud Initiative, 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.

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, Risk 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 Chartered Institute of Public Finance and Accountancy (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 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 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. 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.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Chief Internal Auditor's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2017/18 were:

- To support the new Committee especially by providing appropriate training for new members.

- The review and amend the Admissions and Terminations Policy for implementation from 1 April 2018.
- The production of a new 3 year Strategic Plan.
- The Investment Panel completed a full review of the Fund's investment strategy and recommended some small changes to the asset allocations.

Actions Planned for 2018/19

The following specific actions are proposed for completion during 2018/19.

- Review the Communications Policy
- Continued development of a socially responsible investment policy
- Monitor Pensions administration including impact of LPP's administration transformation plan
- To review the compliance of employers and undertake an assessment of the risk they pose to the Fund.

Signed

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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, 8 June 2018

Electoral Division affected: (All Divisions);
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Annual Administration Report 2017/18

(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 2017/18.

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 the 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 2018.

Over the year, an overall performance of 96% has been achieved and all statutory requirements, including the production of annual benefits statements, have been met. This broadly matches the overall performance of 97% figure for 2016/17.

During the reporting period 27,433 individual calculations and enquiries were dealt with, an increase of just under 2,000 from the previous year reflecting an increase of the overall membership of the Lancashire County Pension Fund of just under 5,000 members.

During 2017/18 only 1 area of performance standard fell below the service level agreement. This related to the area of VR estimates which are required to be completed within 10 days of request. Mid way through 2017/18 the responsibility for the completion and distribution of Lancashire County Council employee VR

estimates transferred to Lancashire County Council's HR. At the time of this transformation new procedural changes were introduced and during this period a number of cases failed to meet the service level agreement. Procedures were subsequently adapted to address this.

The Committee should also note that the Local Pensions Partnership's new administration structure and case management system went live on 1 April 2018. Performance is currently being monitored by the Fund and first quarter results will be reported at September's committee meeting.

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
N/A		

Reason for Part II
N/A

your
pension
service

LANCASHIRE COUNTY PENSION FUND Annual Administration Report

1 April 2017 to 31 March 2018



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 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 2017 to 31 March 2018.

Annual Plan – 2017/18



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												
Produce annual allowance information in line with HMRC deadline												
Provide FRS17 data												

2. PERFORMANCE STANDARD



Target Missed



Target Hit

Service Level Agreements

During the reporting period 27,433 individual calculations/enquiries were completed, of which 26,337 met the performance standard; an overall performance of 96% was achieved.

LGPS

Performance Standard

Estimate benefits within 10 working days



Payment of retirement benefits within 10 working days



Payment of death benefits within 10 working days



Implement change in pensioner circumstance by payment due date



Respond to general correspondence within 10 working days of receipt



Action transfers out within 10 working days



Action transfers in within 10 working days



Pay refunds within 10 working days



Provide leaver statement within 10 days



Amend personal records within 10 working days



VR Estimates



VR Payments



29,136

27,433

26,337

96%

1,703

3. MEMBERSHIP

Fund membership

Lancashire County Pension Fund	31/03/17	31/03/18
Number of active scheme members		
County council	26,416	27,059
Other employers	29,499	29,817
Total	55,915	56,874
Number of pensioners		
County council	23,141	23,722
Other employers	23,012	23,723
Total	46,153	47,445
Number of deferred pensioners		
County council	34,668	35,477
Other employers	30,573	32,276
Total	65,241	67,753
Total membership	167,309	172,074

As at 31 March there were 5,530 pending leavers

4. CUSTOMER SERVICE

Retirement Experience

Elapsed time from retirement to first pension payment.

Average 42 days
to payment
of pension

2588 new
pensioners

Compliments/Complaints

18 compliments

49 complaints

During the period the service received 18 compliments, these related to the helpful and prompt service provided by the staff within Your Pension Service.

Almost all the 49 complaints were from active and deferred members that related to the length of time taken to process benefits.

Telephone helpdesk

A dedicated pensions helpdesk is the first point of contact for both scheme members and employers. Over the period 93% of calls were successfully answered against a target of 90%. The service also received 44,681 emails.

	Calls offered	Calls answered	% Calls answered	Target %	Average call wait time
2017/18	85,490	79,467	93	90	1m 5s

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 pensions.

Period 01/4/2017 - 31/3/2018



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 2017/18	Admissions	Exits
In progress at beginning of year	12	30
New cases to be processed	24	23
Cases completed	24	34
In progress at end of year	12	19

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. During the financial year, a number of larger employers have left the scheme, mainly housing providers, which have put in place alternative pension arrangements for their staff. Several charities have also left the Fund.

In addition to admissions and exits, the team manages the processes involved where Fund employers merge with other organisations, or otherwise change their status where pensions implications occur.

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 ultimately paid.

The team manages the covenant and risk assessment process, in accordance with policy set by the Fund. This process involves analysing financial performance and the associated issues that influence this, and requires engagement with employers. Where risk is identified, a number of measures can be put in place to mitigate these, the ultimate aim being to prevent losses to the Fund in the event of insolvency.

March 2019 Valuation

The next Fund valuation will take place next year – this is a large and complex exercise which ultimately determines employers' contribution rates over the subsequent triennial period. The valuation exercise requires providing the Fund's actuary with both detailed records and an awareness of employers' risk profiles, and will draw upon the results from covenant and risk assessment processes accordingly.

7. COMMUNICATIONS

The Team

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

Employers

The 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. Thirty two 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 the 15th November 2017 at the Hallmark Hotel in Leyland with over 80 employers in attendance. This year the presentations included a technical update, the new GDPR regulations and a training overview covering pay to name just a few. The service also hosted the Directors Brief in December on behalf of the fund with over 40 finance professionals in attendance.

Employer training was delivered either in groups or one to one for over 50 Payroll and HR practitioners at varying locations to assist them in providing accurate data to the service.

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. seventeen surgeries have been held across Lancashire since October 2017.

Drop in sessions are hosted during the year where members 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 35 pre-retirements courses throughout Lancashire this year.

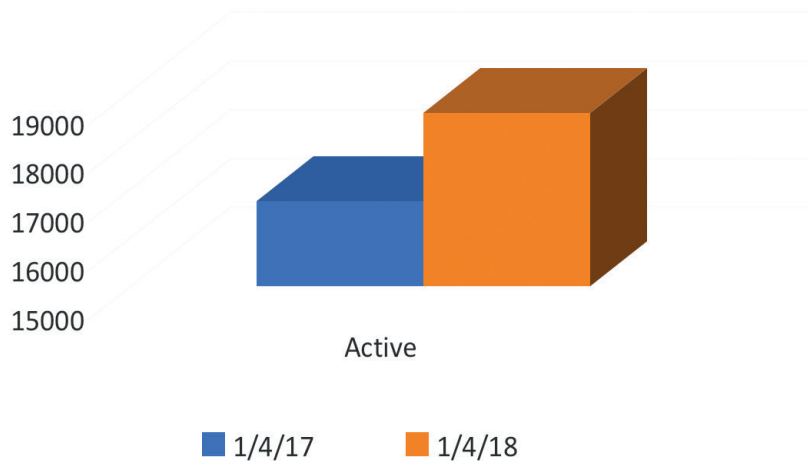
8. EPIC UPDATE

Monthly employee data files are submitted regularly each month by employers. The vast majority of employers submit files on a timely basis so that active data is as up to date as possible for members of the Lancashire Pension Fund.

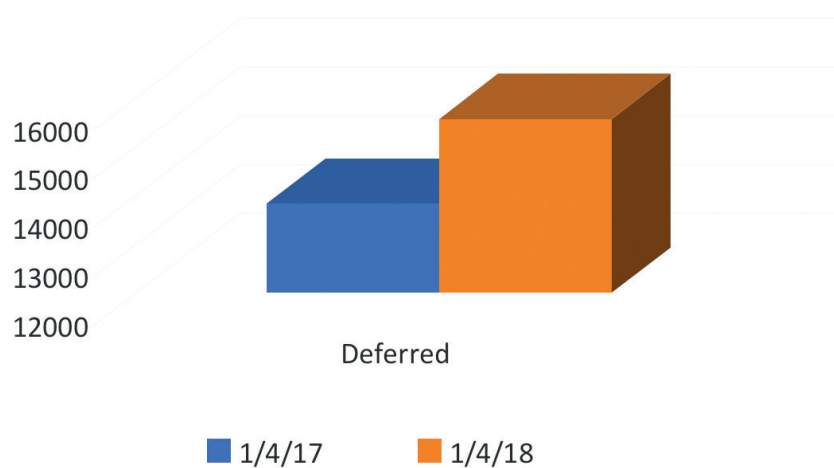
9. MY PENSION ONLINE (MPO)

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 to forms and guides and allows Your Pension Service to communicate with registered members via email. Currently over 53,000 Lancashire LGPS members are registered online (31% of total membership).

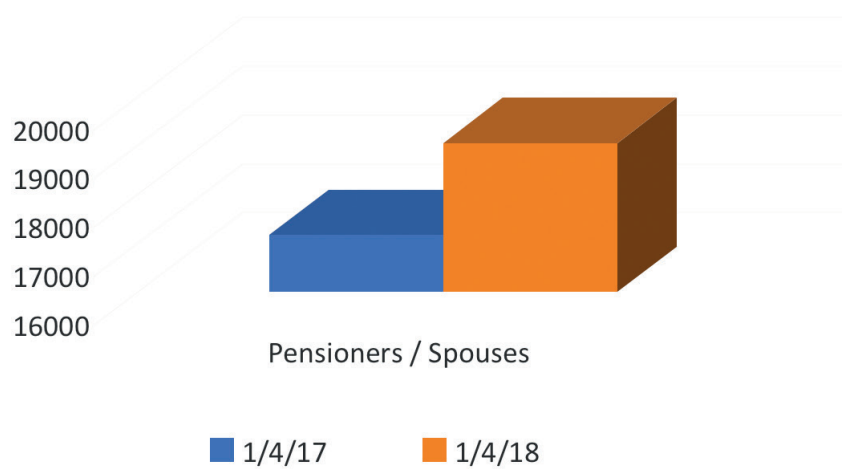
Active



Deferred



Pensioners / Spouses



Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

2017/18 Full year budget monitoring report (Appendix 'A' refers)

Contact for further information:

Abigail Leech, Head of Fund abigail.leech@lancashire.gov.uk

Executive Summary

This reports sets out the income and expenditure of the Fund for the year from 1 April 2017 to 31 March 2018 with comparison to the budget for the same period.

