Lancashire County Council

Pension Fund Committee

Friday, 21st June, 2019 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	
1.	**Constitution, Membership and Terms of Reference**	(Pages 1 - 2)
2.	**Apologies**	
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 29th March 2019** To be confirmed, and signed by the Chair.	(Pages 3 - 10)
5.	**Lancashire Local Pension Board - Annual Report 2018/19**	(Pages 11 - 18)
6.	**Lancashire County Pension Fund 2018/19 financial and budget monitoring.**	(Pages 19 - 24)
7.	**Annual Governance Statement 2018/19**	(Pages 25 - 34)
8.	**Lancashire County Pension Fund draft Annual Report for the year ended 31st March 2019**	(Pages 35 - 164)
9.	**Annual Administration Report 2018/19**	(Pages 165 - 176)
10.	**Consultation on changes to the Local Valuation Cycle and the Management of Employer Risk**	(Pages 177 - 210)
11.	**2019 Valuation process and timetable**	(Pages 211 - 212)

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12. **Internal Audit Assurance** (Pages 213 - 220)

13. **Responsible Investment** (Pages 221 - 236)

14. **Lancashire County Pension Fund Risk Management Framework** (Pages 237 - 244)

15. **Feedback from members of the Committee on pension related training, conferences and events.** (Pages 245 - 248)

16. **Review of Committee Member Training Record for 2018/19** (Pages 249 - 260)

17. **Lancashire County Pension Fund Branding** (Pages 261 - 280)

18. **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.

19. **Date of Next Meeting**

The next scheduled meeting of the Committee will be held at 10.30am (preceded by a 30 minute briefing) on the 20th September 2019 in Committee Room 'C' –The Duke of Lancaster Room at County Hall, Preston.

20. **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)

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Constitution, Membership and Terms of Reference.

Contact for further information:
Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer,
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

Constitution and Membership

At the meeting on the 23rd May 2019 the full County Council approved the membership of various Committees and related appointments for 2019/20. The constitution of the Pension Fund Committee was approved as 19 on the basis of 12 County Councillors (comprising 7 Conservatives, 4 Labour and 1 from the Independent Group) with an additional 7 voting co-opted members.

The following County Councillors have been appointed to the Committee by the respective political groups.

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

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

Mr P Crewe – representing Trade Unions
Mr J Tattersall – representing Trade Unions
Councillor M Smith – representing Blackpool Council
Councillor R Whittle – representing Blackburn with Darwen Council
Councillor D Borrow – representing District, Borough and City Councils
Councillor I Moran – representing District, Borough and City Councils
Ms J Eastham – representing Further Education and Higher Education Institutions

Appointment of Chair and Deputy Chair

The Full Council also appointed County Councillor E Pope as the Chair of the Committee and County Councillor A Schofield as the Deputy Chair.

Terms of Reference

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, 29th March, 2019 at 10.30am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

Present:

County Councillor E Pope (Chair)

County Councillors

J Eaton (1)	A Riggott
C Edwards	M Salter (3)
K Ellard	K Snape
P Rigby (2)	A Schofield

(1) replaced County Councillor A Snowden for this meeting only.
(2) replaced County Councillor S Clarke for this meeting only.
(3) replaced County Councillor J Burrows for this meeting only.

Co-opted members

P Crewe, (Trade Union Representative)
Councillor R Whittle, (Blackburn with Darwen Borough Council Representative)
Councillor D Borrow, (Borough and City Councils Representative)
Ms J Eastham, (Further Education/Higher Education Institutions)

Also in attendance

Mrs A Leech, Head of Fund, Lancashire County Council.
Ms A Devitt, Independent Adviser.
Mr E Lambert, Independent Adviser.
Ms A Pieri, Senior Manager Engagement Manager, Grant Thornton.
Mr C Rule, Chief Investment Officer and Managing Director Investments, Local Pensions Partnership.
Mr G Smith, Director of Strategic Programmes and Group Company Secretary. Local Pensions Partnership.
Mr W Bourne, Chair of the Lancashire Local Pension Board (observer).
Mr R Branagh, Managing Director, London Pension Fund Authority (observer).

1. Apologies

Apologies for absence were received from County Councillor J Mein and County Councillor G Dowding.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

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

3. Minutes of the Meeting held on the 1st February 2019

The Chair referred to the third part of the decision on the Local Pensions Partnership 2019/20 Strategic Plan and Budget and reminded members of the Committee that a response from the Partnership had recently been circulated for information.

Resolved:

1. That the Minutes of the meeting held on the 1st February, 2019, be signed by the Chair.

2. That any questions or comments from members of the Committee regarding the response from the Local Pensions Partnership in relation to the third part of the decision on the 2019/20 Strategic Plan and Budget be sent to the Head of Fund who will discuss the points raised with Mr G Smith, the Director of Strategic Programmes and Group Company Secretary.

4. Lancashire County Pension Fund - External Audit Plan 2018/19

Ms A Pieri, Senior Manager Engagement Manager from Grant Thornton, presented a report on the nature and scope of work to be covered by the 2018/19 Audit Plan and informed the Committee that meetings had already taken place with County Council Officers so that the auditors could familiarise themselves with the Fund.

It was noted that the planned audit fee was less than that for the previous year and Ms Pieri confirmed that the fee was in line with the scale of fees published by Public Sector Audit Appointments Ltd and did not represent a significant change in the scope of the audit.

Resolved: That the Audit Plan for 2018/19, as set out in the Appendix to the report presented, is noted.

5. Lancashire County Pension Fund - Q3 2018/19 Budget Monitoring

The Committee considered a report on the financial results for the Fund during the period 1st April 2018 to 31st December 2018 and a comparison of those results with the budget for the same period, together with an updated forecast for the year to 31st March 2019.

Resolved:

1. That the analysis of the variances between actual and budgeted results and the budgeted income/expenditure for the period 1st April 2018 to 31st December 2018, as set out in the report presented, is noted.

2. That the forecast financial results for the year ending 31st March 2019, as set out in the report presented, is noted.

6. Lancashire County Pension Fund 2019/20 Budget

A report was presented on the one year budget for the Lancashire County Pension Fund for the year ending 31st March, 2020, which forecast that the net income available for investment (before accounting for changes in the market value of investments during the year) would be £13.3m.

In considering the report the Committee noted that following a review the level of recharges to the County Council had been increased in recognition of the increased use of Legal Services. The forecast reduction in contribution income from employers as a result of the accounting treatment of amounts paid in advance was also discussed and the reduction in property expenses set out in the budget was welcomed.

Resolved: That the Lancashire County Pension Fund budget for the year ending 31st March 2020, as set out in Appendix 'A' to the report presented, is approved.

7. Responsible Investment Report

A report was presented on how the Fund was supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out in the Investment Strategy Statement and the Responsible Investment Policy approved by the Committee in March 2018.

The Committee discussed how impact assessments could be used to assess the economic, social, and environmental effects of the investment policy. It was also noted that the Global Equities Fund had significantly lower emissions than the benchmark as a result of investment decisions by active portfolio managers who incorporated material environmental, social and governance considerations (including climate change) into their evaluation of risk adjusted returns.

Resolved: That the update on responsible investment activity, as set out in the Appendix to the report presented, is noted.

8. Lancashire County Pension Fund Discretions Policy Statement

The Head of Fund informed the meeting that the Local Government Pension Scheme Regulations required the Administering Authority to prepare and keep under review its statements of policy concerning the discretionary areas of the Local Government Pension Scheme regulations.

It was reported that following a review a number of amendments were proposed to the current Discretions Policy Statement (as set out in Appendix 'A' to the report) in order to reflect current practices and regulatory updates.

Resolved: That the updated version of the Discretions Policy Statement for the Lancashire County Pension Fund, as set out at Appendix 'A' to the report presented, is approved.

9. Lancashire County Pension Fund Training Plan 2019

The Head of Fund presented a report on the 2019 Training Plan which set out the various options available during the year to meet the training needs of members of the Committee, including workshops, briefings, conferences and online training modules.

It was reported that the next scheduled workshop would be held at 2.30pm on the 2nd April 2019.

Resolved: That the 2019 Training Plan for the Pension Fund Committee, as set out in Appendix 'A' to the report presented, is approved.

10. Data Quality Report (Mercers)

The Head of Fund informed the Committee that the Scheme Actuary had been commissioned to undertake a review of the quality of the membership data for the Fund.

The Committee considered a summary of the findings of the review and noted that at a whole fund level the liability impact had been estimated as slightly reduced from the previous year, reflecting the positive impact of the Fund's data work over the year. With regard to common data the Committee discussed the figures relating to missing postcodes/age queries and noted that the Local Pensions Partnership was to undertake a project to address to slight increase in 2018.

It was also noted that the full report had been shared with the Local Pensions Partnership with a view to addressing the areas of main concern in conjunction with the normal scheduled processes due as part of the 2019 valuation.

Resolved: That the findings of the Scheme Actuary in relation to the quality of the membership data of the Fund, as set out in the report presented, is noted.

11. 2019/20 Workplan of the Lancashire Local Pension Board

Mr Bourne, the Chair of the Lancashire Local Pension Board, presented a report on the 2019/20 Workplan for the Board and informed the Committee that the intention was to focus on communication/engagement activity ahead of the valuation.

Resolved: That the 2019/20 Workplan for the Lancashire Local Pension Board, as set out in the Appendix to the report presented, is noted and approved.

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

A report was presented on the attendance by members of the Committee at various internal/external pension related training events which had taken place since the last meeting.

Feedback from the Chair and members of the Committee on individual events was presented with the LAPFF Annual Conference, the Strategic Investment Forum and the Local Authority Pension Fund Investment Conference all recommended for future attendance.

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

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

A report was presented on a decision taken by the Chief Executive on the 8th October 2019 under the procedure for dealing with matters of urgent business.

Resolved: That the decision of the Chief Executive to approve the appointment of Mr K Wallbank to fill a vacancy for a Scheme Member representative on the Lancashire Local Pension Board is noted.

14. Urgent Business

No items of business were raised under this heading.

15. 2019/20 Programme of meetings

Resolved: That the following programme of meetings for 2019/20, as agreed by the full Council on the 18th October, 2018, is noted with all meetings to commence at 10.30am (preceded by a 30 minute briefing) and be held in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

21st June 2019
20th September 2019
29th November 2019
6th March 2020

16. Date of Next Meeting

It was noted that next scheduled meeting of the Committee would be held at 10.30am (preceded by a 30 minute briefing) on the 21st June 2019 in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

17. 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.

18. Local Pensions Partnership Update

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

The Committee considered a report on the performance of the investment and administration functions operated by the Local Pensions Partnership Fund up to the 31st December, 2018, which included updates on the following:

- The performance and stabilisation of the pension administration service.
- Activity associated with the service improvement plan.
- Engagement with members and employers.
- Local Government Pension Service statutory guidance.
- The financial position of the Local Pension Partnership at 31st December 2018.

Resolved: That the updates on activity by the Local Pensions Partnership, as set out in the Appendix to the report presented, is noted.

The Chair informed the Committee that the report of the Investment Panel would be taken as the next item of business.

20. Investment Panel Report

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

Ms Devitt, Independent Adviser to the Committee, presented a detailed report on various macro-economic factors and how they influenced the investment market in which the Lancashire County Pension Fund operated, together with an update on matters considered by the Panel since the last meeting.

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

19. Lancashire County Pension Fund Performance Overview - December 2018

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

Mr Lambert, Independent Adviser to the Committee, presented a detailed report on the performance of the Lancashire County Pension Fund, highlighting key areas such as the predicted reduction in the level of future contributions and the performance of individual investment portfolios. The Committee noted that the long term the performance of the Fund had exceeded both internal and actuarial benchmarks.

Resolved: That the summary of the Fund's performance up to the 31st December 2018, as set out at Appendix 'A' to the report presented, is noted.

21. Lancashire County Pension Fund Employer Risk Report

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

A report was presented on the current employer risk assessment, based on the approach agreed in January 2016, which indicated that the Fund had a low risk exposure and highlighted methods to mitigate potential future risks. The Committee noted that the Head of Fund would work with the Local Pensions Partnership and the Scheme Actuary to implement the recommendations set out in the report during the valuation process.

Resolved: That the report be noted.

22. PwC Report on the outcomes of the LPP Partnership

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

The Head of Fund presented a report on the findings of an external review of the Local Pensions Partnership which had concluded that performance had been satisfactory and that where there had been exceptions the Fund had been made aware in advance or had subsequently been provided with a reasonable, substantiated explanation.

Resolved:

1. That the findings of the independent review and response from the Local Pensions Partnership, as set out in the Appendix to the report presented, are noted.

2. That the intention for the Local Pensions Partnership and shareholders to undertake a balanced score card exercise over the next 3 years is noted and that the Committee be kept informed of future developments.

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Lancashire Local Pension Board - Annual Report 2018/19
(Appendix 'A' refers)

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

Executive Summary

Approval of the 2018/19 Annual Report of the Lancashire Local Pension Board for inclusion in the Lancashire County Pension Fund Annual Report.

Recommendation

The Committee is asked to consider and approve the 2018/19 Annual Report of the Lancashire Local Pension Board, as set out at Appendix 'A', so that it can be incorporated into the Lancashire County Pension Fund Annual Report which will be presented to the Committee on the 20th September 2019 for approval.

Background and Advice

The Terms of Reference for the Lancashire Local Pension Board include a requirement for the Board to produce an annual report for consideration by the Administering Authority which includes 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 Pension Fund Committee as the Scheme Manager.
d) Details of the costs incurred in the operation of the Board.

The 2018/19 annual report attached at Appendix 'A' was approved by the Pension Board on the 30th April 2019.

The Committee is asked to consider and approve the Annual Report so that it can be incorporated into the Lancashire County Pension Fund Annual Report which will be presented to the Committee on the 20th September 2019 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 2018 to April 2019	Mike Neville (01772) 533431
The training record for individual members of the Lancashire Local Pension Board	May 2018 to April 2019	Mike Neville (01772) 533431

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

Lancashire Local Pension Board – Annual Report 2018/19

The Lancashire County Pension Fund's Local Pension Board (LPB) has now been up and running for nearly four years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee (PFC). Because LPB members explicitly represent either employers or members, we also have a representative role in the Fund's governance structure.

When they were set up in 2015, LPBs were new bodies and it has taken time to establish how we should fulfil our duties without duplicating the PFC's role. There is a wide variation in the effectiveness of LPBs across the country and the national Scheme Advisory Board will be conducting a survey into the operation of LPBs in 2019. Your LPB is seen as one of the leading models and I shall be contributing a response in order to spread what I regard as good practice.

We create an annual Work Plan to ensure that we are methodical in our activities. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the PFC. If we believe something requires particular attention, we may make a formal recommendation to them which requires a response. However, we are always aware that our role is to assist the PFC and a good relationship between the two bodies is absolutely essential.

In this report, I will start by reminding readers of the mechanics of the LPB; cover the training we undertake; and finally comment on our activities in the past twelve months, noting where we expect to focus our efforts in the next year.

Membership of the Pension Board

The LPB has nine members, four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve an eight year term, except for the Chair who serves four. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

During the year we welcomed Keith Wallbank, who was appointed to fill a vacancy for a Scheme Member representative which had arisen in June 2018 and I have been reappointed by the County Council to serve as Chair for up to a further four years.

The LPB meets four times a year and we additionally create informal groups if we feel they are needed. Members attend training events both in Preston and elsewhere. In my capacity as Chair I am also invited to attend meetings of the

Pension Fund Committee to present reports and advise on the work of the Board. I have attended three out of the four Committees held over the past year.

Attendance of Board members at meetings of the Pension Board

Details of individual members' attendance at Board meetings (between 1st May 2018 and 30th April 2019), together with changes to the membership of the Board, are set out below.

Name	Representing	3rd July 2018	16th October 2018	29th January 2019	30th April 2019
W Bourne	Chair	✓	✓	✓	✓
T Pounder	Employer rep - LCC	apologies	✓	✓	✓
County Councillor C Wakeford	Employer rep - LCC	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	✓	✓	✓
C Gibson	Employer rep - Others	apologies	✓	apologies	✓
K Haigh	Scheme Member rep	✓	✓	✓	✓
R Harvey	Scheme Member rep	✓	✓	apologies	✓
Y Moult	Scheme Member rep	apologies	✓	✓	✓
K Wallbank	Scheme Member rep	N/A	✓	✓	✓
Change to the membership of the Board K Wallbank appointed in October 2018 to fill a scheme member representative vacancy which arose in June 2018					

Training

The Board has a small internal budget, which is used primarily for Members' attendance at training events or conferences. During the year £10,474.66 was spent running the Board and training.