Recommendation

The Committee is asked to consider and note the analysis of variances between actual and budgeted financial results for the year ended 31 March 2018.

Background and Advice

The 2017/18 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through LPP.

The one year budget for the year ending 31 March 2018 was approved by the Pension Fund Committee at its meeting on 17 March 2017.

It was noted in the report to Committee in March 2017 that it is difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy but it was agreed that a quarterly review of variances against the budget would provide useful management information for the monitoring of the financial position of the Fund.

Referring to the key income and expenditure items outlined in the budget, a comparison of actual results to budget is set out below. Further information is set out at Appendix 'A'.

INCOME

Contribution income

- **Full year budget £246.5m, full year actual £237.9m**

Contributions include income from both members and employers. It covers regular and additional contributions including deficit contributions from employers.

A favourable variance of £8.2m in employer regular contributions is offset by lower than budgeted pension strain income from employers (£10.8m variance) and a shortfall in employer deficit contributions compared to budget (£5.8m).

Actual deficit contributions are £5.8m less than budget. The actual deficit contributions are in line with the final valuation results after taking into account amended recovery periods and discounts for prepayment.

Contribution income from employees is £0.2m below budget.

Transfers in

- **Full year budget £6.7m, full year actual £11.5m**

The budget for transfers in is based upon average income over the previous two years and an assumption that the income will begin to reduce in line with the number of employees within the member organisations.

Actual transfers in during the year to 31 March 2018 exceeded budget by £4.8m. This can be explained, in part, by the increase in active membership but as noted in previous monitoring reports, it is difficult to forecast this income with any degree of accuracy.

Investment income

- **Full year budget £109.2m, full year actual £142.0m**

A £37.0m favourable variance against budget for income from pooled investments is offset in part by a shortfall in income from other categories of investment (£2.6m) and foreign exchange movements (£1.6m).

Income from pooled investments includes £54.7m dividends from pooled equity funds which are reinvested. The income is reported in the fund account but the overall impact on the bottom line is nil as the reinvestment of the income is reflected in the net asset value of the pool.

EXPENDITURE

Benefits payable

- **Full year budget £254.6m, full year actual £254.8m**

The net budget overspend of £0.2m is the result of a £4.8m adverse variance on pensions paid against a favourable variance of £4.6m in lump sum benefits paid during the year. A full year saving of £2.3m on benefits payable was forecast in the December monitoring report but additional lump sum benefits paid in the final quarter of the year have eliminated this potential underspend.

Transfers out

- **Full year budget £13.8m, full year actual £17.4m**

The full year variance against budget is in line with the forecast reported to committee in March. Transfers out, like transfers in, are difficult to accurately forecast and are a function of membership and individual employees.

Administrative expenses

- **Full year budget £3.7m, full year actual £3.8m**

The £0.1m variance in administrative expenses represents additional costs paid to LPP for the pension administration service.

Investment management expenses

- **Full year budget £34.0m, full year actual £52.2m**

Initial guidance for transparent reporting of investment costs was issued by CIPFA in 2014 and the Lancashire Fund has been following the guidance since then. Updated guidance was issued in 2016.

The Fund is subject to both directly invoiced management fees and also fees which are netted off against the value of investments held on the net asset statement. The guidance requires all fees to be reported through the fund account and the value of investments to be 'grossed up' to eliminate the impact of these fees on asset value.

Since setting the budget for the year, and as more investment managers (including LPP) sign up to the transparency code, the availability of information regarding non-invoiced fees has increased. As a result the actual costs for the year include fees which were not recognised in the budget – for example, fees relating to investments in private equity.

The current budget monitoring position indicates an increase in expenses of £18.2m. At the time of writing, approximately £10m overspend can be attributed to private equity fees not included in the budget. These figures are under review and the remaining variance is considered likely to be the result of greater transparency of fee reporting in the current year. The draft figures will change before the final accounts are signed and the annual report published.

A detailed review of investment management fees is ongoing and final figures for publication will be presented to the committee in July.

Oversight and governance costs

- **Full year budget £8.3m, full year actual £8.0m**

£8.0m for oversight and governance costs include £3.3m property expenses which are netted off investment income for statutory reporting purposes in the annual report.

Property expenses are in excess of budget by £0.8m. These costs are offset by reduced expenditure on advisory, legal and professional fees and by a saving against the budget for LCC recharges.

Net surplus before realised and unrealised profits on investments

- **Full year budget £47.4m, full year actual £54.6m**

The net surplus of £54.6m for the full year to 31 March 2018 does not equate to additional cash or profit available to the Fund. It is the surplus of income over expenditure from an accounting perspective, before recognising the change in market value of investments held. The overall increase in the value of the Fund during the year to 31 March 2018 is £274.9m and this is reported in the draft accounts of the Fund which will be available for public inspection from 1 June.

The fund is 'cash flow negative' before accounting for investment income and changes in market value of investments. As detailed in the above narrative, benefit payable (including transfers out and refunds of contributions) amount to £272.7m and are partly funded for the year by contributions of £237.9m and transfers in of £11.5m.

The resulting net cash outflow from these transactions with members, together with administrative, investment management, oversight and governance costs is funded by investment income.

Consultations

Variances between actual results and budget, where relevant to LPP, have been discussed with the LPP finance team as appropriate.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget of the fund will provide an explanation of key variances and informs future budget setting and forecasting. The actual results for the year to 31 March 2018 and the variances from the budget for the same period

have been considered in setting the 2018/19 budget and in particular the increased transparency of fee reporting has been assumed to continue.

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

Paper	Date	Contact/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund
Fund Account Budget Monitoring - year ended 31 March 2018

INCOME
Contributions Receivable

From Employers
From Employees
Total contributions receivable

Transfers in

Total Investment Income

TOTAL INCOME

EXPENDITURE
Benefits Payable
Pensions
Lump Sum Benefits
Total benefits payable

Transfers out

Refund of Contributions

Contributions Equivalent Premium

Fund administrative expenses
Administrative and processing expenses
LPP administrative expenses
Other administrative expenses
Write off of bad debts
Total administrative expenses

Investment management expenses
Investment management fees
LPP directly invoiced investment management fees for non pooled investments
Transition costs
Other investment management fees - including LPP fees on pooled investments

Commission / Agents charges
Total investment management expenses

Oversight and Governance expenses
Performance measurement fees (including Panel)
IAS19 advisory fees
Other advisory fees (including abortive fees)
Actuarial fees
Custody fees
Audit fees
Legal & professional fees
LCC recharges
Bank charges
Property expenses
Total oversight and governance expenses

TOTAL EXPENDITURE

(SURPLUS) / DEFICIT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS

CHANGE IN MARKET VALUE OF INVESTMENTS - not budgeted

NET INCREASE IN THE VALUE OF THE FUND

Budget 12 months to 31-Mar-18 £'000	Actual 12 months to 31-Mar-18 £'000	Full year budget variance £'000 (Favourable) / Adverse
(189,753)	(181,374)	8,380
(56,722)	(56,522)	199
(246,475)	(237,896)	8,579
(6,650)	(11,518)	(4,868)
(109,227)	(142,008)	(32,781)
(362,352)	(391,422)	(29,070)
208,880	213,656	4,775
45,750	41,188	(4,562)
254,630	254,844	213
13,750	17,354	3,604
580	594	14
0	(27)	(27)
3,576	3,712	136
141	103	(39)
15	19	4
3,732	3,834	102
3,893	3,078	(815)
1,732	303	(1,429)
27,831	47,384	19,554
500	1,421	921
33,956	52,187	18,231
90	54	(36)
100	70	(30)
4,200	3,808	(392)
50	39	(11)
100	99	(1)
52	27	(25)
600	188	(412)
645	395	(250)
8	6	(2)
2,500	3,342	842
8,345	8,028	(317)
314,994	336,814	21,820
(47,358)	(54,608)	(7,250)
(220,135)	(220,135)	0
(267,493)	(274,743)	(7,250)

Full year
budget variance
%
(Favourable) / Adverse

7%

3%

35%

(4%)

6%

13%

Comments
Budget was set based upon initial valuation. Actuals are in line with final valuation after taking into account amended recovery periods and discounts for prepayment
Includes dividend income reinvested which is offset by change in market value 'below the line'.
Includes LCC recharge of treasury management function
LPP directly invoiced fees for non-pooled investments. Favourable variance is in line with expectations as investments have transitioned and fees are now reflected in net asset value. Budget was broadly based on prior year actuals which included fees of equity transition. Current year transition fees lower due to nature of investments. These fees are draft and calculated on a basis consistent with the 2016/17 statutory accounts. Include fees on private equity not budgeted. 3rd party information awaited from LPPI. Final figures will be included within statutory accounts and Fund Annual report. There will be a net nil impact on the 'bottom line' as any additional / reduced fees will be mitigated by an equal and opposite movement in the market value of investments (below).
£300k 'other' in budget not invoiced.
Nets with income from properties for statutory accounts

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

Lancashire County Pension Fund Budget 2018/19

(Appendix A refers)

Contact for further information:

Abigail Leech, Head Of Fund, Abigail.leech@lancashire.gov.uk

Executive Summary

A one year budget has been set for the Lancashire County Pension Fund for the year ending 31 March 2019.

This budget forecasts that there will be £58.8m available for investments (before realised and unrealised profits / losses) compared to £39.9m reported in the audited financial statements for the year ended 31 March 2017 and £54.6m presented in the draft financial statements for the year ended 31 March 2018.

Recommendation

The Committee is asked to note and approve the Fund budget for the year ended 31 March 2019 as set out at Appendix 'A'.

Background and Advice

It is not a constitutional requirement for a pension fund to set an annual financial budget but it is considered a useful monitoring tool for the assessment of the overall financial position and performance.