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. 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 and have all committed to completing the online training modules from The Pension Regulator's Public Service toolkit

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 a number of topics including cyber resilience, infrastructure, property, the triennial fund valuation and responsible investment. Members are also notified of and encouraged to attend external training conferences/event to extend their knowledge and meet LPB members from other funds.

The table below shows the number of training events which individual Board members attended during the period 1st May 2018 to 30th April 2019, and those who have completed online modules from The Pension Regulators Public Service Toolkit.

Name	Internal events	External events	Online Modules
W Bourne	0	2	7
County Councillor C Wakeford	0	0	0
T Pounder	2	1	0
S Thompson	1	1	0
C Gibson	0	1	0
K Haigh	6	1	3
R Harvey	4	0	0
Y Moult	3	2	7
K Wallbank	4	0	0
D Owen	1	0	0

Further information about the Board, including minutes and public papers, can be viewed on the Your Pension Service website.

Activities during the year

A year ago I expected the focus to be largely on the LPB's core scrutinising role. In particular I said we would monitor improvements expected from the Administration Transformation Plan, as well as the governance processes over LPP (Local Pensions Partnership, the entity created with the London Pension Fund Authority to perform the Fund's investment and administration activities). The Fund's ability to fulfil its fiduciary duty and thereby pay pensions in full and on time depends critically on LPP providing an effective service to it.

In practice, we have spent more time than we had envisaged on the changes to the administration service. The LPB was fully supportive of the concept behind the plan but did, in 2017, recommend a risk assessment ahead of its implementation date. With hindsight, had this been done and acted on it might have prevented many of the problems the service encountered in the first half of this year.

We have consequently been actively involved in engaging LPP, both through recommendations to the PFC and on occasion directly, to ensure that client service quality is given priority. We have also been carefully monitoring the recovery of service levels since the implementation of the Administration Plan. At our January 2019 meeting, we set up an informal Advisory Group together with LPP and Officers to assist by providing feedback from the employers' and members' perspectives. We are aware that there is more work to be done to improve the client experience but at the same time remain firmly behind LPP's ambition to use the combination of the two administration services as an opportunity to change things for the better.

I noted last year an external review of LPP's effectiveness, which had been commissioned after two years' operation to provide third-party assurance that it is indeed cost-effective for both funds. The report by PwC was duly delivered but was perhaps too early in LPP's life to provide a definitive answer to the question. The LPB will remain vigilant on this front because LPP's role is so important to the smooth running of the Fund.

With the next valuation due as of 31st March 2019, communication and engagement will remain at the forefront of our work in the next year. Valuations almost always involve changes to employer contributions and effective communication to manage expectations is essential.

I comment next on some of our more routine scrutinising work. At every meeting, we look at any breaches of the regulations and at the Key Performance Indicators in detail. One of our objectives for next year is to review the KPIs to ensure they properly reflect the experience of Fund members. This will help us in our aim of assisting the PFC in monitoring LPP's performance effectively.

During the year we also reviewed and commented on a wide range of documents. These included statutory documents such as the Administration, Investment and Governance Strategy statements, as well as policies such as that on Responsible Investment and climate change. We also looked for assurance that the Fund is compliant with The Pension Regulator's Code 14 and CIPFA's guidance, as well as internal and external audit requirements. Looking forward to the next year, we expect to be able to spend more of our time on this basic scrutiny. The regulations governing the LGPS are complex and varied, and the LPB's second pair of eyes provides the PFC with a valuable check to ensure that the Fund is fully compliant.

Your Fund is, in my view, currently in a good position. The funding level at 31st March 2019 is likely to be not too far off 100% and fund governance, which is the LPB's major concern, is seen as a market leader in many respects within the LGPS. This can be expected to result in a good outcome for stakeholders i.e. that all pensions are paid in full and on time while employers' contributions are kept no higher than they need be. The LPB is looking forward to being part of the process of continuing to seek improvements, particularly as regards administration service quality.

I would like once again to thank 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 again 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
April 2019

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Lancashire County Pension Fund 2018/19 financials and budget monitoring
Appendix 'A' refers

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

Executive Summary

This report sets out the income and expenditure of Lancashire County Pension Fund for the year ended 31 March 2019 and provides explanations for significant variances between budget and final position.

Recommendation

The Committee is asked to review the financial results and position of the Fund for the year ended 31 March 2019.

Background and Advice

The 2018/19 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through the Local Pensions Partnership. The one year budget for the year ending 31 March 2019 was approved by the Pension Fund Committee at its meeting on 8 June 2018. At that meeting it was noted that it was difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy and 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
(Actual £170.9m, budget £252.5m)

Throughout the year it has been reported to Committee that the 2018/19 budgeted contribution income from employers includes the recognition of the 2018/19 element of future service rate and deficit contributions received in advance from a number of Fund employers.

After the budget was agreed and on the basis of the external audit opinion, an agreed adjustment was made to the Fund's statutory accounts to recognise all advance contributions in the year of receipt. This resulted in a material favourable budget variance in 2017/18 and at the end of December, an adverse variance of approximately £80.4m for the current year was forecast. The actual variance is £81.6m.

Transfers in
(Actual £11.1m, budget £11.4m)

The forecast for the full year, presented to the Committee in March 2019, assumed a £2.2m adverse variance based on the rate of transfers in for the first 9 months of the year. The final three months saw an increase in the value of transfers in, resulting in a £0.3m adverse budget variance.

Investment income
(Actual £198.2m, budget £144.4m)

The largest contribution to the £53.8m favourable variance on investment income is from pooled investments (£49.0m favourable variance). As was reported in March, the majority of this has been generated within the infrastructure pool.

It is Fund policy to reinvest income from pooled investments and therefore the impact on the 'bottom line' of the Fund account is effectively nil as the increased income is offset by the increase in market value of the pool.

EXPENDITURE

Benefits payable
(Actual £275.3m, budget £262.5m)

The over-spend of £12.8m relative to budget is equally split between pension payments and lump sum benefits paid. The payment of pension benefits has been fairly consistent at £19m per month but the value of lump sum benefits paid out was higher in the final quarter of the year than was suggested by the previous forecast.

Transfers out
(Actual £15.8m, budget £17.9m)

The phasing and value of transfers out is difficult to forecast and the 'underspend' of £2.1m against the budget is not considered material.

Administrative expenses
(Actual £3.6m, budget £3.3m)

Administrative expenses are paid by the Fund to the Local Pensions Partnership and are broadly in line with budget. The £0.3m overspend can be attributed to additional work done during the year in respect of Guaranteed Minimum Pension equalisation project.

Investment management expenses
(Actual £65.6m, budget £63.7m)

The £1.9m overspend against budget comprises the following items.

Total investment management fees on pooled investments are £5.5m higher than were budgeted for the year, an adverse variance of 11%. This increase is the result of fees payable being partially linked to market value of the fund which has increased by 11%

£1.4m underspend arises due to a change in the accounting treatment of withholding tax which was included within the budget for investment management expenses but is now netted off investment income..

Expenses associated with the direct property portfolio are included within investment management expenses for budgeting purposes and an under-spend of £2.0m has been achieved in the year ended 31 March 2019.

The remaining £0.2m favourable variance arises due to minimal spend on transition fees in the year, partly due to the real estate pool not having been established by 31 March 2019.

Oversight and governance costs
(Actual £0.9m, budget £1.5m)

The variance in this expense category is due to savings on advisory and professional fees, which can fluctuate each year based on the activities of the Fund.

Net surplus before realised and unrealised profits on investments
(Actual £18.3m, budget £58.8m)

The net surplus for the year is £40.5m less than was budgeted but £6.7m higher than was forecast at the end of March. The budget variance is due to the accounting treatment for pension contributions received and increased benefits payable, mitigated by the increase in investment income.

The favourable variance against the March forecast arises mainly due to the assumption in the forecast that investment income would be in line with budget for the final quarter. Actual investment income for the quarter was £43.5m compared to a budget of £36.1m, an increase of £7.4m.

Consultations

Variances between actual results and budget, where relevant to the Local Pensions Partnership, have been discussed with the Local Pensions Partnership. Property management expenses and property running costs have been reviewed with Knight Frank and BNP Paribas during the year when necessary.

Implications:

This item has the following implications, as indicated:

Risk management

Financial
Regular monitoring against the budget of the fund will provide an explanation of key variances and informs future budget setting and forecasting. The review of actual results against expectations also provides a degree of assurance over the accuracy and completeness of the final statutory accounts of the Fund.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund
Fund Account - Year ending 31 March 2019

	Actual year ended 31 March 2018 £'000	Budget year ended 31 March 2019 £'000	Actual for year ended 31 March 2019 £'000	Budget variance for year ended 31 March 2019 £'000
INCOME				
Contributions Receivable				
From Employers	(181,374)	(193,100)	(112,248)	80,852
From Employees	(56,522)	(59,382)	(58,641)	741
Total contributions receivable	**(237,896)**	**(252,483)**	**(170,890)**	**81,593**
Transfers in	(11,518)	(11,370)	(11,050)	320
Total Investment Income	(142,008)	(144,397)	(198,210)	(53,812)
TOTAL INCOME	**(391,422)**	**(408,250)**	**(380,149)**	**28,101**
EXPENDITURE				
Benefits Payable				
Pensions	213,656	220,065	226,522	6,456
Lump Sum Benefits	41,188	42,424	48,783	6,359
Total benefits payable	254,844	262,489	275,304	12,816
Transfers out	17,354	17,875	15,770	(2,105)
Refund of Contributions	594	611	611	(1)
Contributions Equivalent Premium	(27)	(28)	(4)	24
Fund administrative expenses				
Administrative and processing expenses:				
LPP administrative expenses	3,712	3,300	3,647	348
Write off of bad debts	19	10	1	(9)
Total administrative expenses	**3,731**	**3,310**	**3,649**	**339**
Investment management expenses				
Investment management fees:				
LPP directly invoiced investment management fees	3,078	1,800	1,767	(33)
DIRECTLY INVOICED non LPP investment management fees - direct holdings	1,462	1,462	1,433	(30)
Investment management fees on pooled investments	45,922	52,092	57,604	5,512
Transition costs	303	200	2	(198)
Custody fees	99	50	29	(21)
Commission, agents charges and withholding tax	1,421	1,421	0	(1,421)
LCC recharge for treasury management costs	52	52	52	0
Property expenses	6,542	6,642	4,674	(1,968)
Total investment management expenses	**58,880**	**63,720**	**65,561**	**1,841**
Oversight and Governance expenses				
Performance measurement fees (including Panel)	54	75	94	19
IAS19 advisory fees	70	70	87	17
Other advisory fees (including abortive fees)	608	600	179	(421)
Actuarial fees	39	50	9	(41)
Audit fees	27	52	45	(7)
Legal & professional fees	188	188	68	(120)
LCC recharges	446	446	446	0
Bank charges	6	6	7	0
Total oversight and governance expenses	**1,439**	**1,487**	**935**	**(553)**
TOTAL EXPENDITURE	336,814	349,464	361,826	12,362
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(54,608)**	**(58,785)**	**(18,323)**	**40,463**

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Annual Governance Statement 2018/19
(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 draft Annual Governance Statement for Lancashire County Pension Fund for approval.

The Annual Governance Statement is a review of the governance arrangements for 2018/2019 and, once approved, will be incorporated into the statement of accounts.

Recommendation

1.The Committee is asked to approve the draft Annual Governance Statement for the Lancashire County Pension Fund as set out at Appendix 'A'

2. To delegate authority to the Head of Fund in consultation with the Chair to make changes to the statement before its inclusion in the final statement of accounts.

Background and Advice

The Annual Governance Statement ensures that those charged with governance of the Fund are able to review the governance arrangements for the year. The Annual Governance Statement is then incorporated into the statement of accounts. Although the Fund is covered by the County Council's governance arrangements a separate statement 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 set out at 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
None		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Lancashire County Pension Fund –

Annual Governance Statement 2018/19

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 2019 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 176,519 members across 300 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 through the following link

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 2019.

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 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 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 through pooling with LPP.

Through the use of a detailed Risk Management Framework, LCPF maintain a detailed risk register cover 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

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

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

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.

Assurance provided by internal audit

Assurance over the council's oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by Local Pensions Partnership Ltd's own internal audit service.
A short programme of work has been completed in respect of the county council, resulting in substantial assurance the controls are adequately designed and effectively operated. A longer programme of work addressing LPP's activities has not yet been fully completed but it is expected that all seven audit engagements will have been reported by the time this annual governance statement is published in July 2019.

Whistle blowing and receiving and investigating complaints from the public

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 Audit, Risk and Governance Committee.

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.
- 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 Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2018/19 were:

- 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.

Actions Planned for 2019/20

The following specific actions are proposed for during 2019/20.

- The triannual valuation of the Fund
- To monitor the administration service as changes continue to be made within LPP.
- To review the cost of LPP and estimated savings made.
- To revise the Funding Strategy Statement as necessary

Signed

……………………………………   ………………………………………..

County Councillor Eddie Pope
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Date: …………………………………

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Lancashire County Pension Fund draft annual report for the year ended 31 March 2019
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 sets out the draft annual report for the Fund for the year ending 31 March 2019 which includes the accounts of the Fund for the same period.

The accounts are included within the Lancashire County Council Statement of Accounts for the year ended 31 March 2019, which are currently available for public inspection on-line and are due to be presented to the Audit, Risk and Governance Committee for approval at its meeting on 29 July 2019.

Recommendations

The Committee is asked

1. To review and note the accounts of the Fund within the draft annual report and to recommend Lancashire County Council Audit, Risk & Governance Committee to approve the accounts at their meeting on 29 July 2019.

2. To review the draft annual report and comment. The final version will be brought to committee for approval at its meeting on 20 September 2019.

Background and Advice

Regulations require each administering authority to prepare an annual report for the pension fund and publish it before 1 December following the year end.

It is expected that the external auditors, Grant Thornton, will provide their opinion on both the accounts and the annual report of the Fund at or shortly after the Lancashire County Council Audit, Risk & Governance Committee meeting on 29 July.

The current draft annual report requires additional disclosures in respect of post-pooling reporting guidance and it is also expected that the narrative reports outlining

Lancashire County Council

administration and investment performance will be updated prior to publication. A final version will be brought to the September meeting of the Committee for final approval before publication.

The terms of reference of the Pension Fund Committee require it to approve the annual report for submission to Full Council. A copy of the Lancashire County Pension Fund Annual Report for the year ended 31 March 2019 is attached at **Appendix 'A'**.

The Scheme Advisory Board recommends that the accounts and annual report are also reviewed under the remit of the Local Pensions Board prior to completion and it is intended to present a copy of the annual report to the Board on 9 July 2019.

The content of the annual report is prescribed by Regulation 57 of the Local Government Pension Scheme Regulations 2013 (as amended). CIPFA have also published guidance on the production of the annual report which is available in the Pension Fund Library

Key areas to note within the draft accounts are outlined below:

- Contributions income
  A significant reduction in contributions income (£204m reduction) is reported compared to the prior year. This is due to a number of employers opting to pay future service rate and deficit contributions up front.

- Management expenses
  Management expenses include administrative expenses, investment management expenses and oversight and governance costs.

  Administrative expenses are in line with the prior year and there has been a small (£0.4m) reduction in oversight and governance costs.

  Investment management costs have increased by £3.6m compared to the previous year and this is considered reasonable in the context of overall market conditions given that the increase is due to fund-value based management fees.

- Investment income
  Investment income has increased by £54.8m compared to last year. Included within this increase is a £53.8m increase in income from pooled investment vehicles. It is Fund policy to reinvest this income into the pools.

- Change in market value of investments
  £770.7m disclosed on the face of the Fund account includes changes in market value (most notably on pooled infrastructure and global equity investments) together with profits / losses on disposal of investments.

- Cash deposits
  Cash on hand as at the year-end has reduced from £162.0m at 31 March 2018 to £67.1m at 31 March 2019. The prior year balance included cash

receipts from the up-front payment of employer contributions and cash was also high due to the transition of assets into pools.

- Closing net assets of the Scheme
  As at 31 March 2019, the Scheme had net assets of £8.4bn compared with £7.6bn at 31 March 2018.

Consultations

The Local Pensions Partnership in relation to administration and investment information.

Grant Thornton will review the accounts of the Fund during the external audit in June and July 2019 and will also provide an opinion on the consistency of the annual report with the accounts.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Council Statement of Accounts for the year ended 31 March 2019 and the Lancashire County Pension Fund Annual Report for the same period will be published on or before the statutory deadlines of 31 July 2019 and 1 December 2019 respectively.