For Lancashire County Pension Fund (LCPF) the budget is considered an essential management tool for monitoring the achievement of planned savings through the pooling of investments.

A one year budget has been set for the Fund and this is included as Appendix 'A' to this report.

Previous budget assumptions, the draft (unaudited) position for the current year and investment strategy have been considered in arriving at this budget.

It is difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy but historic trends and current run-rates have been built-in where appropriate.

A summary of budget assumptions is set out below.

Contribution income budget £252.5m

Contributions from employers have been assumed at current membership levels with an increase in the rates consistent with the 2016 actuarial valuation and a 2% pay award.

Deficit contributions have been budgeted in line with the 2016 actuarial valuation with no recognition of discount or prepayment at this time.

A 3% inflationary increase in contributions from employees has been assumed together with a 2% overall increase in pay.

An increase in income from pension strain contributions has been incorporated in the budget on the assumption that other authorities and scheme employers will reduce budgets, and hence employee numbers, over the coming period.

Transfers-in budget £11.4m

Transfers in have been budgeted in line with the forecast for the current year as no visible trend has been established through review of historic data.

Investment income budget £144.4m

Investment income is difficult to predict. The majority of the Fund's investment income will arise on pooled funds following the transition of previously directly held investments.

The budget assumes that the current year forecast level of income from pooled investment together with income from fixed income and index linked investments will continue.

No variance in foreign exchange, interest and tax elements of investment income has been forecast.

FUND EXPENDITURE BUDGET

Benefits payable (including transfers out and refunds) budget £280.9m

A 3% inflationary increase has been applied to retirement, widow and children's pensions.

Transfers out and lump sum benefits payable on death and retirement are budgeted at levels consistent with 2017/18 and have been increased for inflation.

Administrative expenses budget £3.4m

Fund administration costs, payable to LPP are forecast at £3.3m for the year ended 31 March 2019 on the basis of a 'per member' administration cost of £17.08. This is an increase from £17.03 per member for the year to 31 March 2017 as a result of increased costs of Altair system licenses. The costs of liability modelling and employer risk functions have increased by 2.3% based upon CPIH.

Also included within administrative expenses is £0.1m payable to LCC as a recharge of treasury management resource employed on the Fund.

Investment management expenses £57.0m

Investment management expenses are a function of the value and performance of the underlying assets held within the Fund.

The Fund is subject to a number of different types of investment management expense.

Directly invoiced fees are budgeted to reduce as directly held investments are transitioned into pooled funds.

Fees on pooled funds are offset against asset value rather than invoiced separately. The Fund is working with LPP to identify these fees and recognise them in the Fund account in line with CIPFA guidance.

The budget of £53.2m for fees on pooled investments is £7.3m higher than the £45.9m actuals for 2017/18. This is mitigated in part by the reduction in directly invoiced fees (£2.4m), transition fees (£0.1m) and custody fees (£0.1m), leaving an overall budgeted increase of £4.7m in investment management expenses.

The carrying value of assets under management, that is the overall fund value, is forecast to increase each year and as a result, fund value based management fees (the most significant element of the LCPF fee structure) will also increase. These fees are charged by managers on the basis of bps.

The allocation of funds between asset classes also has an impact on forecast fees. LPP have advised that funds have been allocated to more expensive asset classes which are expected to earn higher returns and better match assets to the liability profile of the Fund.

LPP have adopted the transparency code and this should ensure more granularity of cost reporting. The budget for 2018/19 has begun to build on this with the recognition of fees on private equity, infrastructure and credit investments.

An updated forecast for fees will be provided to Committee throughout the year.

Transition costs are forecast to reduce in the coming budget year as the majority of asset classes will have transitioned by 31 March 2018.

Oversight and governance costs budget £8.1m

The budget for oversight and governance is in line with 2017/18 costs with an allowance for inflation on the costs of the independent advisor fees and property expenses.

No variance to the current year forecast has been anticipated for the recharge of corporate finance, legal, procurement and democratic services resource from LCC.

Internal and external audit fees have also been assumed level with the current year.

Budget net income available for investment before realised and unrealised profits and losses on investments is £58.8m this being 14% of total income.

Consultations

LPP for basis and recognition of investment management fees.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget of the fund will provide an explanation of key variances, better inform future budget setting and forecasting.

It will also ensure that the Committee has oversight of the costs of LPP and that the planned savings are being realised as in the approved business plan.

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
Fund Account - Budget for the year ended 31 March 2019

	Actual year ended 31 March 2018 £'000	Budget year ended 31 March 2019 £'000
INCOME		
Contributions Receivable		
From Employers	(181,374)	(193,100)
From Employees	(56,522)	(59,382)
Total contributions receivable	(237,896)	(252,483)
Transfers in	(11,518)	(11,370)
Total Investment Income	(142,008)	(144,397)
TOTAL INCOME	(391,422)	(408,250)
EXPENDITURE		
Benefits Payable		
Pensions	213,656	220,065
Lump Sum Benefits	41,188	42,424
Total benefits payable	254,844	262,489
Transfers out	17,354	17,875
Refund of Contributions	594	611
Contributions Equivalent Premium	(27)	(28)
Fund administrative expenses		
<u>Administrative and processing expenses:</u>		
LPP administrative expenses	3,712	3,300
Other administrative expenses	103	103
Write off of bad debts	19	10
Total administrative expenses	3,834	3,413
Investment management expenses		
<u>Investment management fees:</u>		
LPP directly invoiced investment management fees	3,078	663
DIRECTLY INVOICED non LPP investment management fees - direct holdings	1,462	1,462
Investment management fees on pooled investments	45,922	53,229
Transition costs	303	200
Custody fees	99	50
Commission / Agents charges	1,421	1,421
Total investment management expenses	52,286	57,026
Oversight and Governance expenses		
Performance measurement fees (including Panel)	54	75
IAS19 advisory fees	70	70
Other advisory fees (including abortive fees)	3,808	3,800
Actuarial fees	39	50
Audit fees	27	52
Legal & professional fees	188	188
LCC recharges	395	395
Bank charges	6	6
Property expenses	3,342	3,442
Total oversight and governance expenses	7,930	8,079
TOTAL EXPENDITURE	336,814	349,464
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	(54,608)	(58,785)

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: (All Divisions);
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Internal audit assurance

(Appendix 'A' refers).

Contact for further information:

Ruth Lowry, head of internal audit, (01772) 534898 ruth.lowry@lancashire.gov.uk

Executive Summary

The Pension Fund Committee's terms of reference include a requirement to monitor internal audit reports relating to the Pension Fund: this report gives a summary of the work done during 2017/18 and planned for 2018/19 including that for Local Pensions Partnership Ltd by Deloitte LLP.

The work done by the county council's Internal Audit Service covers the council's framework for corporate oversight of the Fund; custodianship of the Fund's assets; and the council's accounting for the Fund through its general ledger.

Recommendation

The committee is asked to receive and note the report.

Background and Advice

The county council's Audit, Risk and Governance Committee has prime responsibility for overseeing the work of the Internal Audit Service, but the Pension Fund Committee should also be aware of the assurance available over the operation of the Fund.

Consultations

The Head of the Pension Fund and Deloitte LLP have been consulted about the contents of this report.

Implications:

None.

Risk management

This report supports the Pension Fund Committee in undertaking its role, which includes monitoring internal audit reports and reviewing the outcome in relation to the Fund.

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

Paper	Date	Contact/Tel
-	-	-

Reason for inclusion in Part II, if appropriate

Not applicable.

Internal audit assurance for the Pension Fund Committee

1 Introduction

- 1.1 Lancashire County Council, as the administering authority of the Lancashire County Pension Fund, has prepared a governance policy statement that sets out the role of the council's Pension Fund Committee, Investment Panel and Pension Board. The Pension Board's terms of reference include the requirements that it should, "monitor internal and external audit reports" and "review the outcome of internal and external audit reports in relation to the Fund".
- 1.2 The county council's Audit, Risk and Governance Committee has a wider remit as set out in its terms of reference as follows:

"The primary purpose of the committee is to provide independent assurance to the members (being those charged with governance) of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place."
- 1.3 The Audit, Risk and Governance Committee's terms of reference address its oversight of the work of the Internal Audit Service in some detail, and include a requirement to,

"Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work...."
- 1.4 The Internal Audit Service's annual programme of work includes work relating to the Pension Fund and the Audit, Risk and Governance Committee considers both the annual plan and the outcomes of the work done during the year.
- 1.5 This report is therefore presented to the Pension Fund Committee for information regarding the outcomes of the internal audit work done during 2017/18 and the work included in the annual plan for 2018/19 relating to the Lancashire County Pension Fund.
- 1.6 It focusses on the work of the county council's Internal Audit Service but also refers to the work undertaken by Deloitte LLP for the Local Pension Partnership Ltd.

2 Internal audit work 2017/18

- 2.1 The work undertaken by the Internal Audit Service and the assurance it provides for 2017/18 are as follows. More details on the findings of the three audits undertaken are set out below.

Audit work	Assurance
Oversight of the Lancashire County Pension Fund	
Assessment of the council's governance framework to achieve corporate oversight of the Fund.	Substantial
Audit of the custodianship of the assets of the Fund.	Substantial
Audit of the council's accounting for the Fund through its general ledger.	Full
Obtaining and understanding the assurance provided by the Pension Fund's own internal auditors	
Assessment of the assurance proposed and, in due course, provided by Deloitte LLP over the Fund's administration and investment operations outsourced to Local Pensions Partnership Ltd.	Substantial

- 2.2 Explanations of the assurance provided by the Internal Audit Service are set out in section 5 of this report below.

Oversight of the Lancashire County Pension Fund

- 2.3 A framework of controls is in place to ensure that the Fund is properly governed, and the county council is able to appropriately oversee the Fund's activities through the Pension Fund Committee and the Lancashire Pension Board both of which include representation from the Fund's wider membership as well as the council. The committee takes executive and strategic decisions whilst the board's role is to ensure that legal and regulatory requirements are complied with, due process is followed, and risks are identified and controlled. Both reviewed their terms of reference during 2017, and the committee approved those of the board.
- 2.4 The control framework includes a three-year strategic plan reviewed by the committee, a suite of policies including a governance policy, an actively maintained risk register reviewed by both the committee and board, notification of impending regulatory changes and confirmation of compliance with regulations, quarterly stakeholder meetings and training for committee members. The Fund's financial performance and Local Pension Partnership Ltd's compliance with key performance indicators are presented to the committee quarterly, and meetings of the stakeholders in the partnership are held quarterly.
- 2.5 Whilst the committee has not reviewed all its policies as intended and not all members take up all offers of training, the governance and oversight framework is actively managed and appropriately implemented.

Custodianship of assets

- 2.6 To minimise operational investment risk, financial assets are held by a regulated, external custodian who keeps a register of holdings, collects income and distributes monies. The custodianship contract expires on 31 July 2018 and the Fund is currently procuring a new contract. The custodian previously held a number of different assets on behalf of the Fund but in 2016/17 the global equity portfolio was transitioned into a single pooled vehicle in which the Fund holds a share. As the Fund now holds fewer asset types the custodian role will focus more on accounting and performance reporting in future.
- 2.7 The data provided by the current custodian is appropriately reviewed and is reported consistently, reconciliations are undertaken and variances are identified and resolved.

Accounting for the Pension Fund through the council's general ledger

- 2.8 Lancashire County Council is the administering body for the Lancashire County Pension Fund and as such is responsible for its financial accounting arrangements. The controls in place to account for the Fund on the council's general ledger are effectively operated. We considered access to the Oracle Financials system, the management of accounting codes on the ledger, posting and reconciliation of feeder files and sub-ledgers, authorisation of journal entries to the system, clearance of suspense accounts and system controls to prevent, correct or report imbalances, errors and invalid postings.
- 2.9 We also confirmed that each of the actions agreed during our previous audit in 2016/17 have been implemented.

3 Internal audit work undertaken by Deloitte LLP during 2017/18

- 3.1 Local Pensions Partnership Ltd has appointed Deloitte LLP as its internal auditor and the committee should note the scope of work undertaken for this service provider to the Lancashire County Pension Fund. Deloitte disclaims any liability to the Council and Lancashire County Pension Fund for any reliance they may place on this work but have agreed that their conclusions may be reported to the Audit, Risk and Governance Committee and Pension Fund Committee.
- 3.2 At the time this report was prepared, Deloitte had completed and reported eight audits under the first year of its three-year risk-based audit plan.

Control area	Assurance
Lancashire Pension Fund	
Benefit administration.	Effective
Governance.	Effective with scope for improvement
Investment governance.	Effective with scope for improvement
Oversight of LPPL's business and transformation change (phase 1).	Effective with scope for improvement
General IT controls operating over the Altair and Access Dimensions systems.	Effective with scope for improvement

Control area	Assurance
Core systems and infrastructure migration (phase 1).	Effective with scope for improvement
Oversight of administration business transformation (phase 1).	Effective with scope for improvement
Financial closing and reporting.	Effective with scope for improvement

4 Internal audit plan 2018/19

- 4.1 The following work relating to the Lancashire County Pension Fund has been included on the audit plan for the county council in 2018/19.

Operational area of activity	Audit work
Oversight of the Lancashire County Pension Fund.	Follow up of 2017/18 audit work.
Performance management in the Fund	Audit of the adequacy and effectiveness of performance management arrangements including reporting and data quality.
New custodianship arrangements for the Fund	Audit of new arrangements following the award of a new contract, including compliance testing.
Audit of the council's accounting for the Fund through its general ledger.	Follow-up of the action agreed in 2017/18.
Core financial systems: cash flow management.	Audit of arrangements to ensure the Fund is able to meet payments as they become due.
Obtaining and understanding the assurance provided by the Pension Fund's own internal auditors.	Assessment of the assurance provided by Deloitte LLP over the operation of the Fund by Local Pensions Partnership Ltd.

- 4.2 The work that Deloitte plans to undertake for Local Pensions Partnership Ltd is as follows:

Coverage	Key risk areas
Data protection/ privacy	The EU General Data Protection (GDPR) comes into force on the 25 May 2018. The new law will introduce a range of requirements that will have significant impacts on LPP due to the significant amount of personal data the organisation holds and its plan to introduce home working for staff within the Administration business.
Cybersecurity	Strong controls over cyber security are essential. We will focus on the development of the cyber strategy including LPP's ability to defend and respond to this risk.
Core systems and infrastructure (phase 2)	Migration of the LPP network on to a private cloud is a key enabling activity for further change within the LPP businesses.
Investments – MiFID II compliance	A review of the policies and procedures in place for monitoring compliance with FCA regulatory requirements and an evaluation of

Coverage	Key risk areas
	process by which the regulatory impact of changes in the business are identified and planned for to including horizon scanning. To include an assessment of compliance with MIFID II including best execution, conflicts of interest and personnel account dealing.
Third party oversight	Dependence on outsourced providers for key business activities leads to high impact of control failure and increased likelihood of operational failure, reputational loss and financial loss if outsourcing arrangements are not adequately monitored and controlled. LPP outsource part of the investment management and custodianship function and a review of the oversight of these relationships, such as review SLAs and monitoring of KPIs, is key to confirming effective supervision.
Core financial controls	The design and operation of core financial controls is essential to enable effective function of LPP. In year two of the plan we would focus on quality of Management Information and reporting.
Investments – legal and regulatory compliance	A review of policies in place for monitoring compliance with regulatory compliance and an evaluation of the process by which the regulatory compliance and an evaluation of the process by which the regulatory impact of changes in the business are identified and planned for including horizon scanning. To include assessment of compliance with financial crime regulations including Bribery Act, Market Abuse Regulations and Anti-Money Laundering Regulations.
Benefits administration	There is significant variation in the complexity of benefit awards that the LPP Administration calculates and pays to members of the participating funds. The calculation of these benefits are performed by a number of geographical dispersed teams. In year two of our plan we would focus on transfers out of the local government pension scheme, teachers' compensation scheme, firefighters' pensions, police pensions and member complaints.
Administration transformation (phase 2)	The Administration business has set itself a significant change agenda. The change is planned to be delivered by April 2018 and will need to be delivered whilst maintaining quality of service to members.

5 Audit assurance levels and classification of residual risks

- 5.1 The assurance levels and classification of risks within Lancashire County Council's Internal Audit Service for 2017/18 are as follows. Please note that these definitions will be amended for work undertaken in 2018/19.

Assurance levels

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.

Classification of residual risks requiring management action

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 the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. Remedial action must be taken immediately.

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 council's reputation. Remedial action must be taken urgently.

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. Prompt specific action should be taken.

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. *Specific remedial action is desirable.*

- 5.2 The overall risk ratings applied by Deloitte to its reports, and the descriptions of risk mitigation and control effectiveness are as follows.

Overall report rating	Description of risk mitigation and control effectiveness
Ineffective	<p>Risk mitigation or control absent or ineffective – high risk of failure in prevention, detection, and risk mitigation and/ or control activities for audited functions, processes and activities.</p> <p>Multiple high priority findings/ issues or significant number of either high or medium priority findings/ issues.</p>

Overall report rating	Description of risk mitigation and control effectiveness
Effective with scope for improvement	<p>Risk mitigation activities and controls may be compromised or fail – moderate risk of failure in risk mitigation and control with some need and justification to improve risk mitigation and control activities for audited functions, processes and activities.</p> <p>Some high priority issues or a significant number of medium and low priority findings/ issues.</p>
Effective	<p>Compliant (adequate in the circumstances) – low risk of failure in risk mitigation and control and some scope or justification to improve risk mitigation and control activities for audited functions, processes and activities.</p> <p>No high priority findings/ issues. Some moderate and low priority findings/ issues.</p>

Risk rating	Description of risk mitigation and control effectiveness
High	The issue presents a risk that involves a direct exposure to significant assets or a significant potential financial loss. Lack of appropriate controls could have a considerable impact on operations, compliance with laws and regulations, or financial results.
Medium	The issue presents a risk, which involves an indirect exposure to significant assets and could have a moderate impact on operations, compliance with laws and regulations, or financial results.
Low	The issue and associated risks have limited impact on operations, compliance with laws and regulations, or financial results.

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

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

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic services Officer, mike.neville@lancashire.gov.uk

Executive Summary

An update on pension related training, conferences and events attended by members of the Committee since the last meeting. Individual members of the Committee are requested to provide feedback on their experiences.

Recommendation

The Committee is asked to note the report and any feedback given at the meeting.

Background and Advice

At the meeting on the 23rd March 2018 the Committee agreed a revised Training Policy which set out the Fund's approach to supporting the learning and development needs of individuals with responsibility for the strategic direction, governance and oversight of the LCPF through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

Since the last meeting members of the Committee have attended the following pension related training.

11th April 2018 - Workshop on the management of the property investment portfolio at County Hall, Preston, attended by County Councillors G Dowding, C Edwards, K Ellard T Martin, J Mein, E Pope and A Riggott. Co-opted members Councillor D Borrow, Mr P Crewe and Councillor R Whittle also attended.

10th May 2018 - SPS ESG and Sustainable Investments for Pension Funds Conference at Le Meridien Piccadilly, London attended by County Councillor J Mein

21st to 23rd May 2018 - PLSA Local Authority Conference 2018 at the De Vere Cotswold Water Park Hotel in Gloucestershire, attended by County Councillors E Pope and J Mein.

22nd May 2018 – Workshop on Infrastructure and credit at County Hall, Preston, attended by County Councillors J Burrows, S Clarke, G Dowding, C Edwards, K Ellard, T Martin, and A Riggott. Co-opted members Councillor D Borrow, Mr P Crewe and Councillor R Whittle also attended.

Individual members of the Committee are requested to provide feedback on their experiences 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 may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions regulator. Failing to implement an adequate Training Policy and framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure Pension Fund Committee and Lancashire Local Pension Board members are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

Any cost associated with attendance, travel and subsistence associated with at conferences were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance at Conferences and Events approved by the Head of Fund under the Scheme of Delegation to Heads of Service	April to May 2018	Mike Neville (01772) 533431

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

Pension Fund Committee

Meeting to be held on Friday, 8th June 2018

Electoral Division affected: None;

Review of Committee Member Training Record for 2017/18

(Appendix 'A' refers)

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

The Training Record of internal/external training undertaken by members of the Committee in 2017/18.