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

Paper	Date	Contact/Tel
Local Government Pension Scheme Regulations 2013 (as amended)		Helen Gallacher 01772 536620
CIPFA - Preparing the Annual Report. Guidance for LGPS Funds	March 2019	Helen Gallacher 01772 536620
CIPFA proposals for LGPS Fund reporting in a pooled world	May 2018	Helen Gallacher 01772 536620

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

Lancashire County Pension Fund

Annual report for the year ended 31 March 2019

Contents

Appendices

Appendix A

A Management structure

Administering authority
Lancashire County Council

Pension Fund Committee
Lancashire County Council committee members
County Councillor J Burrows
County Councillor S Clarke
County Councillor L Collinge*
County Councillor G Dowding
County Councillor C Edwards
County Councillor K Ellard
County Councillor J Fillis**
County Councillor T Martin
County Councillor J Mein
County Councillor E Pope (Chair)
County Councillor A Riggott
County Councillor A Schofield (Deputy Chair)
County Councillor K Snape***
County Councillor A Snowden
*Appointed 23 May 2019
**Until 24 May 2018
*** 24 May 2018 to 23 May 2019

Co-opted representatives
P Crewe – Trade union
J Tattersall – Trade union
D Borrow – City and Borough councils
I Moran – City and Borough councils
M Smith – Blackpool Council
R Whittle – Blackburn with Darwen Council
J Eastham – Further / Higher education

Head of Fund
A Leech

Chief Executive and Director of Resources
A Ridgwell

External auditor to the Fund
Grant Thornton LLP

Pooled investments manager
Local Pensions Partnership Investments Ltd

Non-pooled investment managers
Local Pensions Partnership Investments Ltd
Knight Frank LLP
BNP Paribas

Actuary
Mercer

Lancashire Local Pension Board
W Bourne (Chair)
C Gibson
K Haigh
B Harvey*
Y Moult
T Pounder
S Thompson
C Wakeford (County Councillor)
K Wallbank**
*Until May 2019
**Appointed October 2018

Custodian to the Fund
Northern Trust

Independent investment advisors
A Devitt
E Lambert

AVC providers
Equitable Life
Prudential

Legal advisors
Addleshaw Goddard
Allen and Overy
Clifford Chance
DWF
Eversheds
Lancashire County Council
MacFarlanes
Taylor Wessing
Pinsent Masons

Independent property valuer
Avison Young Partnership

Performance measurement
Northern Trust

Governance and research consultants
Pension and Investment Research Consultants

Bankers
Lloyds Bank plc
Natwest Bank plc
Svenska Handelsbanken

B Foreword by County Councillor Eddie Pope, Chair of the Pension Fund Committee – Subject to approval

Welcome to the 2018/19 Annual Report of the Lancashire County Pension Fund. The year has seen the number of scheme members continuing to increase with total members now being 176,476 an increase of 4,402 in the year. We are now in our third year of our partnership arrangement with the Local Pension Partnership (LPP) who are providing both administration and investment services to the Fund. The investment side of their business has performed well as noted below, however, it has been a challenging year for our administration service as LPP went live with a new operating model for the business in April 2018. Unfortunately this change wasn't implemented as successfully as anticipated and there were failures in services to both employers and members.

I am pleased to report that the administration service is now meeting most of the key performance indicators as can be seen on page 10 of this annual report. This successful turnaround is due to the collaborative working between LPP and members of the Pension Fund committee and Local Pension Board. It is also due to the hard work and commitment of the staff who work within the Pension Administration service.

Some of the highlights of the year are as follows:

- Delivering an 11.7% return on assets which outperformed the Lancashire benchmark of 8.0% and resulted in the value of the fund, at 31 March 2019, increasing to £8.4bn, bringing the Scheme closer to being fully funded and placing Lancashire at the top of the 2018/19 local authority fund league table for total fund performance. This league table is published by Pensions and Investments Research Consultants Ltd (PIRC) and comprises 64 local government pension funds with a combined value of £193bn.

- The continued development of the pooling of investments via Local Pensions Partnership which saw a new diversifying strategies vehicle launched in September. It is anticipated that the final vehicle covering property will be launched later in 2019.

- Responsible investment has continued to be an important issue for the committee. The Responsible Investment Working Group reviewed the Climate Change policy. Along with the Head of Fund I have become a member of the Local Authority Pension Fund Forum (LAPFF) a collaborative shareholder group which aims to promote good corporate governance and responsibility by companies. This has enabled direct engagement with companies in which LAPFF members have investments.

Investment

The value of the Fund's net assets at 31 March 2019 was £8,410m, up from £7,621m at 31 March 2018.

The Fund uses Local Pensions Partnership Investment Ltd (LPP I) to manage all of its investment assets. LPP I initially undertook investments on behalf of Lancashire County Pension Fund and the London Pension Fund Authority to create a larger pool which is jointly invested to ensure greater reductions in management costs. In 2018/19 Royal County of Berkshire Pension Fund also invested in LPP I, therefore the value of the pool has increased to approximately £17bn at 31 March 2019.

One of the aims of the pooling arrangements is value for money. As part of this LPP reported to Government that the arrangement is on track to make investment cost savings. Other benefits from the pool include the access to investments and portfolio diversification.

Further details on investment performance is on page 17 of this report and some examples of Fund investments are set out below.

Guild Investments - Infrastructure

Guild Investments owns six wind farm sites across Portugal, a growing global source of renewable energy which reduces carbon emission intensity.

Portugal is an attractive location for wind farm installations, having a windy terrain, a stable feed-in-tariff regime and the support of local communities. This investment enables us to partner with a top tier renewable energy operator who is a market leader in renewable energy electricity, enjoying technical and local expertise support.

Guild Investments also actively contribute to protecting the endangered species the Iberian Wolf, through formation and membership of the Iberian Wolf Habitat Conservation Association. This organisation was founded in 2006 through constituent members of Guild Investments.

Wind farm, Portugal

Forth Ports Group - Infrastructure

Forth Ports is the third largest Ports Group in the UK, with a diverse operational and port-centric logistic business model across Tilbury in the south east of England and several Scottish ports. Its strategy is focused on the delivery of efficient and low carbon supply chain solutions. This investment was made via the GLIL Infrastructure platform.

Currently undergoing a project to transform an old power station in Tilbury to extend the port. Not only is this initiative creating jobs within the area but the promotion and protection of wildlife is paramount within the scope of the project, including the building of a 12,000 strong water vole park. Further regeneration projects are underway in Scotland.

Investment in Forth Ports Group

Endeavour Vision – Private equity

Endeavour Vision has invested in medical technology for over 10 years as they recognised an opportunity to invest in devices that can improve the overall standard of care, reduce healthcare costs and have a life-changing impact on patients around the world.

To date, their Endeavour Medtech Growth Fund has invested in 12 medtech companies with a total investment value of over EUR 115 million. Every company they invest in must meet their strict criteria, meaning that the device must be considered 'best-in-class' in terms of patient safety and efficacy and offer superior clinical benefits, both to doctors and patients.

Friargate Court, Preston – Real estate

Friargate Court is newly built exemplary student accommodation providing future generations of those electing to study at the University of Central Lancashire with modern, stylish and safe lodgings to enhance their experience of university life. En-suite bathrooms, Wi-Fi, 24 hour security and a range of utilities make this property a popular choice.

Friargate Court, Preston

Park Hotel East Cliff, Preston - Real estate

A landmark property in the area, having originally been built in 1883 as a luxury hotel and formerly serving as offices to Lancashire County Council.

The conversion exercise will revert the property back to 4-star hotel. The property will comprise of 70 bedrooms, a ground floor restaurant and function rooms.

This hotel will be the highest quality hotel facility in Preston and demonstrate how the Council is transforming the area and seeking to increase the number of visitors to the City and the wider County. The rejuvenation and construction plans associated with this project will create jobs and the hotel operator plans to employ 100 staff at the hotel which will bring a direct economic benefit to Preston.

Artist's impression of restored and converted Park Hotel

Administration

During the year the Fund's administration service, provided by LPP processed around 32,637 items of work (ranging from changes of address to the calculation of pension benefits).

As noted above this has been a challenging year for this area of the business and we have been working hard to improve the service received by both members and employers in the Fund.

County Councillor Eddie Pope
Chair of the Pension Fund Committee

C Governance of the Fund

Lancashire County Pension Fund Governance Policy Statement

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

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

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

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

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

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT - JANUARY 2018

A. Structure	(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council (b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1) (c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. (d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√ Partial (see Note 1) √ Partial (see Note 3)
B. Representation	(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) independent professional observers (2) (iv) expert advisers (on an ad hoc basis)	Partial (see Notes 1 and 2)
C. Selection and Role of Lay Members	(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times).	√

D. Voting	(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	√
E. Training/Facility time/Expenses	(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	√ √
F. Meetings - Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sit. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	√ √ √
G. Access	(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	√
H. Scope	(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
I. Publicity	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

Notes - Reasons for partial compliance

1) Unitary councils, district councils and further and higher education employers, are represented. Other admitted bodies only represent 9% of contributors to the Fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important

events. Although employee representatives, i.e. trade unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

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

3) The members of the investment panel are not voting members on the committee. However, all the panel members attend the committee meetings and are able to contribute to any discussions.

D Administration of the Fund – To be updated

Background to Lancashire County Pension Fund and the Local Government Pension Scheme
The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis".

Lancashire County Council as "Administering Authority" is required by law to administer the scheme within the geographical area of Lancashire.

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

Review of the Year

LPP introduced the new target operating model for the pension administration business which went live at the beginning of April 2018, following months of planning and significant changes to the way LPP manage our services.

This new operating model created three main service hubs:

- Member services
- Engagement; and
- Business development.

In particular, the new operating model was designed to provide greater resilience and ultimately give employers and members an improved service and experience.

As a result of the volume of change at the start of the new fiscal year, there were some initial challenges and dips in productivity which were more significant than originally anticipated.

Productivity has subsequently increased. By Q3 2018, remedial action was taken to address backlogs and stabilise the position, including the implementation of an engagement programme to help clients understand the change and the remedial action taken. The improvements from Q3 are demonstrated in the table below:

	Q1	Q2	Q3	Q4	Annual
Performance against SLA	73%	86%	90%	93%	87%
Complaints	49	45	66	48	208
Compliments	4	3	5	5	17

During the year to 31 March 2019, 32,637 individual calculations and enquiries were completed, of which 28,414 met the performance standard; an overall performance of 87%.

The next phase of the service improvement programme will include enhancements to the member and employer experience through new technologies and digital solutions, improved team-learning and reporting, customer satisfaction surveys and embedding best practice.

Membership and employers

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

The Local Government Pension Scheme is open to 2 main types of employers, 'Scheduled Bodies' and 'Admitted Bodies'.

Scheduled bodies listed in Part 1 of Schedule 2 of the LGPS regulations must participate in the scheme. Those scheduled bodies listed in Part 2 of Schedule 2 are eligible to participate.

Admitted bodies participate through a written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership. Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Fund membership	31 March 2018	31 March 2019
Active scheme members		
Lancashire County Council	25,126	25,721
Other employers	26,220	27,422
Total*	**51,346**	**53,143**
Pensioners		
Lancashire County Council	23,722	24,692
Other employers	23,723	24,651
Total	**47,445**	**49,343**
Deferred members		
Lancashire County Council	37,410	37,691
Other employers	35,873	36,299
Total*	**73,283**	**73,990**
Total membership	**172,074**	**176,476**

*The number of active scheme members at 31 March 2019 includes 5,089 pending leavers who are accounted for as a deferred member for the purpose of this report.

Performance

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

Specific service level standards and corresponding service level targets have been agreed between the Fund and the Local Pensions Partnership and an Annual Administration Report is presented to the Pension Fund Committee. A copy of the report for the year to 31 March 2019 is included as Appendix 2 to this annual report.

Customer Service

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

The annual employer conference was held on 13 November 2018 at the Hallmark Hotel in Leyland with over 100 employers in attendance. Presentations included the role of a Local Pension Board, amendment regulations update, an overview of the ill health process and an update on the LPP administration service. Guest speakers attended from the Pensions Ombudsman and the Pensions Regulator. The service also hosted an employer forum in April 2018 on behalf of the fund with over 40 finance professionals in attendance.

A dedicated contact centre, AskPensions, provides the first point of contact for members and employers. The contact centre has a target to answer 90% of calls received. Between 1 April 2018 and 31 March 2019, 39,303 calls were received and 87% of them were answered.

In January 2019 the contact centre survey was launched and of those eligible to be surveyed and who agreed to take part, 92.46% indicated they were satisfied with our service, providing us with an average score of 4.67 out of 5.

During the year to 31 March 2019, the service received 17 compliments (18 in the previous year), relating to the helpful, prompt and professional service provided by the staff within the pensions administration team. During the same period, 208 complaints were received (49 in the previous year). The complaints in general related to delays in processing benefits.

Legislative Changes

Amendments to the Scheme's rules took effect during 2018. These include allowing members aged between 55 and 60 who left before 1 April 2014 to draw their deferred benefits at a reduced rate without needing their former employer's consent.

Service Developments

During the year the Fund's administration service processed around 33,000 items of work.

Working closely with employers helps to enhance the quality and timeliness of data meaning that Annual Benefit Statements for the year ended 31 March 2019 were issued in line with the statutory deadline of 31 August 2019.

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 and members can also be helped through the process of registering to use the online self-service portal.

Additionally, 28 pre-retirement presentations and 21 scheme basic presentations have been delivered during the year.

Online Services

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

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

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

Currently around 33% of Lancashire County Pension Fund members are registered online.

Appeals

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

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

Charges

Charges are on a per member basis. The on-going level of charge to the Fund is kept under review.

Other information

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

E Knowledge & skills framework

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

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

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

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

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

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

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

Senior officers charged with managing and directing the Lancashire County Pension Fund must comply with Lancashire County Council's Performance Development Review (PDR) process and wider continuing professional development (CPD) frameworks. For this reason, officers are outside the scope of this training policy which focusses specifically on the training needs of members of the Pension Fund Committee and Lancashire Local Pension Board.

The policy provides a framework for ensuring members receive appropriate support (both collectively and individually) for gaining the knowledge and understanding they need. Training is responsive to the learning needs of individuals in their different roles and members have regular opportunities to build skills and knowledge through a range of methods and approaches including:
- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via a secure online library

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

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) during the year ended 31 March 2019 are detailed below.

Date	Subject	Venue	Attendees	
			PFC	LLPB
10 May 2018	ESG and Sustainable Investments for Pension Funds Conference	London	1	0
21/23 May 2018	Local Authority Conference 2018	Gloucestershire	2	0
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	10	4
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	15	0
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	9	2
16/18 July 2018	LAPFF Investment Seminar	Hertfordshire	1	0
6/7 Sept 2018	LGC Investment Seminar	Newport, South Wales	2	0
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	16	0
23/24 Sept 2018	Pension Trustees Circle Seminar	York	1	0
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	7	2
26 Sept 2018	Introduction to the Local Government Pension Scheme	London	1	1
12 Oct 2018	LGPS Autumn Seminar for Pension Board members	Liverpool	0	2
17/19 Oct 2018	PLSA Annual Conference and Exhibition.	Liverpool	2	0
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	8	5
15 Nov 2018	Ministry for Housing, Communities and Local Government and Local Government Pension Scheme Advisory Board Infrastructure event.	London	1	0

22 Nov 2018	Northern Conference on Pension Funds	Manchester	1	0
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	15	0
5/7 Dec 2018	LAPFF Annual Conference	Bournemouth	1	1
17/18 Jan 2019	LGPS Governance Conference	Bristol	1	2
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	9	3
7 Feb 2019	LAPF Strategic Investment Forum	London	1	0
7 Feb 2019	6th Annual Public Sector update for Payroll and HR Professionals	London	0	1
6/8 Mar 2019	PLSA Investment Conference 2019	Edinburgh	2	0
12 March 2019	Workshop on Asset safety and cyber resilience	County Hall, Preston	2	2
13 Mar 2019	SPS Local Authority Pension Fund Investment Issues Conference.	London	1	0
13 Mar 2019	CIPFA Local Pension Board Seminar	Liverpool	0	1
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	13	0

In addition some members of the Pension Fund Committee and the Lancashire Local Pension Board have completed the following online modules in The Pension Regulators Public Service Toolkit:

1. Conflict of interest.
2. Managing risk and internal controls;
3. Maintaining accurate member data;
4. Maintaining member contributions;
5. Providing information to members and others;
6. Resolving internal disputes;
7. Reporting breaches of the law

F Investment Policy and Performance

Macro outlook – the last 12 months

The twelve months to the end of March marked a period of gradual slowdown in global economic activity from the strongest level (since 2011) reached in 2017. The deceleration in global GDP was attributable to both the developed and emerging markets, as outlined below.