Recommendation

The Committee is asked to review the Training Record set out at Appendix 'A' and comment as appropriate.

Background and Advice

At the meeting on the 23rd March 2018 the Pension Fund Committee agreed a revised Training Policy for the Lancashire County Pension Fund which applied to both the Committee and the Lancashire Local Pension Board.

The objectives of the Training Policy are to ensure that individuals have appropriate support to gain the breadth/depth of knowledge needed to fulfil their responsibilities effectively and that the Fund complies with guidance for providing training from the following sources:

- a) The Public Service Pensions Act 2013
- b) CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills 2013
- c) CIPFA Knowledge and Skills Framework
- d) CIPFA Local Pension Boards: Technical Knowledge and Skills Framework
- e) The Pensions Regulator: Code of Practice for Public Service Schemes No.14 Governance and Administration of Public Service Pension Schemes
- f) The Stewardship Code (Myners Principles)

Members of the Committee and the Board are personally responsible for maintaining a record of their personal learning (self-directed study) as a basis for demonstrating the steps they have taken to comply with the requirement to gain the knowledge/understanding needed to fulfil their responsibilities effectively and mitigate risks posed by any gaps in their knowledge

In addition, the LCPF maintains a central record of member attendance at training events and of the individual learning needs identified through self-assessment to ensure the Fund is able to comply with requirements under CIPFA's Code of Practice on Public Sector Pensions Finance Knowledge and Skills to include information within the Fund's Annual Report on:

- how the knowledge and skills framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the training needs identified

Member compliance with the Training Policy and with the wider CIPFA Knowledge and Skills frameworks will be reviewed periodically in order to determine whether the risk posed from individuals having insufficient knowledge to meet their responsibilities (a risk formally identified within the Fund's Risk Register) is being adequately managed and mitigated through the arrangements put in place under the Training Policy and framework.

Between 1st May 2017 and 30th April 2018 members of the Committee have had an opportunity to attend a range of internal workshops and external conferences or seminars to support the development of their knowledge and understanding of pension related matters. The attendance details for individual members of the Committee are set out in the training record for 2017/18 attached at **Appendix 'A'**.

Consultations

The Head of Fund.

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions regulator. Failing to implement an adequate Training Policy and framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure Pension Fund Committee and

Lancashire Local Pension Board members are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

Any cost associated with attendance, travel and subsistence associated with at conferences were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance sheets from internal pensions workshops	2017/18	M Neville 01772 533431
Scheme of Delegation approvals for member attendance at external Conferences/Seminars	2017/18	M Neville 01772 533431

Reason for inclusion in Part II, if appropriate

N/A

County Councillors

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
County Councillor E Pope (Chair)				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
11 Oct 2017	Local Gov Pension Investment Forum	Hilton Tower Bridge Hotel, London	KNECT365	1 Dec 2017
18/20 Oct 2017	Annual Conference and Exhibition	Manchester	PLSA	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
6-8 Dec 2017	Annual Conference (Responsible Investment)	Highcliff Marriott Hotel in Bournemouth	LAPFF	23 Mar 2018
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
County Councillor J Burrows				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
27 Sept 2017	Introduction to the LGPS	Northern Trust Offices, Canary Wharf, London	CIPFA	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
1/2 March 2018	LGC Investment Seminar	Carden Park Hotel near Chester	LGC	23 Mar 2018
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
County Councillor S Clarke				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
27 Sept 2017	Introduction to the LGPS	Northern Trust Offices, Canary Wharf, London	CIPFA	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
County Councillor C Edwards				
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston (online)	LCC	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston (online)	Indpt Advisers	1 Dec 2017
14 March 2018	Workshop on LPP Development	County Hall, Preston (online)	G Smith (LPP)	23 Mar 2018
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
County Councillor A Riggott				
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
County Councillor A Schofield (Deputy Chair)				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
23 Nov 2017	LGPS in Flux – Investment Issues and Solutions Conference	Le Meridien Piccadilly London	SPS	1 st Dec 2017 Oral
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
County Councillor A Snowden				
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
County Councillor K Ellard				
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
7/8 Sept 2017	LGC Investment Summit 'Navigating the new landscape'	Celtic Manor Resort, Newport, South Wales.	Local Govt Chronicle	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
18/20 Oct 2017	Annual Conference and Exhibition	Manchester	PLSA	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
1/2 March 2018	LGC Investment Seminar	Carden Park Hotel near Chester	Local Govt Chronicle	23 Mar 2018
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
County Councillor J Fillis				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
29/30 June 2017	14th Annual LGPS Trustees' Conference - "Brave New World"	Marriott Highcliff Hotel, Bournemouth	Local Govt Assoc	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
County Councillor T Martin				
18/20 Oct 2017	Annual Conference and Exhibition	Manchester	PLSA	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
County Councillor J Mein				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
7/8 Sept 2017	LGC Investment Summit 'Navigating the new landscape'	Celtic Manor Resort, Newport, South Wales.	Local Govt Chronicle	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
27 Sept 2017	Introduction to the LGPS	Northern Trust Offices, Canary Wharf, London	CIPFA	1 Dec 2017
11 Oct 2017	Local Gov Pension Investment Forum	Hilton Tower Bridge Hotel, London	KNECT365	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
County Councillor G Dowding				
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018

Co-opted Members

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
Mr Paul Crewe (Trade Union Representative)				
15/17 May 2017	Local Authority Conference	De Vere Cotswold Water Park in Gloucestershire	PLSA	30 June 2017
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
Mr James Tattersall (Trade Union Representative)				
Councillor D Borrow (Borough, District and City Councils representative)				
18/20 July 2017	The LAPF Strategic Investment Forum	The Grove, Hertfordshire	LA Pensions Investors and their Advisors	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017

Date(s)	Event/Conference/Workshop	Venue	Provider	Date reported to Committee
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
2 Nov 2017	Workshop on revised Investment Strategy	County Hall, Preston	Indpt Advisers	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
30 Jan 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	S Moseley LPP	23 Mar 2018
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
Councillor I Moran (Borough, District and City Councils representative)				
Councillor Mark Smith (Blackpool Council)				
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
Councillor Ron Whittle (Blackburn with Darwen Council)				
23 June 2017	Workshop on Annual report and Accts	County Hall, Preston	LCC	15 Sept 2017
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017
20 Sept 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	LCC	1 Dec 2017
11 Oct 2017	Local Gov Pension Investment Forum	Hilton Tower Bridge Hotel, London	KNECT365	1 Dec 2017
23 Nov 2017	Workshop on General Data Protection Regulations and the Markets in Financial Instruments Derivative.	County Hall, Preston	J Ahlberg LPP Andy Fox LPP	1 Dec 2017 Oral
14 March 2018	Workshop on LPP Development	County Hall, Preston	G Smith (LPP)	23 Mar 2018 Oral
11 th April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	R Tomlinson (LPP)	8 th June 2018
Ms Jennifer Eastham (FE and HE Sector)				
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	LCC	15 Sept 2017

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: (All Divisions);
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Responsible Investment

(Appendix 'A' refers)

Contact for further information:

Abigail Leech, (01772) 5 30808 abigail.leech@lancashire.gov.uk

Head of Fund, Lancashire County Pension Fund

Executive Summary

Responsible Investment (RI) encompasses a range of stewardship activities associated with Lancashire County Pension Fund (LCPF) fulfilling its fiduciary duty to act in the best long-term interests of fund beneficiaries.

Both LCPF and LPFA are currently asset owner signatories to the Principles of Responsible Investment (PRI) which is recognised as a standard of good practice. For practical reasons it is recommended that LPP should become an asset owner signatory to the PRI in place of LCPF and LPFA; the context which recommends this as an appropriate course of action for the partnership to take are explained in this report. The report at Appendix 'A' also provides the Pension Fund Committee with an update from LPP Investments Ltd (LPP I) on RI matters during the first quarter of 2018.

Recommendation

The Committee is asked to

1. approve the proposal that LPP should become a signatory to the PRI, replacing LCPF;
2. approve a review of the Fund's current stewardship statement after the new UK Stewardship Code has been issued in Spring 2019;
3. note the report on RI activity at Appendix 'A'.

Background and Advice

The report at Appendix 'A' has been prepared by the Responsible Investment Manager at LPP Investments Ltd and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement and the Responsible Investment Policy approved by the Committee at its last meeting in March 2018.

For the purposes of reporting on voting, engagement and litigation monitoring activities, the information provided relates to the first quarter of 2018/19 and focusses on the period from 1st January to 31 March 2018. For the purposes of reporting on wider matters, more recent developments are also reflected as part of bringing current and emerging issues to the Committee's attention.

Principles of Responsible Investment (PRI)

The PRI reflects the role and RI potential of LGPS Pools as active stewards of the assets brought together to create increased investment scale and enable RI resources and expertise to be shared by partnering funds. The positive benefits of encouraging the participation of Pools as signatories to the PRI have been under consideration, prompted by applications received from Brunel, Central and the London CIV to become asset owner signatories to the PRI on the collective behalf of the funds they represent.

Pools are recognised by the PRI to have significant potential for materially increasing the value of assets being managed in accordance with RI principles. Enabling Pools to be PRI signatories is consequently seen as something to be strongly encouraged by the PRI. A practical challenge has been identified however, which needs to be overcome to achieve this end. This is the duplication within reporting which will occur if underlying LGPS funds and the Pools which manage their assets are signatories of the PRI simultaneously. There are only three pools with underlying LGPS funds who are already signatories to the PRI. LPP is one of these, with both LCPF and LPFA currently being signatories. On reflection, the PRI has concluded that the best solution to this issue is to encourage Pools to become PRI signatories, and, where they do so, require underlying funds to delist in order to avoid duplicated costs and reporting. LPP have been contacted and have responded positively to initial dialogue and encouragement. The committee is asked to support the approach outlined by the PRI.

Membership invoices have been received for the year ahead by all PRI signatories and payment is now due. It is timely for the partnership to take a decision on membership at the beginning of the reporting year - before payment is made – to avoid abortive costs and to allow LPP to apply to be a PRI signatory as soon as practicable.

To provide a balanced view, the positives and negatives of this course of action have briefly been identified below.

Positives	Negatives
Up to 50% cost saving for the partnership. £8.5k max fee per asset owner (£17k) annually v a max cost to LPP of £8.5k annually	LCPF and LPFA could no longer state they are PRI signatories (as evidence of their commitment to RI). Mitigation – LCPF / LPFA can publicise that they require LPP (their asset manager) to be a PRI signatory, to deliver against the principles and to report annually on their RI activities.

Positives	Negatives
<p>Wider Benefit. Signatory status would apply to all assets under management by LPP I which would extend benefits/assurance to other clients as and when the partnership grows.</p> <p>Partnership membership of the PRI is a positive message/symbol of joint working and also removes the attendant cost/bureaucracy of annual reporting for LCPF and LPFA separately (which takes upwards of a week per fund).</p> <p>The PRI reporting process is primarily focussed on practical activity which now sits with LPP rather than with LCPF and LPFA (who set strategy). The PRI reporting process is becoming more onerous each year and it will become ever harder for LCPF/LPFA to score well against the framework measures given the delegated stewardship model now in place to accommodate asset pooling.</p>	<p>LCPF would cease to have direct access to PRI services and signatory-only resources.</p> <p>Mitigation – signposting to useful resources and events can be provided by LPP (as now). LCPF has not historically made direct use of PRI resources and interactions have universally been via LPP/the RI Manager to date rather than by the Fund direct.</p>
<p>Time/Resource Saving</p> <p>LPP I is currently reporting at arms-length for two separate clients both with different local RI policies. This would be replaced by one set of reporting annually by LPP.</p> <p>The annual PRI reporting process would focus specifically on LPP and would capture the policies, procedures, priorities, activities, and collaborations via which RI is being delivered in practice.</p>	
<p>Performance Transparency</p> <p>Annual reporting would relate directly to how LPP is performing. PRI Transparency Reports and Assessment Reports would offer an independent basis for LCPF to hold</p>	

LPP to account (with the benefit of comparison against an objective external measure of best practice which is evolving over time).	
<p>Collaboration</p> <p>LPP would be able to join collaborations and initiatives organised by PRI in its own right. Only signatories are allowed to do this which is currently a barrier to LPP building networks with PRI signatories for collaborative purposes.</p>	

In addition to reflecting the route that is being recommended by the PRI, the practical benefits of LPP becoming a PRI signatory on behalf of the partnership appear compelling. The committee are therefore asked to support LPP becoming an asset owner signatory to the PRI, which will require LCPF to delist as a signatory. Following this course will commit LPP to reporting publicly (via the annual PRI reporting process) on how the 6 principles are being implemented within their stewardship activities as part of the practical fulfilment of LCPF's fiduciary and ownership responsibilities.

UK Stewardship Code

It is good practice for the Committee to review the Fund's statement of compliance with the Stewardship Code to ensure that it remains up to date as an account of how the requirements of the code are being fulfilled. The regularity and timing of the review is not prescribed however. A decision is needed on when the Committee should next review the Fund's statement of compliance, but this could potentially be influenced by the announcement by the FRC (which publishes and oversees the code) of an indicative timetable for a consultation on updating code.

The FRC has indicated that it plans to issue a consultation on a revised Stewardship Code in October 2018 with a final version of the Stewardship Code planned for Spring 2019. The Committee are asked to consider whether, in light of this, a review of the current statement should be postponed until the new code has been issued, reflecting that stewardship arrangements have not materially changed since the statement was refreshed in May 2017 and a delay will avoid abortive work.

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.

Involvement in a non-US type of “class action” may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

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

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED



Lancashire County Pension Fund

Pension Fund Committee Responsible Investment Report

8 June 2018

Title of Paper	Quarterly Report on Responsible Investment (2018 Q1)
Lead Officer:	Frances Deakin Responsible Investment Manager Local Pensions Partnership Investments Ltd frances.deakin@localpensionspartnership.org.uk
Appendices	None

1. Executive Summary

This report provides members of the Pension Fund Committee 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 (ISS) 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 ISS is due to be updated to reference the Responsible Investment Policy agreed by the Pension Fund Committee at its last meeting in March 2018.

The Fund's preferred approach to RI encompasses four main areas of activity:

- Voting Globally
- Engagement through Partnerships
- Shareholder Litigation
- Active Investing

Responsibility for the practical implementation of the Fund's approach to RI is devolved to 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 2018 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. This reflects that clients who hold units in the GEF are beneficial owners in common but do not directly own underlying securities.

LPP I exercise shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers and take account of voting recommendations received from an external provider of proxy voting and governance research (ISS) in accordance a Sustainability Voting Policy designed to ensure the consideration of ESG factors within analysis. LPP I review voting recommendations and take the final decision on all voting.

In the first quarter of 2018 shareholder voting headlines for the GEF were as follows:

LPP Global Equities Fund (GEF)

Total company meetings taking place	54
Total resolutions (management and shareholder proposals)	671
Total company proposals in the period	649
Total shareholder proposals in the period	22

Company Proposals

Voting was in line with Management recommendations	615	95%
Voting was against Management recommendations	34	5%

Shareholder Proposals

Shareholder proposals supported by LPP I	10	45%
Votes against shareholder proposals	12	55%

The table below summarises resolutions by type and indicates the subject of shareholder resolutions seen in Q1.

Resolutions by Type		Proposals	Examples
M	Antitakeover Related	2	
M	Capitalization	38	
M	Director Related	361	Sodexo/Starbucks
M	Non-Salary Compensation	61	Sodexo
M	Reorg. and Mergers	17	
M	Routine/Business	170	
SH	Corp Governance	1	Costco
SH	Director Related	11	
SH	Health/Environmental	1	Starbucks
SH	Other/misc.	3	Starbucks
SH	Routine/Business	5	
SH	Social Proposal	1	Costco
Total		671	

LPP voted against management resolutions in 34 instances.

At **Sodexo** (French food services and facilities management company) LPP opposed management on 7 resolutions including:

- the re-election of 3 directors due to a lack of sufficient Board independence

- the Remuneration Policy for the outgoing CEO /the Remuneration Policy for the incoming CEO due to the lack of information on certain points and the absence of cap on exceptional remuneration
 - the compensation of the CEO due to lack of information on certain points
- Meeting results confirm that all management resolutions passed with a large majority.

At **Svenska Cellulosa AB** (Nordic Forest Products) LPP opposed management on 4 resolutions including:

- the re-election of Directors holding multiple other chairmanships/directorships/non-executive directorships.
- The election of the Board Chairman for excessive other commitments
- the remuneration policy and terms of employment for Executive Management due to a lack of disclosure concerning the company's long-term, cash-based variable remuneration plan.

Meeting results confirm that all management resolutions passed with a large majority.

LPP supported shareholder proposals in 10 instances across 7 company AGMs. The resolutions gaining support covered familiar territory in seeking to tackle governance issues and increase the potential for shareholder influence.

Resolutions seeking to improve proxy access (the rights of shareholders to nominate directors) were as follows:

Company	Sector	Result	Pass/Fail
Becton, Dickinson and Co	American global medical technology company	27.6% support	Fail
Apple Inc.	American multinational technology company	32.19% support	Fail

Resolutions seeking to amend byelaws and articles of incorporation (to strengthen SH rights and governance practices) were as follows:

Company / Issue	Sector	Result	Pass/Fail
Deere & Co / establish a SH right to call Special Meetings	American agricultural/industrial machinery company	28.96% support	Fail
KB Financial Group / enshrine a recent byelaw change on the composition of the Nomination Committee within the articles of incorporation	Korean financial services company	Results are not published	Unknown

Additionally, LPP supported a shareholder proposal at Costco Wholesale Corp. (American operator of discount warehouse stores) to replace the company's current supermajority vote provisions with simple majority voting. The Resolution passed with 86% support.

There was only one shareholder resolution on an environmental theme in Q1 and this was at Starbucks where LPP supported 3 shareholder resolutions in total. Details of these resolutions and the AGM results are shown below:

Resolution	Detail	Result	% Support
Report on sustainable packaging	Asking the company to address a drastic backtrack from an original (2008) goal to have 100% of cups recyclable or reusable by 2015. Currently only 1.4% are reusable and the Co's revised goal proposes to increase usage to 2.8% by 2022. Other large food service companies have declared aggressive targets for recyclability.	Rejected	29.16%
Amend Proxy Access Bylaw	Ensure meaningful proxy access to a greater number of shareholders. Remove the current limitation on the number of stockholders that can aggregate their shares to arrive at the 3% required to be eligible to form a nominating group.	Rejected	32.7%
Produce an Employment and Diversity Report and Report on Diversity Policies	Starbucks does not release comprehensive workforce data or results of diversity initiatives to its shareholders despite saying that it promotes workforce diversity. Lack of disclosure leaves shareholders with inadequate information to determine the company's success in expanding workforce diversity and capturing the potential value creation generated by a highly diverse workforce.	Rejected	34.74%

Members can view details of voting for all meetings via the LPP website where quarterly reports for the GEF are made publicly available.

<https://www.localpensionspartnership.org.uk/what-we-do/investment-management>

4. Engagement through Partnerships

LPP I regularly participates in collaborations which aim to make progress on commonly held issues by co-ordinating the efforts of multiple investors. Key partners include the Local Authority Pension Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) the Institutional Investor Group on Climate Change (IIGCC) the LGPS Cross Pool RI Group, and the UK Pension Fund RI Roundtable.

LAPFF

LAPFF has long been LCPF's preferred engagement partner.

The Forum's AGM and most recent quarterly Business Meeting took place on 28 March 2018 where the Fund was represented by the Chair of the Pension Fund Committee and the Head of Fund.

The AGM encompassed a ballot on proposed amendments to the LAPFF Constitution reflecting changes required to accommodate the membership, representation and participation of LGPS Pools. Results distributed after the meeting show all but one

amendment to the constitution was accepted but members voted not to allow pool representatives to chair the LAPFF Executive.