Headline and core inflation in key developed markets (U.S., UK, Eurozone) reached or exceeded the central banks' 2% target in the first half of 2018, however since, then they started to decrease through the first quarter of 2019. Amid this trend of lower growth and inflation, all the major central banks pivoted to a more "dovish" stance (i.e. accommodative policy) either through their forward guidance and/or their monetary policy tools.

The Fed's monetary tightening path (rate hikes, reduction of its balance sheet size) until the end of 2018 had contributed to a significant tightening of U.S. and global financial conditions. This contributed to rising market volatility and significant drawdowns of risky assets in the fourth quarter of the year. For major developed and emerging market equity indices the fourth quarter's market turbulence led to negative full-year returns for the first time since 2015. In a whipsaw move though, 2019 started strongly for all major equity and credit markets. These trended higher through March buoyed by an improved sentiment and in some cases attractive valuations. In equities, quality outperformed other factors implying that investors positioned their portfolios cautiously and in line with a late cycle stage mentality.

From a regional perspective, the U.S. continued to be the strongest performer among major developed economies, despite a notable slowdown in Q4 2018. The economy has continued to benefit from a tight labour market, with ongoing net employment gains and stronger wage growth – both close to cyclical highs and lows respectively – being a tailwind for consumers' spending (which constitutes the largest part of economy). Following a strong start in the first half of 2018, other areas of the economy, such as manufacturing and industrial production, have since weakened significantly - negatively impacted by a slowdown in global trade, weaker global growth and rising trade tensions. With the pace of expansion mostly unabated in 2018 (full-year growth was c.3%, significantly above the economy's trend growth), the Fed continued its monetary tightening raising rates four times (4 x 25 bps) and reducing the size of its balance sheet. After the severe market drawdown in Q4, the Federal Open Markets Committee announced the roll back of this process with the balance reduction scheduled to end in September 2019. Additionally, it signaled a sustained pause in rate hikes, as its preferred measure of inflation remained below target, and announced a wider review of its monetary policy framework and tools utilised.

In the U.K., growth has been somewhat slower in the past twelve months, although GDP grew strongly in Q3 2018 and Q1 2019. Based on Bank of England's (BoE) assessment, the current pace of expansion (1.8% year-on-year) is close marginally above the expected trend growth for the economy. Despite the slowdown, the labour market has remained healthy, with the unemployment rate dipping to lowest level (3.8%) since December 1974. Nominal and real wage gains (when accounting for inflation) were close to cyclical highs at the end of March, proving additional support to consumption. Like other major economies, manufacturing and industrial production has had a difficult period especially between September 2018 and February 2019. The Brexit uncertainty amid lingering negotiations was a tailwind for business investment and weighed negatively on the residential market prices - where London almost stagnated. Apart from Brexit, constrained supply and years of rapid price growth have also weighed negatively on houses affordability. The BoE raised rates once during this period (25 bps), and although it signaled on various occasions that moderately higher rates will be needed over its 3-year forecasts horizon (as inflation remained close to 2%), the moderate economic slowdown and the Brexit uncertainty has deterred it from taking further action.

In the Eurozone, GDP growth decreased significantly in the past twelve months (1.2% year-on-year) with activity in Germany and Italy being the biggest headwind. The former was negatively impacted by new emission tests for its dominant car industry and combined with the impact of global and Chinese growth slowdown, almost brought about a recession in Q4 2018. In Italy the economy dipped into recession in Q4 2018 (two quarters of negative growth) and have completely stagnated in the past twelve months. Spain, Netherlands and France have performed somewhat better. In aggregate, the labour market has remained healthy, with the unemployment rate declining to the lowest level since 2008 (7.9%). Wage growth was also stronger, but lower than the U.S. and the UK, as the economy is not yet operating at full employment. The ECB terminated its quantitative purchase programmed in 2018, however, as growth and inflation slowed down (to 1.3% and 0.8% for headline and core inflation in March) it pivoted to a more accommodative stance, signaling that rates will remain at record low levels for some time.

In China, officials have been in the midst of an ongoing trade dispute with the U.S. After both countries raised tariffs on billion worth of imports from each other, they started bilateral negotiations that have yet to provide a sustainable solution. With this backdrop, economic activity and sentiment have decreased, although headline growth was better than expected over the last twelve months, buoyed by monetary (increased liquidity and cheaper credit) and fiscal policies (tax cuts and increased government spending).

Performance

As a pension fund the investment horizon is long term. The investment strategy is based on the Fund's objectives of balancing capital growth with capital preservation, maintaining adequate cash flows to cover all liabilities as they fall due. The Fund invests its assets to meet its liabilities over the long-term, and therefore performance should be judged against those objectives and over a corresponding period.

All the performance figures presented on the next page are as at 31 March 2019. Over the year, the Fund delivered 11.7% return on assets, outperforming its Policy Portfolio and its triennial discount rate (the actuarial benchmark) by 3.4% and 7.0% respectively. The actuarial benchmark with effect from the 2016 actuarial valuation is an inflation-linked measure, CPI + 2.2% p.a. At the 31 March 2016 valuation this discount rate was 4.4% p.a. and this is reflected as a fixed actuarial benchmark from that date in the table below. Policy portfolio returns reflect the Fund's long-term strategic asset allocation returns (strategic weightings multiplied by a benchmark asset class index).

The value of the Fund's investment assets at 31 March 2019 was £8,379 million, up from £7,610 million at 31 March 2018. Public equities, private equity and infrastructure were the top contributors from an asset class perspective. Longer-term (over a 3-year or 5-year horizon) the Fund's returns have been strong, comfortably outperforming both its actuarial benchmark and its policy portfolio.

The following table and charts highlight investment performance to 31 March 2019:

Geometric Return (annualised)	1 Year	3 Year	5 Year
Investment return	11.7%	11.8%	10.8%
Actuarial benchmark	4.4%	4.4%	6.7%
Policy portfolio	8.0%	9.5%	8.8%

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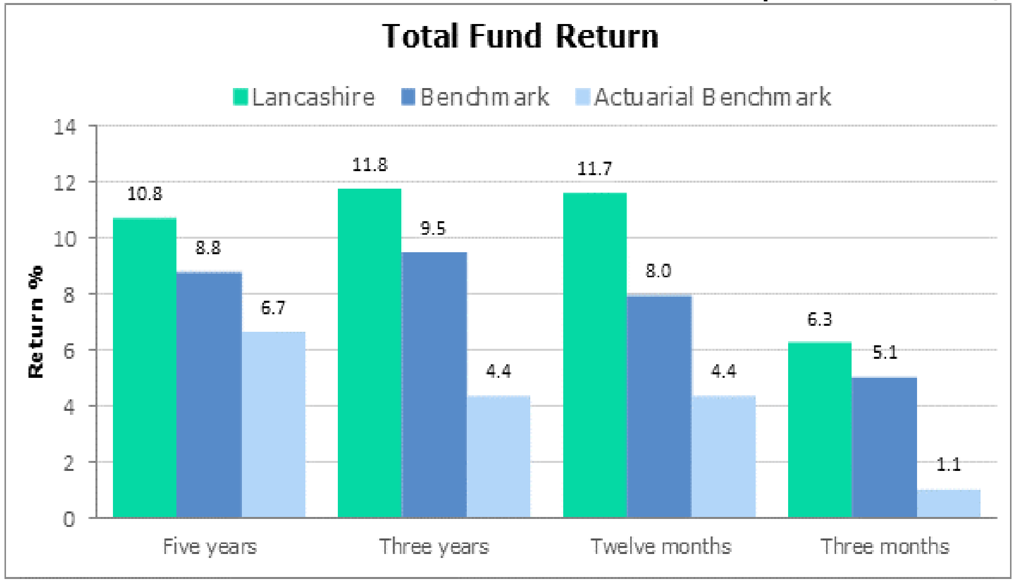
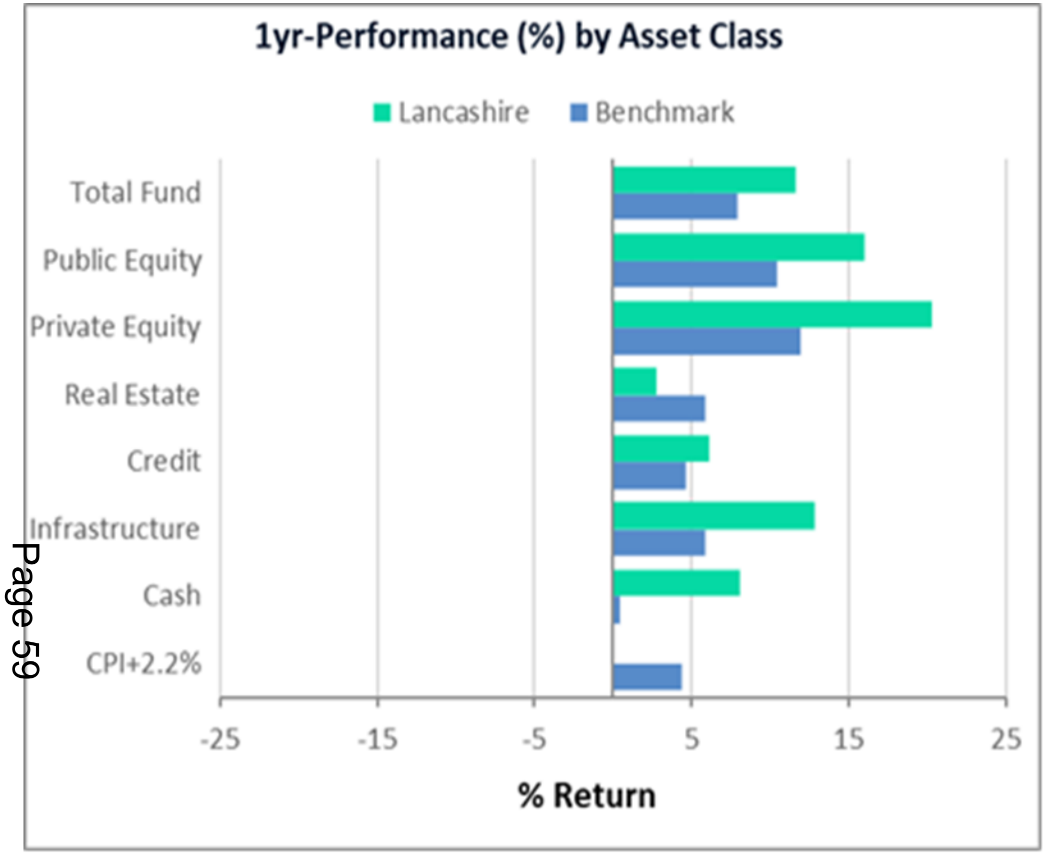




Investment pooling

In 2016, LCPF appointed Local Pensions Partnership Investments Limited (LPPI) to manage its assets. LPPI is a Financial Conduct Authority (FCA) regulated investment company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA has also appointed LPPI to manage its assets, in addition to The Royal County of Berkshire Pension Fund (RCBPF) which joined the pooling initiative in May 2018. The combined assets of all three parties now totals c.£17b. The investment teams of Lancashire County Pension Fund (LCPF), LPFA and RCBPF have been merged, leading to a more diversified pool of resources. As at the end of March 2019, LPPI had created 6 asset "pools" (vehicles) across public equities, private equity, infrastructure, credit, fixed income and diversifying strategies to manage clients' assets. The final investment vehicle for Real Estate assets is expected to be set up in Q3 2019.

Asset allocation

In recent years the Fund has focused on reducing its reliance on listed equities, increasing allocations to other asset classes such as infrastructure, real estate and credit with the intention to better diversify its exposure and to increase its income yielding asset allocation. Although the return of the assets is assessed in a "total" way (i.e. income and capital return combined), having adequate cash inflows to pay liabilities as they fall due reduces investment trading (and its impact on fees) and also avoids having to liquidate assets at adverse market periods, which can have a negative effect on assets that are marked-to-market. Ultimately, LPPI's aim is to improve risk-adjusted returns over the long term, whilst ensuring clients' objectives are met.

The following table presents LCPF's current asset allocation versus its strategic target (policy portfolio) at the end of March 2019. The allocation of the Fund's assets for the previous financial year has been added for comparison purposes. LPPI advises the Fund on its long-term strategic asset allocation (SAA), but LCPF retains autonomy in deciding how this is finally set. LPPI has discretion to manage LCPF's assets within the asset class ranges set as part of the strategic asset allocation decision. The SAA target and range for each asset class has remained unchanged over the year. The last SAA advice presented to LCPF took place in Q4 2017; the next review is currently anticipated in 2020.

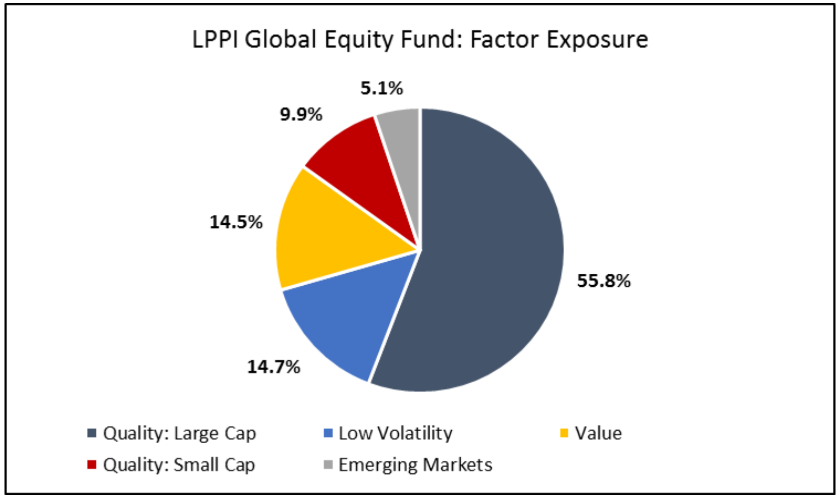
Deviations from the strategic asset allocation target can occur for many reasons: due to the performance of one or more asset classes, the pace of capital deployment, the pace of investment distributions or even a tactical positioning. One of the decisions taken at the previous SAA review related to a 2.5% reduction in the private equity allocation. In this case, the illiquid nature of the asset class implies that a considerable amount of time is need for investment decisions to manifest into actual exposure. In other cases (such as the public equities), recent strong performance before the time of writing of this report had led to an overweight position. Lastly, the reduction in the credit allocation reflects partly, the reduction of the SAA target (by 1%) under the previous review, as well as LPPI's tactical positioning.

Asset allocation: March 2019 vs. March 2018

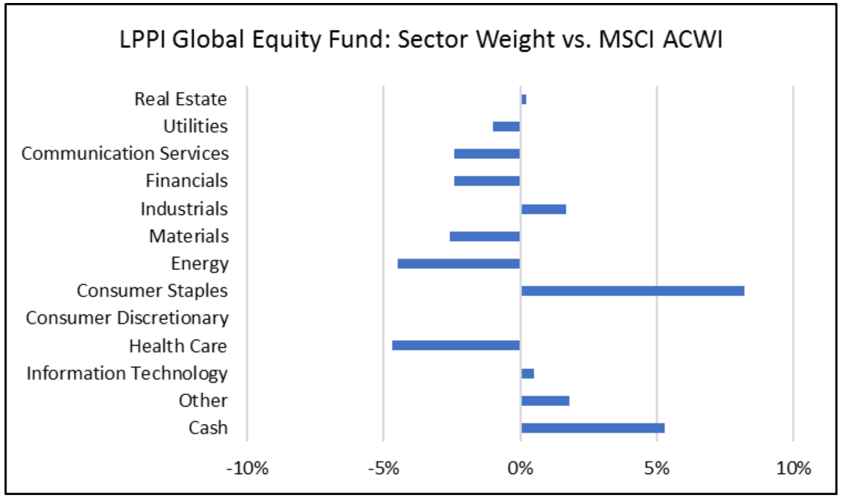
Asset Class	March 2019		March 2018		Strategic Allocation (%)	Range
	Assets (GBP Million)	Allocation (%)	Assets (GBP Million)	Allocation (%)		
Public equities	3,730	44.5%	3,214	42.2%	42.5%	40% - 50%
Fixed income	315	3.8%	184	2.4%	2.5%	0% - 10%
Private equity	650	7.8%	548	7.2%	5.0%	0% - 10%
Infrastructure	1,147	13.7%	991	13.0%	15.0%	10% - 20%
Credit	1,489	17.8%	1,562	20.6%	19.0%	10% - 25%
Real estate	884	10.5%	829	10.9%	15.0%	10% - 20%
Cash	164	2.0%	282	3.7%	1.0%	0% - 5%
Total	**8,379**	**100.0%**	**7,610**	**100.0%**	**100.0%**	

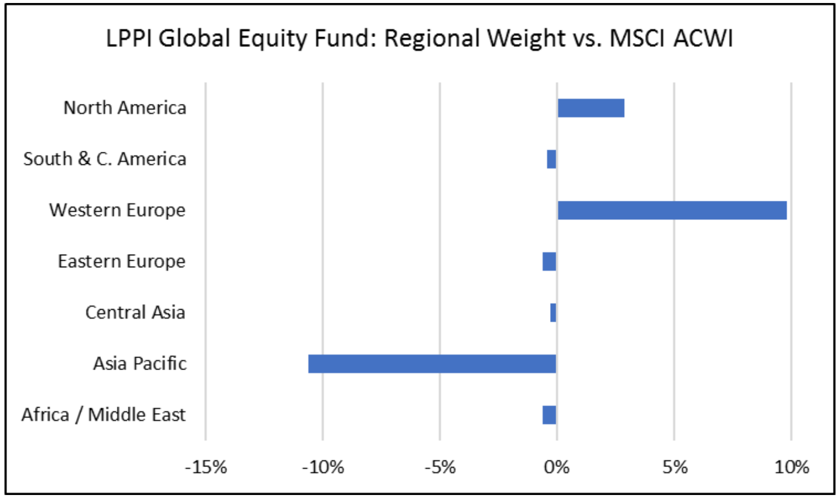
Public Equities (Global)

The LPPI Global Equities Authorised Contractual Scheme (ACS) combines an internally managed portfolio with a variety of external equity managers, which operate with differing and complementary styles of investment selection. During the year LPPI has not changed the composition of external managers within its Global Equity Fund (GEF). The GEF still maintains its quality bias, however other styles are included to provide diversification. Although the GEF's performance has been strong this year, the full merits of its strategies should be better assessed over the longer-term. The inception of the LPPI Global Equities ACS was in October 2016.