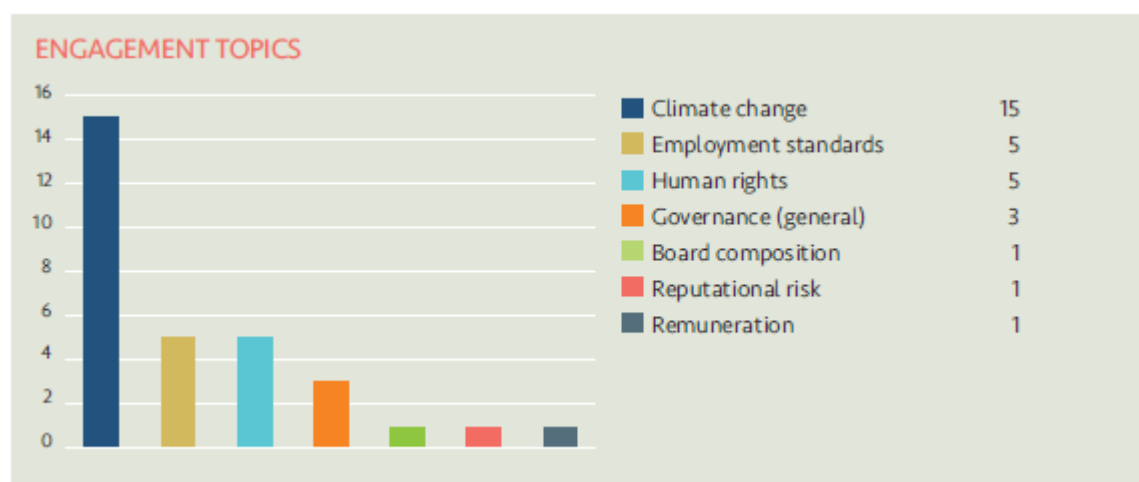
Forum members supported a pragmatic proposal that LAPFF Executive elections should be deferred until after the May local council elections to enable new participants to come forward from the widest possible candidate pool. Member funds have been asked to consider/prepare to put candidates forward as nominees for both officer and elected member roles on the Executive. In particular there is a need for candidates to replace current councillors on the Executive who did not re-stand at the May local elections and will step down from the Executive at the next AGM.

LAPFF Q1 Engagement Report

The LAPFF engagement programme reflects the Forum's assessment of key priorities from across the collective equity holdings of LAPFF members. On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf which is available from the LAPFF website.

<http://www.lapffforum.org/publications/qrtly-engagement-reports/>

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



The companies engaged with and the topics raised by LAPFF in Q1 were as follows:

Q1 2018 ENGAGEMENT DATA			
Company	Topics	Activity	Outcome
Banco Santander SA	Employment Standards	Letter	Dialogue
Bayerische Motoren Werke AG	Climate Change	Letter	Dialogue
Caterpillar Inc	Human Rights	Letter	Awaiting Response
Daimler AG	Climate Change	Letter	Dialogue
ExxonMobil	Climate Change	Letter	Awaiting Response
Ford Motor Company	Climate Change	Letter	Awaiting Response
G4S plc	Human Rights	Letter	Dialogue
Hargreaves Lansdown plc	Climate Change	Letter	Awaiting Response
Lloyds Banking Group plc	Governance/Cybersecurity	Letter	Dialogue
Motorola Solutions Inc	Human Rights	Letter/Meeting	Dialogue
National Express plc	Employment Standards	Meeting	Change in Process
Pearson plc	Governance	Letter	Awaiting Response
Provident Financial plc	Governance/Reputational Risk	Meeting	Small Improvement
Rio Tinto Group (AUS)	Climate Change	Meeting	Dialogue
Rolls-Royce Holdings plc	Climate Change	Letter	Dialogue
Royal Dutch Shell plc	Climate Change	Meeting	Dialogue
Sports Direct International plc	Employment Standards	Letter	No Improvement
Tesla Inc	Remuneration	Alert Issued	Awaiting Response
Volkswagen AG	Climate Change	Letter	Awaiting Response
Wizz Air Holdings plc	Climate Change	Letter	Dialogue

The quarterly statistics show that Climate Change continues to be the issue attracting greatest attention from LAPFF on behalf of member funds.

Climate Action 100+

LPP I has committed to participating in Climate Action 100+. This is a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. For the UK and Europe, the initiative is being co-ordinated by the Institutional Investor Group on Climate Change and the PRI and will involve collaborative engagements which bring the resources and concerns of institutional investors together as part of an agreed, organised and common approach.

LPP I is an investor participant and is part of an investor group due to engage collaboratively with Nestle.

Financial Reporting Council (FRC)

The RI Manager met with the FRC in early May to discuss both a recent consultation on the Corporate Governance Code and a forthcoming review of the UK Stewardship Code.

The meeting was between the FRC and members of the LGPS Cross Pool Responsible Investment Group. It reflected joint efforts to establish a good flow of information and a supportive and informed working relationship.

Corporate Governance Code (CGC)

The CGC sets good practice standards for UK listed companies in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. Companies are required to report, as part of their annual report and accounts, on how they have applied the main principles of the Code. They must confirm that they have complied with the Code's provisions or – where they have not – provide an explanation. The current version of the code has been in place since 2016.

The FRC confirmed a good response to the consultation which closed on 28th February 2018 (with 231 responses received). The FRC's intention is for a revised code to be published in July 2018 along with a feedback statement on key features of the consultation responses.

Stewardship Code

The UK Stewardship Code sets out principles for effective stewardship by investors. The Code identifies key areas of good practice to which the FRC believes institutional investors (asset owners, pension fund trustees and their fund managers) should aspire.

LCPF has been reporting on compliance with the Code for several years and the Fund's latest compliance statement, which reflects the arrangements which have been introduced as part of asset pooling, has been ranked as Tier 1 (highest) by the FRC.

Consultation on the CGC included some initial questions on the Stewardship Code in preparation for the full consultation planned for later this year. The FRC has confirmed that a feedback statement on responses received to these questions will be issued in July, a consultation on a revised Stewardship Code will be published in October 2018 and a final version of the Stewardship Code is planned for Spring 2019.

The FRC welcomed the chance to speak with LGPS representatives as a group and to share thoughts and ideas and encouraged engagement with the consultation process once it begins. Participating in the consultation by feeding back on the proposals will help to shape the new code which will set best practice standards for investors (including LCPF) in performing their stewardship responsibilities going forward.

Shareholder Litigation

LPP I employ 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 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 shares 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 2018 confirms that of 18 potential cases identified where the Fund might have an entitlement to join a class action, further analysis had discounted 10. There are 3 cases where eligibility is still being assessed and 5 where eligibility has been identified and a claim will be filed.

5. 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.

Principles of Responsible Investment (PRI) – 2018 Annual Reporting Round and LGPS Pool Membership

Since the Committee last met, LCPF has submitted annual reporting to the PRI on its activities in the 12 months to 31 December 2017.

A full copy of the submission (in the form of a Transparency Report) will be publicly available from the PRI website later in the Summer but in the meantime a preliminary version can be made available (on request) by the Head of Fund.

The emphasis of detailed annual reporting has continued to become more strongly focussed on practical stewardship activity rather than policy and strategy. This makes it challenging to report and score well when the signatory required to report on activity is LCPF, but practical implementation is delegated to and being undertaken by LPP.

Transition Pathway Initiative (TPI)

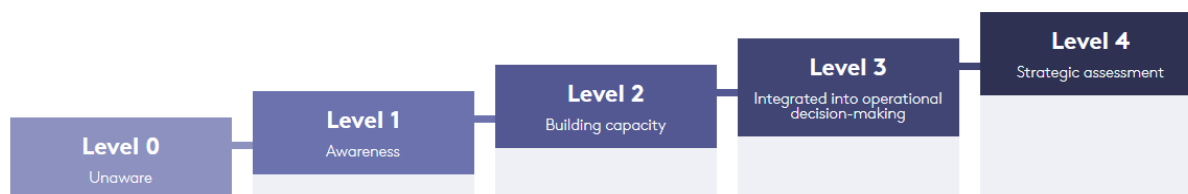
LPP is a named supporter of the TPI which is an asset owner-led initiative resourced by the London School of Economics and the Grantham Institute.

Through an online toolkit, TPI share the outcome of analysing (and grading) listed companies within a subset of most exposed sectors on their preparedness for the transition to low carbon. This is based on an assessment of publicly available data. For each company within coverage, the TPI toolkit provides information on:

- the quality of the company's management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition;
- how the company's future carbon performance (if they publish forward targets) compare to the international targets and national pledges made as part of the Paris Agreement.

The quality of a company's management of climate change is graded on a scale from 0 to 4 as follows:

Transition Pathway Initiative – Management Quality Scoring



The toolkit provides a helpful reference point for reviewing and comparing the preparedness of listed companies in high-impact sectors (oil and gas, mining and electricity generation, paper, steel, autos, cement) for the risks and opportunities posed by the global transition to lower carbon.

The toolkit is being utilised by LPP I to monitor listed equity investments in the GEF in line with implementing LCPF's RI Policy commitment not to invest in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change, and unable to demonstrate planning for future emissions reduction targets under the Paris Agreement.

Companies in the GEF within the coverage of TPI analysis are being monitored on a quarterly basis. Those not judged to be both aware of and building capacity to manage climate change (Level 2 or above) are identified as outliers and trigger a conversation with managers to establish the rationale for holding stock and encourage engagement focussed on improvement.

Pension Fund Committee

Meeting to be held on Friday, 8th June 2018

Electoral Division affected: None;

Transaction of Urgent Business - appointment of a Scheme Member representative on the Lancashire Local Pension Board.

(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 relates to a decision taken by the Monitoring Officer on the 11th May 2018 under the procedure for dealing with items of urgent business.

A copy of the decision has been sent to the appropriate Group spokespersons for information in accordance with Standing Order 15(1).

Recommendation

The Committee is asked to note that decision taken under the urgent business procedure.

Background and Advice

At the meeting on the 16th January 2018 the Lancashire Local Pension Board considered a [report](#) on the processes for identifying and appointing a replacement scheme member representative and agreed that a two stage nomination and selection process would be a more cost effective way of filling the vacancy.