The GEF's sector and regional exposures compared to its benchmark (MSCI All Country World – MSCI ACWI) remained broadly unchanged. From a sector perspective, the GEF maintained a big overweight to Consumer Staples versus its benchmark, which follows naturally from its quality style bias. From a regional perspective, Western Europe (which includes the UK) remains the biggest overweight position, whilst the Asia Pacific is the fund's biggest underweight. Overall, the GEF maintains an underweight position to emerging markets compared to the MSCI ACWI exposure. Below are charts to support your understanding of the GEF's positioning at the 31st March 2019:



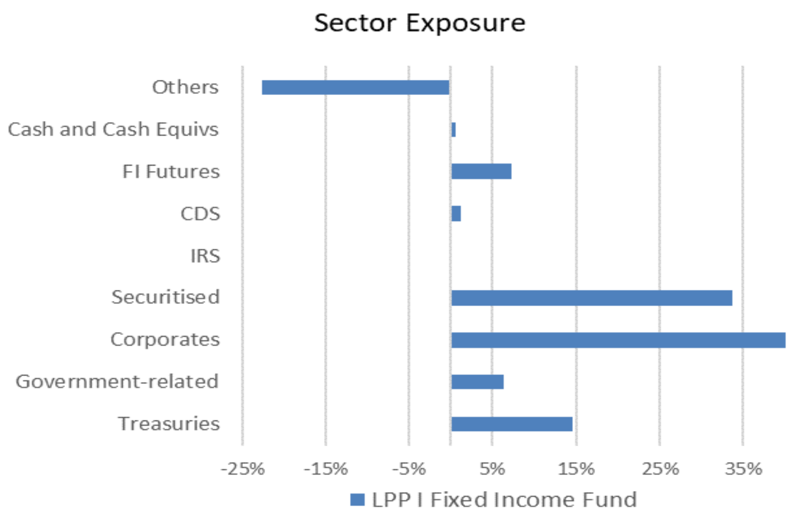


The largest ten equity holdings of the Global Equity Fund as at 31 March 2019 were:

Company	Industry	% of GEF
Visa Inc	IT Services	3.1%
Nestle SA	Food Products	3.1%
British American Tobacco Plc	Tobacco	2.6%
Accenture Plc	IT Services	2.5%
Colgate-Palmolive Co	Household Products	2.4%
Apple Inc	Technoloy Hardware, Storage % Peripherals	2.1%
Starbucks Corp	Hotels, Restaurants & Leisure	2.0%
Pepsico Inc	Beverages	1.7%
Waters Corp	Life Sciences Tools & Services	1.4%
Automatic Data Processing	IT Services	1.4%

Fixed Income

LPPI's fixed income fund was setup in Q1 2018 and LCPF entered the pool at launch. The pool currently consists of two complementary managers, one with a "top down" investment style and the other with a "bottom up" focus. The pool's performance since launch has been encouraging, with benchmark outperformance over a three month and one year period. The managers weathered the volatility in Q4 2018 well and demonstrated their ability to reduce duration and position aggregate holdings favorably ahead of troubled waters. Below are three charts, prepared at 31 March 2019, to provide a better understanding of aggregate positioning within the fixed income fund:


Sector Exposure
Others
Cash and Cash Equivs
FI Futures
CDS
IRS
Securitised
Corporates
Government-related
Treasuries
-25%
-15%
-5%
5%
15%
25%
35%
LPP I Fixed Income Fund

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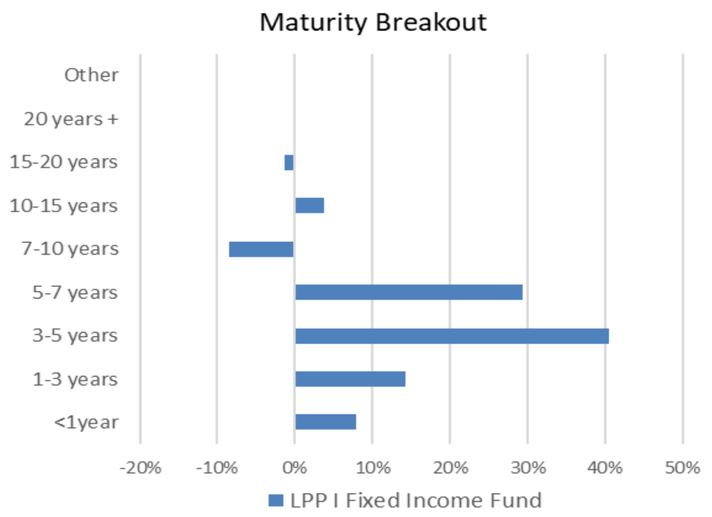
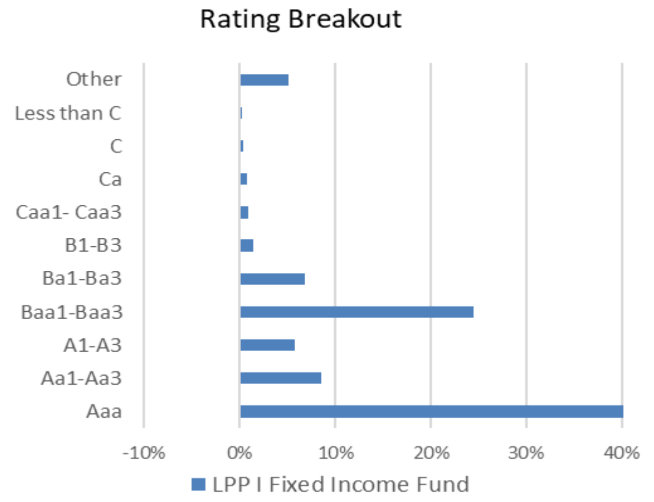

Maturity Breakout
Other
20 years +
15-20 years
10-15 years
7-10 years
5-7 years
3-5 years
1-3 years
<1year
-20%
-10%
0%
10%
20%
30%
40%
50%
LPP I Fixed Income Fund


Rating Breakout
Other
Less than C
C
Ca
Caa1- Caa3
B1-B3
Ba1-Ba3
Baa1-Baa3
A1-A3
Aa1-Aa3
Aaa
-10%
0%
10%
20%
30%
40%
LPP I Fixed Income Fund

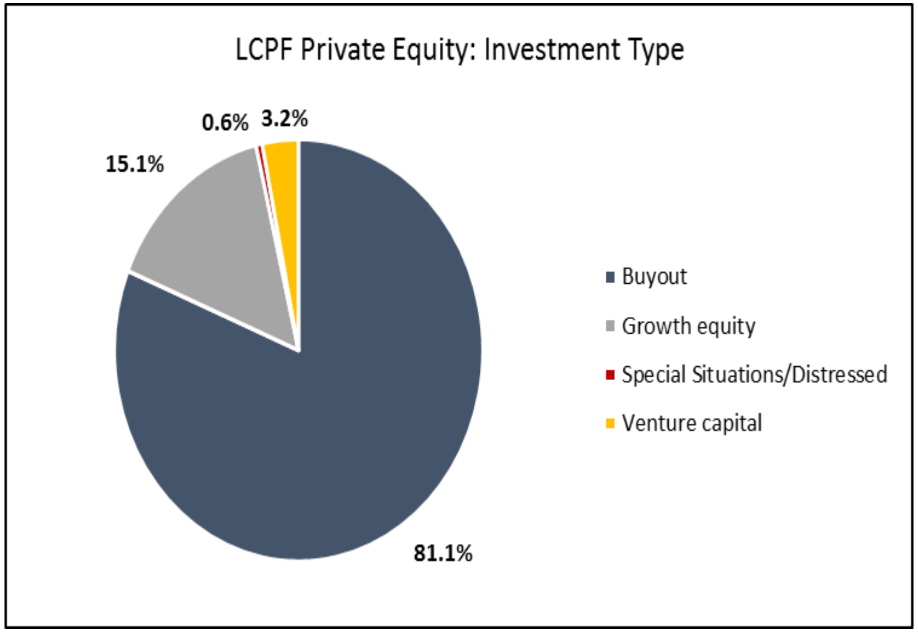
Private Equity

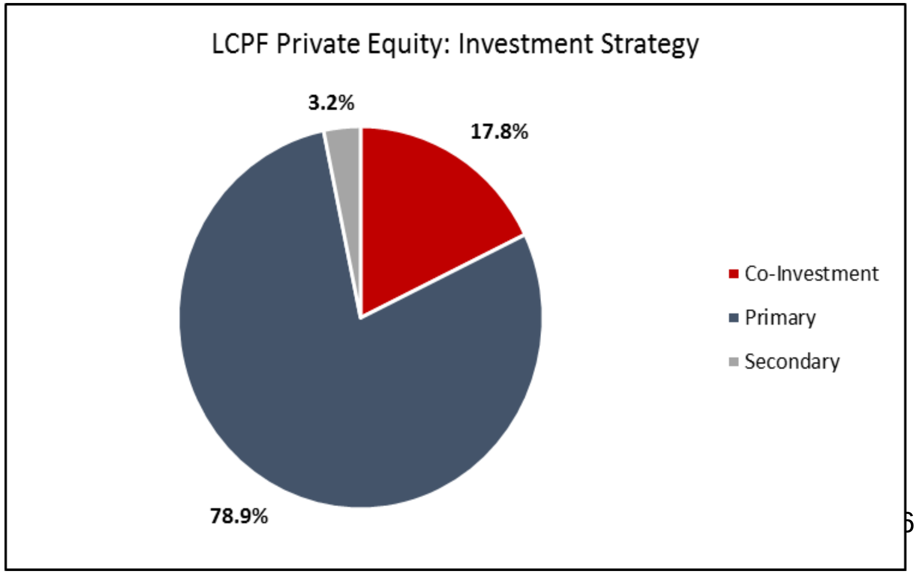
Private Equity investments are held through a variety of closed-ended limited partnerships, spanning a wide range of vintages and managed by a diverse collection of different managers who, in turn, cover a variety of strategies and geographic areas. Compared to Public Equity, Private Equity offers a higher risk and higher return profile. This comes from generally investing in smaller companies with higher leverage. Private Equity also has reduced liquidity – a 10-year fund life is common – however it has historically outperformed Public Equity in both rising and falling markets.

The last 10 years has seen favourable conditions for private equity, driven by a rise in valuation multiples, low interest rates and improvement in fundamentals. LCPF's Private Equity portfolio has performed particularly well, consistently outperforming the benchmark return due to well diversified exposure to many top quartile managers.

LCPF have committed £71m to Private Equity funds over the last 12 months, which is a significant reduction on previous years and will contribute to a decline in Private Equity exposure over the next few years, whilst keeping some investments to maintain vintage diversification and GP relationships. A reduction in exposure to large buyouts, where valuations and leverage are currently at high levels, has been continued – of the 3 commitments made in 2018, 2 were to co-investment funds and the other was to a primary growth equity fund.

Below are two charts to provide better insight into the apportionment to Primary, Secondary and Co-Investment exposures as well as Investment Type:

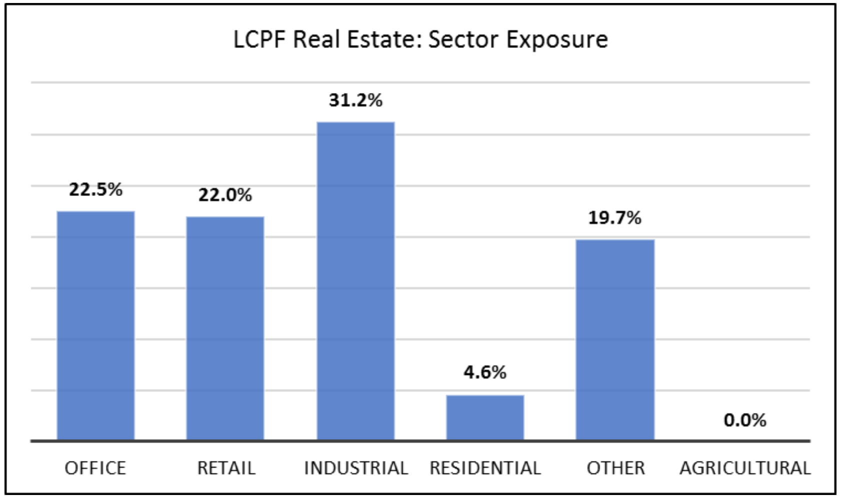




Real Estate

The Fund dedicates a large portion of its investment portfolio to directly owned UK commercial properties managed by Knight Frank, which also comprises an allocation to local investment opportunities. The Fund also has allocations to a European real estate investment fund managed by M&G and a healthcare property fund managed by Kames. As at 31 March 2019, 86% of the real estate portfolio is directly owned and 14% is in real estate funds.

Real estate is an important portion of the LCPF's investment portfolio both because of its diversification benefits as well as the rental income generated that is used to fund member benefits without the need to liquidate other investments. Given the long term-nature of these investments, performance should be judged over corresponding time horizons. LCPF's real estate portfolio has produced strong results over a 3-year horizon (and longer), comfortably outperforming its benchmark. Below are two charts to provide you with a better insight into how LCPF's exposure was positioned at 31 March 2019:



Infrastructure

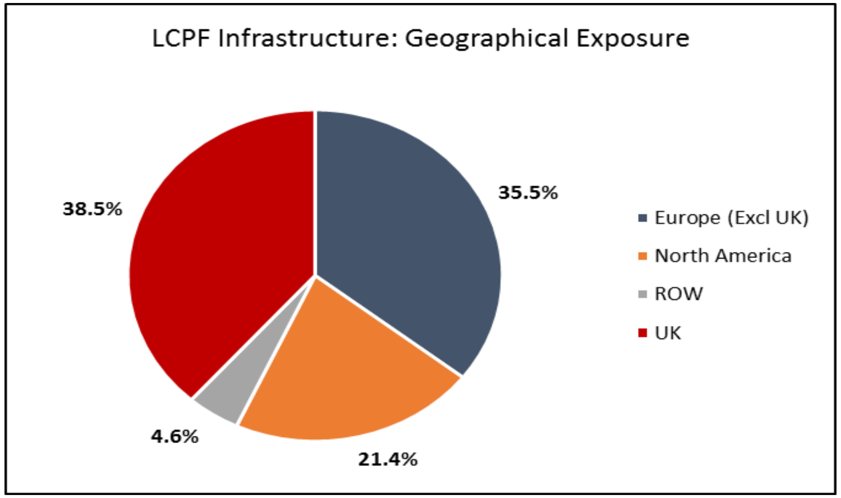
LPPI's Fund has allocations to a number of different global infrastructure funds, and also invests directly in infrastructure projects. In December 2016, LCPF gained exposure to GLIL, a partnership between five local authority pension funds, which has a remit to invest in predominantly core UK infrastructure. The approach of bidding and investing alongside key strategic counterparties has continued and LCPF now owns interests in various core infrastructure assets in the UK including investments in wind-powered electricity generation, water assets, rolling rail stock and ports. Since 1 April 2018 LPPI has been appointed as the sole manager of the GLIL fund.

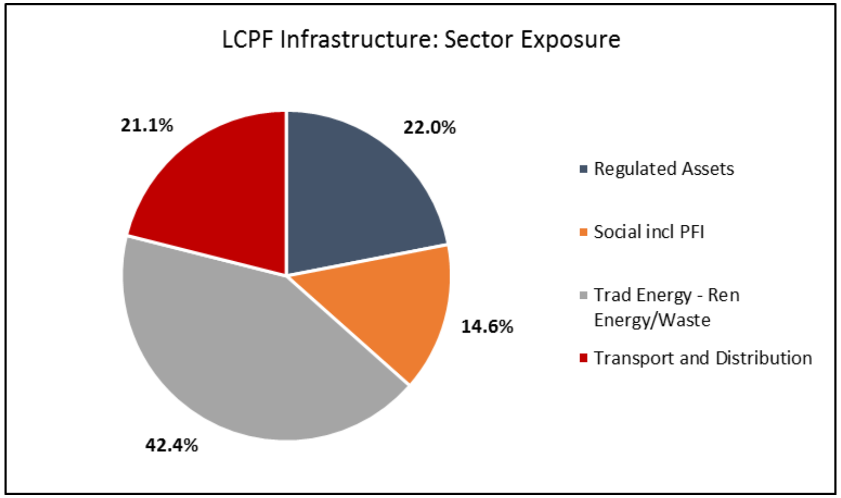
Infrastructure as an asset class typically offers long-term returns that are expected to closely match the Fund's investment needs whilst also providing a source of diversification from other asset classes within the portfolio. As well as investing in infrastructure funds, the LPPI Infrastructure Fund has made an increasing number of direct investments in global infrastructure (with significant allocations in the renewable energy sector) through the LPPI Infrastructure Pool and in the UK though the GLIL partnership. The scale that the LPPI Infrastructure Fund and GLIL bring enables investments to be made directly which reduces fee costs and has enabled the Fund to negotiate favourable investment terms

Like property, significant initial investment costs associated with the growth in the portfolio could be expected to act as a short-term dampener of performance, whilst a further increase in strategic allocation will lead to additional commitments and capital deployed.

From an exposure perspective the LCPF infrastructure portfolio is well diversified. The exposure to energy within the portfolio is expected to reduce as some of the energy funds on the balance sheet start to return capital. From a geographical perspective the exposure to UK assets has increased (from c.25% to c.39%) with the deployment of capital through GLIL and with some of the global infrastructure funds now starting to return capital.

The geographical and sector exposure of LCPS's infrastructure at 31 March 2019 is shown in the following charts

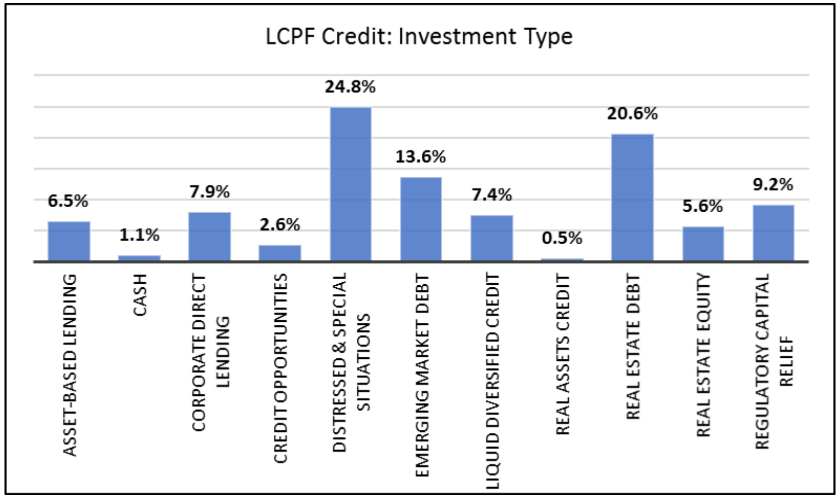




Credit

LPPI's credit pool invests in a global range of credit-linked assets, predominantly in illiquid investments on a buy and hold basis, across the ratings spectrum. The income generated from the pool is a material source of cash to meet liability payments and this is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund.

2018 was a tough year for credit markets and the credit fund's return over one year lagged that of the benchmark set for the strategy. Over the longer-term performance remains strong, notably outperforming the benchmark over a three year period. The broad types of the investments comprising the pool, at 31 March 2019, are included in the graph below.



Governance

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

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

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

- The investment management team of Local Pensions Partnership Investments Ltd (LPP I) undertake day-to-day investment fund selection, monitoring and due-diligence;

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

A more detailed description of the responsibilities of the Committee and the Panel is found in the Governance Policy Statement.

Responsible investment – TO BE UPDATED

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

All PRI Signatories make the following commitment:

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

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

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

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

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

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

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

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

The Fund reported against the principles for the second time in March 2018. Transparency reports capturing the detail of the Fund's annual reporting are publicly available from the PRI website. [PRI Reporting Framework]

The Fund has developed and agreed a Responsible Investment Policy which aims to integrate 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.

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.

The Funds key responsible investment principles include:

- 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 responsible investment leadership and 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 responsible investment and ESG outcomes.

The Funds key priorities include:

- 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;

Implementation of the Fund's approach to responsible investment divides into the following four areas of activity:

a) Voting globally;

Since November 2016 when the Fund pooled its listed equity investments, LCPF has owned units in a Global Equities Fund managed by LPPI rather than shares in underlying companies. As a beneficial co-owner in the fund LCPF is not entitled to direct shareholder voting but has confirmed voting arrangements with LPPI which reflect responsible investment beliefs and the commitments of signatories to the Principles of Responsible Investment and which complies with good practice under the UK Stewardship Code.

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

Voting recommendations are in accordance with sustainability proxy voting guidelines which are actively reviewed on an annual basis and updated to reflect emerging issues and trends. The recommendations for forthcoming meetings are reviewed by LPPI and where there is a case for departing from the ISS recommendation this is considered carefully as part of making a final decision on voting direction. Where LPPI decides to depart from the ISS voting recommendation the rationale is recorded online and captured in reporting. In the period from 1st April 2017 to 31 March 2018 this occurred in 9 instances (0.2% of resolutions voted).

A record of voting activity is provided to the Pension Fund Committee quarterly as part of responsible investment reporting by LPPI.

b) Engagements through partnerships;
The Fund works in partnership with like-minded bodies. The Fun 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 its membership of the Local Authority Pension Fund Forum (LAPFF) and by joining appropriate lobbying activities. 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.

c) Shareholder litigation;
The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and that the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active investing;
The Fund does not invest directly but, on behalf of the Fund, LPPI actively seeks sustainable investments which meet the Fund'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 investing, LPPI 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.

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

Risk Management

The Fund recognises the importance of managing risks effectively. To this end, the Fund has a risk officer to manage and monitor all risks through effective risk management processes. A central risk register is maintained to identify, record and mitigate all risks under the following four main group headings:

- Investment and funding 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.

Risk management and monitoring is also supported by service level agreements with LPP, who provide analysis and reporting across the four main groups above.

Risk reporting is carried out every 6 months to the Lancashire Pension Fund Committee. Additional oversight is also undertaken by the Lancashire Local Pension Board.

The Fund's local pension board plays a vital role in helping the Pension Fund Committee to hold LPP to account. Regular reports on performance across all aspects of pension fund management are provided and discussed. Neither the Local Pension Board, employers nor members play a formal role on the oversight structures of the LPP since the LPP is established as a group corporate structure, with statutory directors sitting on the LPP Boards. It is not a joint committee. However there are robust legal agreements in place which ensure the Fund is able to hold LPP to account.

Compliance with Myners Principles

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

G Asset pools – To be updated

In 2015, the Department for Housing, Communities and Local Government (DCLG, now MHCLG) issued *LGPS: Investment Reform Criteria and Guidance* which set out how the government expected funds to establish asset pooling arrangements.

The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure.

This led to the creation of eight asset pools, of which the partnership between the LPFA and LCPF is one. Responsibility for determining asset allocation and investment strategy remains with individual pension funds.

In 2016 CIPFA and AON published *Investment Pooling Governance Principles*, in order to support LGPS funds through the transition to asset pools and specifically to ensure they continued to operate strong governance arrangements.

There are a number of governance issues to consider with new pooling arrangements, specifically:

- the relationship between the pension fund and the asset pool
- the governance structure of the pool
- the role and involvement of administering authorities.

The market value and performance of pooled assets is set out in sections F (Investment Policy and Performance) and H (Accounts of the Fund) of this annual report. The implications of pooling for the governance and risks of the Fund have been considered and incorporated within this annual report and also within the updated policies and strategy statements of the Fund.

The following disclosures aim to provide further detail regarding the transition of assets into pools, pool set up and transition costs, cumulative savings from pooling and ongoing investment management costs.

This section will need to include:

- changes to investment costs through changes in pooled v non pooled asset hodlings, changes in investment strategies and allocations, rebalancing of direct and pooled investments
- changes in the split of active and passive
- renegotiated fund mandates, new fee structures, new suppliers
- exceptional costs including set up and transition costs

Information to be updated in template format

Section header - Pool set up costs

MUST report and also **MUST** report cumulative position. **SHOULD** compare to business case submissions.

[TABLE – set up and transition costs]

[SHOULD include table – comparison of actual and planned savings]

Section header - Ongoing investment management costs

[MUST enable reader to compare ongoing investment management costs between asset pools and non-pooled investment arrangements]

[Table – mgt fees, custody and transaction costs split between pooled and non-pooled, direct and indirect]

Section header - Asset allocations and performance

[SHOULD report separately for pooled and non pooled for gross and net investment returns, compared to relevant passive index and local benchmarks] – ***may already be covered in investment section F.***

Section header - Savings delivery

[SHOULD include price and quantity variances and also discussion within context of changes in performance and risk]

H Accounts of the Fund

Responsibilities for the Statement of Accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Chief Executive and Director of Resources, who is also the Section 151 Officer to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The responsibilities of the Section 151 Officer to the Pension Fund

The Section 151 Officer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Section 151 Officer to the Pension Fund has:

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

In addition, the Section 151 Officer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2018 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Angie Ridgwell

Section 151 Officer

Lancashire County Pension Fund

Lancashire County Pension Fund – Annual Governance Statement 2018/19

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 2019 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 176,476 members across 300 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 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 Fund and this statement sets out that review.

The 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 Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

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

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 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 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 Fund for the year ended 31 March 2019.

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 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 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 proposes 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 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 of communication and embedding codes of conduct and 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, meets 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 and 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 members of the Fund 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 through pooling with LPP.

Through the use of a detailed risk management framework, LCPF maintains 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 the custodian of either the Fund or LPP. 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 function.

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 County Council's 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 breaches 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 establishment 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.
- 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 the contract with 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 Fund, the Chief Internal Auditor's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2018/19 were:

- 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.

Actions Planned for 2019/20

The following specific actions are proposed for during 2019/20.

- The triannual valuation of the Fund
- To monitor the administration service as changes continue to be made within LPP.
- To review the cost of LPP and estimated savings made.
- To revise the Funding Strategy Statement as necessary

Signed

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

Date: ……………………………………

Independent auditor's report to the members of Lancashire County Council - Lancashire County Pension Fund

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

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Fund account

2017/18		Note	2018/19
£m			£m
	Dealing with members, employers and others directly involved in the Fund		
374.9	Contributions [1]	6	170.9
11.5	Transfers in from other pension funds	7	11.0
386.4			**181.9**
(254.8)	Benefits	8	(275.3)
(17.9)	Payments to and on account of leavers	9	(16.4)
(272.7)			**(291.7)**
113.7	**Net (withdrawals)/additions from dealings with members**		**(109.8)**
(62.4)	Management expenses	10	(65.5)
51.3	**Net (withdrawals)/additions including fund management expenses**		**(175.3)**
	Returns on investments		
138.7	Investment income	11	193.5
221.9	Profit and losses on disposal of investments and changes in the value of investments	13	770.7
360.6	**Net return on investments**		**964.2**
411.9	**Net increase in the net assets available for benefits during the year**		**788.9**
7,209.3	**Opening net assets of the scheme**		**7,621.2**
7,621.2	**Closing net assets of the scheme**		**8,410.1**

[1] Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m.

Net assets statement as at 31 March 2019

31 March 2018		Note	31 March 2019
£m			**£m**
7,448.2	Investment assets	13	8,327.3
162.0	Cash deposits	13	67.1
7,610.2	**Total net investments**		**8,394.4**
23.4	Current assets	19	22.0
(12.4)	Current liabilities	20	(6.3)
7,621.2	**Net assets of the fund available to fund benefits at the end of the reporting period**		**8,410.1**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2019 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

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

An up-front contribution of £137.0 m was received from employers during the year ended 31 March 2018, relating to the years ending 31 March 2019 and 2020. The upfront contribution was recognised in the year of receipt and therefore contribution income for the year ended 31 March 2019 is significantly reduced when compared to the prior year. Contribution income of £170.9m together with transfers in of £11.0m part funded the payment of £291.7m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2019, together with management expenses is funded from investment income.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

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

- the Local Government Pension Scheme (Amendment) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

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

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

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

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

The Lancashire Local Pension Board, established in 2015, assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

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

Membership

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

Organisations participating in the Lancashire County Pension Fund include:

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

There are 432 employer organisations (2017/18: 412) within Lancashire County Pension Fund including the County Council itself, of which 300 have active members (2017/18: 287) as detailed in the following table.

March 2018	Lancashire County Pension Fund	31 March 2019
412	Total number of employers	432
287	Number of employers with active members[1]	300
	Number of active scheme members[2]	
25,126	County Council	25,721
26,220	Other employers	27,422
51,346	**Total**	**53,143**

	Number of pensioners	
23,722	County Council	24,692
23,723	Other employers	24,651
47,445	**Total**	**49,343**
	Number of deferred pensioners[2]	
37,410	County Council	37,691
35,873	Other employers	36,299
73,283	**Total**	**73,990**
172,074	**Total membership**	**176,476**

[1] includes employers for whom admission to the Fund is in progress
[2]March 2018 membership numbers have been adjusted to transfer 5,330 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 5,089 pending leavers has been made at 31 March 2019.

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Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017. Currently, employer contribution rates range from 0.0 % to 28.0 % of pensionable pay and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

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

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2018/19* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2019 but not yet adopted by the Code. It is anticipated that the 2019/20 code will introduce amendments in respect of:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

The amendments noted above are not considered likely to have a significant impact on the accounts of the Fund.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the fund actuary, in the payroll period to which they relate.

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

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

Transfers to and from other schemes

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme (Amendment) Regulations 2018.

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

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

Investment income

Interest income

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

Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend and is included within distributions from pooled funds.

Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue.

Dividend income arising on equities which are now held within pooled funds is included within distributions from pooled funds.

Property related income

Property-related income consists primarily of rental income.

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

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Movement in the net market value of investments

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

Fund account – expense items

Benefits payable

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

Taxation

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

Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)".*

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

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

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

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

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

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

Investment management expenses

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

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

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

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2018/19, £19.3m of fees is based on such estimates (2017/18: £11.5m).

Net assets statement

Financial assets

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

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

Freehold and leasehold properties

The properties were valued at open market value at 31 March 2019 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

Foreign currency transactions

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

Loans and receivables

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

The Fund's loans and receivables comprise of trade and other receivables and cash deposits and are recognised in the net asset statement at amortised cost

Cash and cash equivalents

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

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

Financial liabilities

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

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

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

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

Unquoted private equity and infrastructure investments

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

Directly held property

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. Under the classifications permitted by IAS7 and the Code, the Fund has determined that the tenant leases are operating leases. The risks and rewards of ownership of the properties remain with the Fun and therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £1,796.5 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,134.1m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority loans to Heylo Housing Trust totals £352.0m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £124.0m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £165m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £220m.

Note 6 - Contributions receivable

2017/18 £m	By category	2018/19 £m
56.5	**Members**	**58.7**
	Employers:	
221.3	Normal contributions [1]	96.8
89.9	Deficit recovery contributions [1]	11.4
7.2	Augmentation contributions [2]	4.0
318.4	**Total employers contributions**	**112.2**
374.9	**Total contributions receivable**	**170.9**
	By type of employer	
174.9	County Council [1]	57.8
176.5	Scheduled bodies [1]	93.1
23.5	Admitted bodies	20.0
374.9		**170.9**

[1] Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m

[2] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2018/19, £0.3m is voluntary and additional regular contributions (2017/18: £0.4m).