Details of the vacancy were subsequently circulated by email and over 20 Expressions of interest were received which were initially considered by the Chair of the Board and the Head of Fund who then agreed a shortlist of candidates for interview on the 24th April 2018.

Mr William David Owen was identified as possessing the necessary skills and knowledge to fulfil the role of scheme member representative and was provisionally offered the position, subject to confirmation of his identity and his membership of the Fund. Following confirmation on both points it was necessary to seek approval from the Pension Fund Committee to formally appoint Mr Owen as a Scheme Member representative on the Lancashire Local Pension Board so that progress could be

made regarding arrangements for his induction and access to systems before the next meeting of the Board.

Reason for use of the Urgent Business Procedure

Following the recruitment and selection process interviews were held on the 24th April 2018. The successful candidate is considered to be both well qualified and suited to fulfil the role of the Scheme Member representative on the Board.

The next scheduled meeting of the Pension Fund Committee will not be held until the 8th June 2018.

Consultations

The Chair and Deputy Chair of the Pension Fund Committee were consulted and have indicated their approval for the proposed course of action set out in the report.

Implications:

This item has the following implications, as indicated:

Risk management

See implications set out in the urgent business item attached at Appendix 'A' to this report.

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		

**Pension Fund Committee
Urgent Business Procedure**

Electoral Division affected: None;

Appointment of a scheme member representative on the Lancashire Local Pension Board

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

This report relates to the appointment of a new Scheme Member representative to fill the existing vacancy on the Lancashire Local Pension Board.

Reason for the use of the Urgent Business Procedure

The recruitment and selection process has been concluded and interviews were held on the 24th April 2018. The successful candidate is considered to be well qualified and suited to fulfil the role of a Scheme Member representative on the Board.

The next scheduled meeting of the Pension Fund Committee will not be held until the 8th June 2018.

Recommendation

Subject to the views of the Chair and Deputy Chair of the Pension Fund Committee the Monitoring Officer proposes to approve the appointment of Mr W D Owen to fill the vacancy for a Scheme Member representative on the Lancashire Local Pension Board.

Background and Advice

Article 7 of the county councils constitution sets out the Terms of Reference for the Board, which state that the membership of the Lancashire Local Pension Board shall consist of 9 members, on the basis of 4 Employer representatives, 4 Scheme Member representatives and a single independent member.

At the Board on the 16th January 2018 a report (item 8) was presented in relation to the processes for identifying and appointing replacement Employer and Deferred member representatives to fill two vacancies of the Board

When considering the report the Board acknowledged that the membership was larger than other Boards but agreed that the current balance of 4 representatives each for employers/members, together with an independent Chair, represented a valuable breadth of knowledge and experience and minimised the possibility of meetings being inquorate.

With regard to the Deferred Member vacancy (which had arisen following the resignation of the existing representative in October 2017) the Board noted it was for individual Administering Authorities to establish an appropriate appointment process and consideration was given to different methods. It was noted that the ballot process used to recruit some members when the Board had been established in 2015 had been expensive and had resulted in a low response from eligible members. After considering the various options the Board agreed that a two stage nomination and selection process would be a more cost effective way of filling the vacancy and that in future the 4 scheme member representatives should act as representatives for all scheme members rather than the particular groups within the membership from which they were drawn.

After considering all the circumstances the Board agreed

- That the membership of the Board should continue to operate on the basis of an independent Chair and 4 Employer Member representatives (as set out in the Terms of Reference) and 4 Scheme Member representatives.
- That with regard to the 4 Scheme Member representatives the full county council be recommended to agree to amend the Terms of Reference of the Board so that the representatives are appointed to represent all active, pensioner and deferred members rather than being drawn from those categories.
- That the existing vacancy for a Scheme Member representative be filled following a two stage nomination and selection process, as set out in the report presented.

In February 2018 the Urgency Committee of the full council agreed to appoint Mr T Pounder, Director for Adult Services, to fill the Employer representative vacancy on the Board. The committee also agreed to amend the Terms of Reference regarding Scheme Member representatives as recommended by the Board

With regard to the appointment of a new scheme member representative the membership of the Lancashire County Pension Fund was informed by email of the vacancy and expressions of interest were requested by the 15th April 2018. Over 20 responses were received which were initially considered by the Chair of the Board and the Head of Fund who then agreed a shortlist of candidates that were interviewed on the 24th April 2018.

Following the interviews Mr William David Owen was identified as possessing the necessary skills and knowledge to fulfil the role and was provisionally offered the position, subject to confirmation of his identity and his membership of the Fund. As confirmation on both points has now been received it is necessary to seek approval from the pension Fund committee to formally appoint Mr Owen as Scheme Member representative on the Lancashire Local Pension Board.

Consultations

The Head of Fund and the Governance & Risk Officer for the Lancashire County Pension Fund.

Implications:

This item has the following implications, as indicated:

Risk management

In accordance with Section 5(4) (c)6 of the Public Service Pensions Act 2013 the Pension Board is required to include Scheme Member representatives in equal numbers, thus ensuring that it can undertake its role in assisting the Administering Authority with the governance and administration of the LCPF.

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

Paper	Date	Contact/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate

N/A

Decision Taken: Declaration

Chair and Deputy Chair of the Pension Fund Committee

Appointment of a scheme member representative on the Lancashire Local Pension Board

Original recommendation as set out in the report be supported - Yes

Approved by Chair of the Pension Fund Committee – see email 8th May 2018

Approved by Deputy Chair of the Pension Fund Committee – see email 10th May 2018

Executive Director

The following action has been agreed under the Urgent Business Procedure and after consultation with the Chair and Deputy Chair of the Pension Fund Committee:

Appointment of a Scheme Member representative on the Lancashire Local Pension Board

Subject to the views of the Chair and Deputy Chair of the Pension Fund Committee the Monitoring Officer proposes to approve the appointment of Mr WD Owen to fill the vacancy for a Scheme Member representative on the Lancashire Local Pension Board.

.....
L. Owen

.....
14/5/18
Date

From: Schofield, Alan (Cllr)
Sent: 10 May 2018 17:32
To: Neville, Mike <Mike.Neville@lancashire.gov.uk>; Pope, Eddie (Cllr) <Eddie.Pope@lancashire.gov.uk>
Subject: RE: UB report - appointment of a new scheme member representative for the Lancashire Local Pension Board

'Approved' - ie am content for the decision to be taken (and noted also that Mr Tony Pounder is becoming employer rep. on the Lancashire Pension Board).

Can you inform me please re Mr William David Owen, from which category of scheme member & which employing authority he comes? This info doesn't affect my 'approved' reply above.

Alan S
Deputy Chair, P F Committee

From: Pope, Eddie (Cllr)
Sent: 08 May 2018 17:51
To: Neville, Mike <Mike.Neville@lancashire.gov.uk>
Subject: Re: UB report - appointment of a new scheme member representative for the Lancashire Local Pension Board

Approved
Regards
Eddie

----- Original Message -----

Subject: UB report - appointment of a new scheme member representative for the Lancashire Local Pension Board

From: "Neville, Mike" <Mike.Neville@lancashire.gov.uk>

Date: 4 May 2018, 16:36

To: "Pope, Eddie (Cllr)" <Eddie.Pope@lancashire.gov.uk>, "Schofield, Alan (Cllr)" <Alan.Schofield@lancashire.gov.uk>

County Councillor Pope/County Councillor Schofield

Please find attached an Item of Urgent Business which, subject to your views, is to be put before the Director of Corporate Services.

As you will see from the report the recommendation is to formally approve the appointment of a new scheme member representative for the Lancashire Local Pension Board. The successful candidate is considered to be well qualified and suited to fulfil the role and has been identified following a recruitment/selection process and interviews with the Chair of the Board and the Head of Fund on the 24th April 2018. The decision is to be taken under the urgent business procedure to formalise the appointment which can then be publicised and the appointee given an induction on the work of the Board and provided with relevant information ahead of the next scheduled meeting.

Please could you let me know as soon as possible if you are content for the decision to be taken. If you are happy with the proposed course of action please simply reply to the email stating 'approved'.

If approved a copy of the report will be circulated to the other Group spokespersons for information and the action will be reported to the next meeting of the Pension Fund Committee on the 8th June 2018.

Mike Neville
Senior Democratic Services Officer
Legal and Democratic Services
Lancashire County Council
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Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

Proposed changes to meeting dates in December 2018 and March 2019

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

A proposal to change the date of meetings scheduled for the 7th December 2018 and the 22nd March 2019.

Recommendation

That the meetings scheduled to be held on the 7th December 2018 and the 22nd March 2019 are cancelled and rearranged for the 30th November 2018 and 29th March 2019 respectively. Both meetings to start at 10.30am (preceded by a 30 minute briefing) and held in Committee room 'C' – The Duke of Lancaster Room at County hall, Preston.

Background and Advice

At the meeting on the 26th October 2017 the full council agreed the 2018/19 programme of meetings which included the following dates for the Pension Fund Committee.

8th June 2018
14th September 2018
7th December 2018
22nd March 2018

At the Committee on the 23rd March 2018 it was agreed to have an additional meeting on the 5th July 2018 in order to consider the Lancashire County Pension Fund accounts before they are submitted to the Audit, Risk and Governance Committee.

Requests have been received from the Chair and the Head of Fund for the scheduled meetings on 7th December 2018 and 22nd March 2019 to be moved as they clash with other commitments. Alternative dates have been considered and it is proposed that the meetings be rearranged for 10.30am (preceded by the usual 30 minute briefing) on the 30th November 2018 and 29th March 2019 respectively.

Both meetings will be held in Committee room 'C' – The Duke of Lancaster Room at County Hall, Preston.

Consultations

As the Investment Panel meets on the day before Committee the Head of Fund and the two Independent Advisers have been consulted on the proposed alternate dates.

Implications:

This item has the following implications, as indicated:

Risk management

There are no risks associated with the proposal set out in the report.

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		

Agenda Item 19

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

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Agenda Item 20

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Appendix A

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Agenda Item 21

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Agenda Item 22

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Agenda Item 23

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Agenda Item 24

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