Note 7 - Transfers in from other pension funds

2017/18		2018/19
£m		**£m**
11.5	Individual transfers in from other schemes	11.0
11.5		**11.0**

Note 8 - Benefits payable

2017/18		2018/19
£m	**By category**	**£m**
213.6	Pensions	226.5
35.1	Commutation and lump sum retirement benefits	43.0
6.1	Lump sum death benefits	5.8
254.8		**275.3**
	By type of employer	
107.1	County Council	116.4
126.5	Scheduled bodies	137.5
21.2	Admitted bodies	21.4
254.8		**275.3**

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Note 9 - Payments to and on account of leavers

2017/18		2018/19
£m		**£m**
0.6	Refunds to members leaving service	0.6
17.3	Individual transfers	15.8
17.9		**16.4**

Note 10 - Management expenses

2017/18 £m		2018/19 £m
3.8	Fund administrative costs	3.7
57.3	Investment management expenses[1]	60.9
1.3	Oversight and governance costs [1,2]	0.9
62.4		**65.5**

[1]£3.2m investment property management expenses have been reclassified from oversight and governance costs to investment management expenses in the 2017/18 comparatives.

[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2017/18: £34,169).

No fees were payable to the external auditors for non-audit services.

Investment management expenses

2017/18 £m		2018/19 £m
0.4	Transaction costs[1]	0.7
45.0	Fund value based management fees [2]	50.4
0.3	Transition fees	-
11.5	Performance related fees[3]	9.8
0.1	Custody fees	-
57.3		**60.9**

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

[3]Performance related fees in the year ended 31 March 2018 included a non-recurring fee on global equities of £2.3m.

Note 11 - Investment income

2017/18		2018/19
£m		£m
3.3	Fixed interest securities	2.1
0.8	Index linked securities	-
103.4	Pooled investment vehicles	157.2
2.2	Pooled property investments	1.7
28.9	Net rents from properties	32.0
0.1	Interest on cash deposits	0.5
138.7	**Total investment income**	**193.5**

Note 12 - Property income

2017/18		2018/19
£m		£m
32.2	Rental income	36.7
(3.3)	Direct operating expenses	(4.7)
28.9	**Net income**	**32.0**

Note 13 - Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in value during the year [1]	Market value as at 31 March 2019
	£m	£m	£m	£m	£m
Fixed interest securities	116.8	321.3	(329.1)	1.7	110.7
Index linked securities	178.0	122.2	(3.1)	(13.5)	283.6
Pooled investment vehicles	6,321.5	507.0	(496.3)	711.0	7,043.2
Pooled property investments	113.3	8.3		2.4	124.0
Direct property	715.5	34.8		11.6	761.9
	7,445.1	**993.6**	**(828.5)**	**713.2**	**8,323.4**
Other investment balances:					
Cash deposits	162.0				67.1
Investment income due	3.1				3.9
Net investment assets	**7,610.2**				**8,394.4**

[1] £770.7m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

	Market value as at 1 April 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value [1]	Market value as at 31 March 2018
	£m	£m	£m	£m	£m
Fixed interest securities	132.2	341.8	(351.3)	(5.9)	116.8
Index linked securities	127.1	1,940.4	(1,889.4)	(0.1)	178.0
Pooled investment vehicles	6,136.7	1,956.1	(1,879.5)	108.2	6,321.5
Pooled property investments	99.4	-	(0.1)	14.0	113.3
Direct property	637.0	43.0	(17.9)	53.4	715.5
	7,132.4	**4,281.3**	**(4,138.2)**	**169.6**	**7,445.1**
Other investment balances:					
Cash deposits	56.3				162.0
Investment accruals	2.7				3.1
Net investment assets	**7,191.4**				**7,610.2**

[1] £221.9m on the face of the Fund account includes the change in market value of investments disclosed above (£169.6m), plus profits and losses on disposals and changes in the market value of derivatives held within the pools.

Investments analysed by fund manager

31 March 2018			31 March 2019	
£m	% of net investment assets		£m	% of net investment assets
Investments managed by LPPI Private Equity Fund				
16.1	0.2%	Hg Capital	80.8	1.0%
83.5	1.1%	Capital Dynamics	75.9	0.9%
22.1	0.3%	Hermes GPE	38.5	0.5%
26.1	0.3%	Insight Venture Partners	38.0	0.5%
30.0	0.4%	Permira	35.3	0.4%
32.1	0.4%	Genstar Capital	33.6	0.4%
10.0	0.1%	Adveq TMC	25.7	0.3%
13.1	0.2%	Colbeck Capital Management	23.4	0.3%
17.4	0.2%	BV Investment Partners	22.3	0.3%
15.1	0.2%	Waterland	20.4	0.2%
14.1	0.2%	ECI Partners	18.8	0.2%
14.4	0.2%	Mid Europa Partners	17.6	0.2%
15.1	0.2%	CVC Capital Partners	17.2	0.2%
21.4	0.3%	Nordic Capital	16.8	0.2%
15.2	0.2%	Thoma Bravo	15.4	0.2%
9.6	0.1%	CBPE Capital	14.8	0.2%
10.0	0.1%	Advent Life Sciences	14.0	0.2%
16.5	0.2%	Apax Partners	14.0	0.2%
10.8	0.1%	Rutland Fund Management	12.5	0.2%
7.5	0.1%	Endeavour Vision	12.0	0.1%
14.1	0.2%	Ironbridge Equity Partners	11.3	0.1%
13.2	0.2%	SL Capital Partners	10.9	0.1%

6.3	0.1%	NorthEdge Capital	9.9	0.1%
6.0	0.1%	Advent Venture Partners	9.8	0.1%
9.9	0.1%	Alpha Group	7.9	0.1%
6.1	0.1%	Littlejohn & Co	6.5	0.1%
6.0	0.1%	Advent International	5.7	0.1%
6.3	0.1%	Triton Partners	5.7	0.1%
7.0	0.1%	LPP internal managers	4.5	0.1%
6.5	0.1%	Chequers Capital	3.6	-
3.5	0.1%	Charterhouse Capital Partners	3.4	-
4.4	0.1%	Accent	3.0	-
-	-	True Capital	1.8	-
-	-	MCP	1.6	-
1.8	-	Abingworth Management	1.0	-
0.8	-	Private Equity Partners	0.8	-
1.8	-	EQT Partners	0.5	-
0.1	-	Italian Capital Management	0.1	-
37.1	0.5%	HGGC	-	-
531.0	**7.0%**		**635.0**	**7.6%**
Private equity investments managed outside of LPPI Private Equity Fund				
16.7	0.2%	Trilantic Capital Partners	15.4	0.2%
16.7	**0.2%**		**15.4**	**0.2%**
Investments managed by LPPI Credit Investments Fund				
200.4	2.6%	Prima Mortgage Investment Trust LLC	180.6	2.2%
114.8	1.5%	Bluebay	96.1	1.2%
-	-	Robeco	87.4	1.0%
73.8	1.0%	White Oak	78.8	0.9%
-	-	Primerica	70.3	0.8%
84.3	1.1%	Apollo	67.1	0.8%
61.9	0.8%	Venn Commercial Real Estate	66.7	0.8%

67.2	0.9%	King Street	59.2	0.7%
64.5	0.9%	Permira	49.3	0.6%
51.7	0.7%	Monarch	47.1	0.6%
38.5	0.5%	M&G	32.3	0.4%
37.2	0.5%	MFO King Street	29.3	0.3%
35.7	0.5%	Kreos	26.7	0.3%
10.4	0.1%	Muzinich Private Debt Fund	13.5	0.1%
14.4	0.2%	Blackrock	6.6	0.1%
8.5	0.1%	Westmill	6.6	0.1%
79.7	1.0%	LPPI internal managers	5.4	0.1%
128.1	1.7%	Pictet	-	-
1,071.1	**14.1%**		**923.0**	**11.0%**
Credit investments managed outside of LPPI Credit Investments Fund				
198.3	2.6%	Heylo Housing Trust	352.0	4.2%
138.0	1.8%	CRC	111.5	1.3%
56.6	0.7%	Neuberger Berman	52.1	0.6%
48.3	0.6%	Pimco Bravo	31.8	0.4%
31.2	0.4%	EQT	10.1	0.1%
18.8	0.3%	Hayfin	5.6	0.1%
491.2	**6.4%**		**563.1**	**6.7%**
Investments managed by LPPI Fixed Income Fund				
92.0	1.2%	PIMCO	157.6	1.9%
91.8	1.2%	Wellington	155.9	1.6%
-	-	LPPI internal managers	1.2	-
183.8	**2.4%**		**314.7**	**3.7%**
Liquid credit investments managed outside of LPPI Fixed Income Fund				
282.0	3.7%	LPPI internal and LCC Treasury Management	181.6	2.1%
282.0	**3.7%**		**181.6**	**2.1%**

Investments managed by LPPI Global Equities Fund				
1,306.2	17.2%	LPPI internal managers	1,531.8	18.3%
482.5	6.3%	Magellan	551.1	6.6%
469.0	6.2%	Robeco	548.8	6.5%
466.7	6.1%	First Eagle	540.4	6.4%
315.1	4.1%	Wellington	368.6	4.4%
174.9	2.3%	Baron	188.2	2.2%
-	-	MFS	0.5	-
-	-	Macquarie	0.2	-
3,214.4	**42.2%**		**3,729.6**	**44.4%**
Investments managed by LPPI Infrastructure Investments Fund				
84.2	1.1%	GLIL Infrastructure LLP	266.9	3.2%
95.0	1.2%	Guild Investments Limited	105.4	1.3%
111.4	1.5%	Elisandra Spain	102.1	1.2%
79.5	1.0%	Semperian PPP	93.6	1.1%
44.8	0.6%	ISquared Global Infrastructure	56.7	0.7%
47.2	0.6%	Global Infrastructure Partners	54.3	0.5%
61.6	0.8%	Cape Byron Infrastructure	41.6	0.5%
34.2	0.5%	Meridiam Infrastructure	41.6	0.5%
30.8	0.4%	ISQ Viridian	34.6	0.4%
32.7	0.4%	EQT Infrastructure	31.8	0.4%
35.6	0.5%	LPPI internal managers	29.9	0.4%
24.9	0.3%	Capital Dynamics	27.8	0.4%
20.7	0.3%	Stonepeak Infrastructure	24.2	0.3%
15.5	0.2%	Glennmont	9.0	0.1%
6.3	0.1%	Icon Infrastructure Partners	6.9	0.1%
3.0	0.1%	Stonepeak Claremont	3.9	-
727.4	**9.6%**		**930.3**	**11.1 %**
Infrastructure investments managed outside of LPPI Infrastructure Investments Fund				

104.6	1.4%	Arclight Energy	103.2	1.2%
77.1	1.0%	Icon Infrastructure Partners	55.6	0.7%
49.4	0.7%	Highstar Capital	31.5	0.4%
32.7	0.4%	Capital Dynamics Red Rose	25.5	0.3%
263.8	**3.5%**		**215.8**	**2.6%**
Property				
715.5	9.4%	Knight Frank	761.9	9.1%
46.0	0.6%	M&G Europe fund	48.0	0.6%
39.0	0.5%	Gatefold Hayes	40.3	0.5%
28.3	0.4%	Kames Target	28.3	0.3%
-	-	BaseCamp Real Estate Partners Ltd	7.4	0.1%
828.8	**10.9%**		**886.0**	**10.6%**
7,610.2	**100.0%**		**8,394.4**	**100.0%**

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The following individual investments represent over 5% of the net assets of the fund.

31 March 2018			**31 March 2019**	
£m	**% of total fund**		**£m**	**% of total fund**
3,214.4	42.2%	LPPI Global Equity Fund	3,729.6	44.4%
727.4	9.6%	LPPI Infrastructure Fund	930.3	11.1%
1,071.1	14.1%	LPPI Credit Strategies Fund	923.0	11.0%
531.0	7.0%	LPPI Private Equity Fund	635.0	7.6%

Index linked securities

31 March 2018		**31 March 2019**
£m		**£m**
178.0	UK quoted	283.6
178.0		**283.6**

Fixed interest securities

31 March 2018		31 March 2019
£m		£m
32.5	UK corporate bonds quoted	63.8
14.2	Overseas public sector	12.0
70.1	Overseas corporate bonds quoted	34.9
116.8		**110.7**

Pooled investment vehicles

31 March 2018		31 March 2019
£m	**UK funds:**	£m
183.8	Fixed income funds	314.7
108.2	Private equity	137.0
760.1	Infrastructure	955.8
1,110.3	Long term credit investments	997.0
67.3	Property funds	68.6
	Overseas funds:	
242.8	Fixed income funds	195.3
439.5	Private equity	513.4
231.1	Infrastructure	190.3
31.2	Long term credit investments	10.1
3,214.4	Equity funds[1]	3,729.6
46.0	Property funds	55.4
6,434.7		**7,167.2**

[1]Equity funds are held in the LPPI Global Equity Fund which includes UK equities.

Direct property investments

31 March 2018		31 March 2019
£m		£m
601.8	UK – freehold	624.8
113.7	UK – long leasehold	137.1
715.5		**761.9**

Property holdings

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

Details of these directly owned properties are shown in the table.

31March 2018		31 March 2019
£m		£m
637.0	**Opening balance**	**715.5**
	Additions:	
18.3	• Purchases	3.4
15.5	• New construction	31.2
9.2	• Subsequent expenditure	0.9
(17.9)	Disposals	-
53.4	Net increase in market value	10.9
715.5	**Closing balance**	**761.9**

Operating leases

The Fund leases out property under operating leases. The table shows the future minimum lease payments receivable under non-cancellable leases in future years.

2017/18		2018/19
£m		£m
29.3	Leases expiring within one year	36.3
81.1	Leases expiring between one and five years	109.8
126.1	Leases expiring later than five years	112.2
236.5	**Total future minimum lease payments receivable under existing non-cancellable leases**	**258.3**

The above disclosures have been reduced by a credit loss allowance of 2.1 % per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property management agents.

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index. The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with property managers to fill these voids.

Cash deposits

31 March 2018		31 March 2019
£m		£m
109.1	Sterling	43.5
52.9	Foreign currency	23.6
162.0		**67.1**

Note 14 - Financial instruments classification

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

31 March 2019

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	110.7		
Index linked securities	283.6		
Pooled investment vehicles	7,043.2		
Pooled property investments	124.0		
Cash deposits		67.1	
Investment accruals	3.9		
Debtors		22.0	
Total financial assets	**7,565.4**	**89.1**	
Financial liabilities			
Creditors			6.3
Total financial liabilities			**6.3**

31 March 2018

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	116.8		
Index linked securities	178.0		
Pooled investment vehicles	6,321.5		
Pooled property investments	113.3		
Cash deposits		162.0	
Investment accruals	3.1		
Debtors		23.5	
Total financial assets	**6,732.7**	**185.5**	
Financial liabilities			
Creditors			12.4
Total financial liabilities			**12.4**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £770.7m (2017/18: £221.9m) after adjusting for directly owned property.

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

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

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

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

Level 3

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

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital

Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

Fair value hierarchy

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

31 March 2019

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,155.9	-	3,409.5	7,565.4
Loans and receivables	67.1	-	-	67.1
Non-financial assets at fair value through profit and loss (property holdings)	-	761.9	-	761.9
Net investment assets	**4,223.0**	**761.9**	**3,409.5**	**8,394.4**

31 March 2018

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,399.4	116.9	3,216.4	6,732.7
Loans and receivables	162.0	-	-	162.0
Non-financial assets at fair value through profit and loss (property holdings)	-	715.5	-	715.5
Net investment assets	**3,561.4**	**832.4**	**3,216.4**	**7,610.2**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies,	Not required.
Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed valuation range[1]	Value at 31 March 2019	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Fixed income funds	-	198.2	198.2	198.2
Private equity funds	7.7%	650.3	700.4	600.2
Infrastructure funds	7.7%	1,146.1	1,234.3	1,057.9
Long term credit excluding index linked	7.7%	1,007.3	1,084.9	929.7
Index linked long term credit	-	283.6	283.6	283.6
Pooled property investments	4.0%	124.0	129.0	119.0
Level 3 investments		**3,409.5**	**3,630.4**	**3,188.6**

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity	Infrastructure funds	Long term credit investments	Property funds	Total level 3 investments
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Market value 1 April 2018	**242.9**	**547.7**	**991.2**	**1,319.4**	**113.3**	**3,214.5**
Purchases during the year and derivative payments	-	125.4	191.4	122.7	8.3	447.8
Sales during the year and derivative receipts	(62.8)	(124.9)	(90.7)	(221.0)	-	(499.4)
Unrealised gains / losses	5.0	40.9	4.0	41.3	2.4	93.6
Realised gains / losses	13.1	61.2	50.2	28.5	-	153.0
Market value 31 March 2019	**198.2**	**650.3**	**1,146.1**	**1,290.9**	**124.0**	**3,409.5**

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

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

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

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2018/19 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.7%
Total equities	9.8%
Alternatives	7.7%
Total property	4.0%

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

Asset type	31 March 2019	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	4,380.0	9.8%	4,807.4	3,952.5
Alternatives	2,946.8	7.7%	3,173.7	2,720.0
Total property	886.0	4.0%	921.5	850.6
Total bonds (including index linked)	110.6	6.7%	118.0	103.2
Total assets available to pay benefits	**8,323.4**		**9,020.6**	**7,626.3**

Asset type	31 March 2018	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	132.7	7.2%	142.3	123.1
Total equities	3,762.1	9.6%	4,123.3	3,400.9
Alternatives	2,721.5	7.4%	2,922.9	2,520.1
Total property	828.8	3.9%	861.1	796.5
Total assets available to pay benefits	**7,445.1**		**8,049.6**	**6,840.6**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2018	Asset type	31 March 2019
£m		£m
162.0	Cash and cash equivalents	67.1
162.0	**Total**	**67.1**

Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%).

The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

		Impact of	
	31 March 2019	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	67.1	0.7	(0.7)
Total change in assets available			

		Impact of	
	31 March 2018	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	162.0	1.6	(1.6)
Total change in assets available		**1.6**	**(1.6)**

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than £.

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

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous year end.

31 March 2018	Currency exposure – asset type	31 March 2019
£m		**£m**
3,653.8	Overseas equities	4,243.0
505.2	Overseas alternatives	395.7
46.0	Overseas property	55.4

84.3	Overseas bonds (including index linked)	46.9
4,289.3	**Total overseas assets**	**4,741.0**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 8.0%.

An 8.0% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2017/18: 8.5%).

An 8.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2019	Potential market movement +/- 8.0%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,243.0	341.1	4,584.1	3,901.9
Overseas alternatives	395.7	31.8	427.5	363.9
Overseas property	55.4	4.5	59.9	50.9
Overseas bonds (including index linked)	46.9	3.8	50.7	43.1
Total assets available to pay benefits	**4,741.0**	**381.2**	**5,122.2**	**4,359.8**

Currency exposure - asset type	Asset value at 31 March 2018	Potential market movement +/- 8.5%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas bonds (including index linked)	84.3	7.2	91.5	77.1
Overseas equities	3,653.8	310.6	3,964.4	3,343.2
Overseas alternatives	505.2	42.9	548.1	462.3
Overseas property	46.0	3.9	49.9	42.1
Total assets available to pay benefits	**4,289.3**	**364.6**	**4,653.9**	**3,924.7**

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £67.1m (31 March 2018: £162.0m) and was held with the following institutions:

31 March 2018	Summary	Rating	31 March 2019
£m			£m
	Bank deposit accounts		
154.5	Northern Trust	A+	58.3
7.5	Svenska Handelsbanken	A+	7.6
	Cash float with property manager		
-	Barclays Bank Plc	A-	1.2
162.0	**Total**		**67.1**

Liquidity risk

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

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

The Fund has financial liabilities of £6.3m at 31 March 2019, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2018 to 31 March 2019 for Prudential and 1 September 2017 to 31 August 2018 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.7**	**27.3**	**28.0**
Income (incl. contributions, bonuses, interest and transfers in)	0.0	5.9	5.9
Expenditure (incl. benefits, transfers out and change in market value)	(0.1)	(4.2)	(4.3)
Value at the end of the year	**0.6**	**29.0**	**29.6**

Note 19 - Current assets

31 March 2018		31 March 2019
£m		**£m**
7.7	Contributions due – employers	8.0
6.3	Contributions due – members	4.9
9.4	Sundry debtors	9.1
23.4		**22.0**

Note 20 – Current liabilities

31 March 2018		31 March 2019
£m		**£m**
1.6	Unpaid benefits	0.8
10.8	Accrued expenses	5.5
12.4		**6.3**

Note 21 - Contractual commitments

As at 31 March 2019 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £566.2m (2018: £546.6m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £190.9m (2018: £462.4m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £21.9m (2018: £47.3m). These amounts are expected to be drawn down over the next 6 months based on valuation certificates.

During the year, the Fund has invested in an indirect real estate fund with an outstanding commitment of £22.0m as at 31 March 2019(2018: £0m).

Note 22 - Related party transactions

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

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

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £0.5m (2017/18: £0.6m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.6m to the Fund in 2018/19. A contribution prepayment of £118m was received in 2017/18 for the years ending 31 March 2018, 2019 and 2020. Total employer contributions from the Council in 2017/18 amounted to £152m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2019 amount to £5.5m (2017/18: £6.8m).

Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2019 payroll, are included within the debtors figure in note 19.

Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2018/19 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2019.

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

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Financial Resources and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2018/19

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/18 – 31/03/19	56,667	8,557	65,224
Director of Finance	01/04/18 – 31/03/19	1,938	293	2,231
Chief Executive and Director of Resources	01/04/18 – 31/03/19	4,029	-	4,029

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

2017/18

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/17 – 31/03/18	54,699	8,228	62,927
Director of Financial Resources / Finance[3]	01/04/17 – 31/03/18	4,653	703	5,356
Chief Executive and Director of Resources [2]	03/01/18 – 31/03/18	874	-	874

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

[2] The Chief Executive and Director of Resources was a new post and was appointed on 3 January 2018.

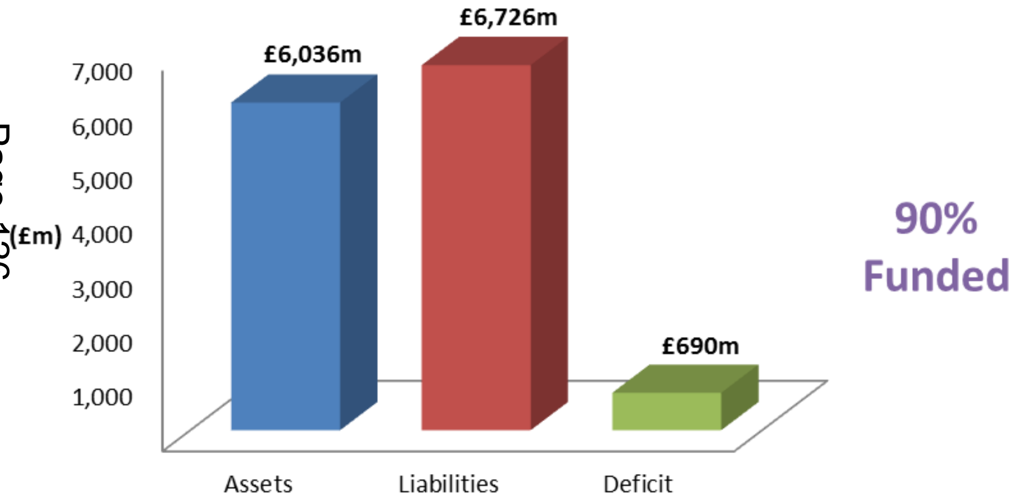
[3] Following a restructure the role of Director of Financial Resources was replaced with Director of Finance during the year ended 31 March 2018.

Note 24 - Funding arrangements

Accounts for the year ended 31 March 2019 - Statement by the Consulting Actuary

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

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £46 million. The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years' contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

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

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution are shown in the table below.

	For past service liabilities (Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial present value of promised retirement benefits for the purposes of IAS 26

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected rate of long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £10,022 million. Interest over the year increased the liabilities by c£261 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£72 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £568 million due to "actuarial losses" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £10,923 million.

The McCloud case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements.

In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible.

If the Government ultimately loses these cases then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action.

At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.
The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required.

Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2016 actuarial valuation results rather than being a full recalculation, and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made.

We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

GMP equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2019

Mark Wilson

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2019

I Lancashire Local Pension Board Annual Report – 2018/19

The Lancashire County Pension Fund's Local Pension Board (LPB) has now been up and running for nearly four years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee (PFC). Because LPB members explicitly represent either employers or members, we also have a representative role in the Fund's governance structure.

When they were set up in 2015, LPBs were new bodies and it has taken time to establish how we should fulfil our duties without duplicating the PFC's role. There is a wide variation in the effectiveness of LPBs across the country and the national Scheme Advisory Board will be conducting a survey into the operation of LPBs in 2019. Your LPB is seen as one of the leading models and I shall be contributing a response in order to spread what I regard as good practice.

We create an annual work plan to ensure that we are methodical in our activities. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the PFC. If we believe something requires particular attention, we may make a formal recommendation to them which requires a response. However, we are always aware that our role is to assist the PFC and a good relationship between the two bodies is absolutely essential.

In this report, I will start by reminding readers of the mechanics of the LPB; cover the training we undertake; and finally comment on our activities in the past twelve months, noting where we expect to focus our efforts in the next year.

Membership of the Pension Board

The LPB has nine members, four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve an eight year term, except for the Chair who serves four. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

During the year we welcomed Keith Wallbank, who was appointed to fill a vacancy for a Scheme Member representative which had arisen in June 2018 and I have been reappointed by the County Council to serve as Chair for up to a further four years.

The LPB meets four times a year and we additionally create informal groups if we feel they are needed. Members attend training events both in Preston and elsewhere. In my capacity as Chair I am also invited to attend meetings of the Pension Fund Committee to present reports and advise on the work of the Board. I have attended three out of the four Committees held over the past year.

Attendance of Board members at meetings of the Pension Board

Details of individual members' attendance at Board meetings (between 1 May 2018 and 30 April 2019), together with changes to the membership of the Board, are set out below.

Name	**Representing**	**3rd July 2018**	**16th October 2018**	**29th January 2019**	**30th April 2019**
W Bourne	Chair	✓	✓	✓	✓
T Pounder	Employer rep - LCC	apologies	✓	✓	✓
County Councillor C Wakeford	Employer rep - LCC	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	✓	✓	✓
C Gibson	Employer rep - Others	apologies	✓	apologies	✓
K Haigh	Scheme Member rep	✓	✓	✓	✓
R Harvey	Scheme Member rep	✓	✓	apologies	✓
Y Moult	Scheme Member rep	apologies	✓	✓	✓
K Wallbank	Scheme Member rep	N/A	✓	✓	✓

Change to the membership of the Board

K Wallbank appointed in October 2018 to fill a scheme member representative vacancy which arose in June 2018.

Training

The Board has a small internal budget, which is used primarily for Members' attendance at training events or conferences. During the year £10,474.66 was spent running the Board and training.

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. 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 and have all committed to completing the online training modules from The Pension Regulator's Public Service toolkit

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 a number of topics including cyber resilience, infrastructure, property, the triennial fund valuation and responsible investment. Members are also notified of and encouraged to attend external training conferences/event to extend their knowledge and meet LPB members from other funds.

The table below shows the number of training events which individual Board members attended during the period 1 May 2018 to 30 April 2019, and those who have completed online modules from The Pension Regulators Public Service Toolkit.

Name	Internal events	External events	Online Modules
W Bourne	0	2	7
County Councillor C Wakeford	0	0	0
T Pounder	2	1	0
S Thompson	1	1	0
C Gibson	0	1	0
K Haigh	6	1	3

R Harvey	4	0	0
Y Moult	3	2	7
K Wallbank	4	0	0
D Owen	1	0	0

Further information about the Board, including minutes and public papers, can be viewed on the Your Pension Service website.

Activities during the year

A year ago I expected the focus to be largely on the LPB's core scrutinising role. In particular I said we would monitor improvements expected from the Administration Transformation Plan, as well as the governance processes over LPP (Local Pensions Partnership, the entity created with the London Pension Fund Authority to perform the Fund's investment and administration activities). The Fund's ability to fulfil its fiduciary duty and thereby pay pensions in full and on time depends critically on LPP providing an effective service to it.

In practice, we have spent more time than we had envisaged on the changes to the administration service. The LPB was fully supportive of the concept behind the plan but did, in 2017, recommend a risk assessment ahead of its implementation date. With hindsight, had this been done and acted on it might have prevented many of the problems the service encountered in the first half of this year.

We have consequently been actively involved in engaging LPP, both through recommendations to the PFC and on occasion directly, to ensure that client service quality is given priority. We have also been carefully monitoring the recovery of service levels since the implementation of the Administration Plan. At our January 2019 meeting, we set up an informal advisory group together with LPP and officers to assist by providing feedback from the employers' and members' perspectives. We are aware that there is more work to be done to improve the client experience but at the same time remain firmly behind LPP's ambition to use the combination of the two administration services as an opportunity to change things for the better.

I noted last year an external review of LPP's effectiveness, which had been commissioned after two years' operation to provide third-party assurance that it is indeed cost-effective for both funds. The report by PwC was duly delivered but was perhaps too early in LPP's life to provide a definitive answer to the question. The LPB will remain vigilant on this front because LPP's role is so important to the smooth running of the Fund.

With the next valuation due as of 31 March 2019, communication and engagement will remain at the forefront of our work in the next year. Valuations almost always involve changes to employer contributions and effective communication to manage expectations is essential.

I comment next on some of our more routine scrutinising work. At every meeting, we look at any breaches of the regulations and at the key performance indicators in detail. One of our objectives for next year is to review the KPIs to ensure they properly reflect the experience of Fund members. This will help us in our aim of assisting the PFC in monitoring LPP's performance effectively.

During the year we also reviewed and commented on a wide range of documents. These included statutory documents such as the Administration, Investment and Governance Strategy statements, as well as policies such as that on responsible investment and climate change. We also looked for assurance that the Fund is compliant with The Pension Regulator's Code 14 and CIPFA's guidance, as well as internal and external audit requirements. Looking forward to the next year, we expect to be able to spend more of our time on this basic scrutiny. The regulations governing the LGPS are complex and varied, and the LPB's second pair of eyes provides the PFC with a valuable check to ensure that the Fund is fully compliant.

Your Fund is, in my view, currently in a good position. The funding level at 31 March 2019 is likely to be not too far off 100% and fund governance, which is the LPB's major concern, is seen as a market leader in many respects within the LGPS. This can be expected to result in a good outcome for stakeholders i.e. that all pensions are paid in full and on time while employers' contributions are kept no higher than they need be. The LPB is looking forward to being part of the process of continuing to seek improvements, particularly as regards administration service quality.

I would like once again to thank 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 again 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
April 2019

J Actuarial Valuation

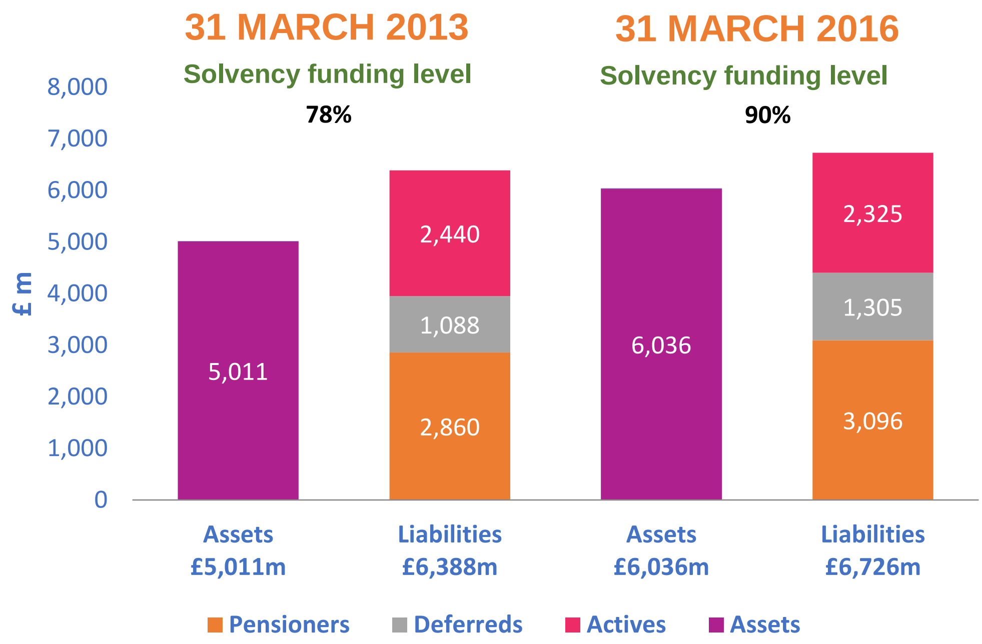
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2016 which determines contribution rates effective from 1 April 2017 to 31 March 2020.

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

The FSS specifies an average period for achieving full funding of 16 years. The FSS sets out the circumstances in which this may vary from one employer to another Where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put into place which requires additional contributions to correct the shortfall.

The valuation (effective from 1 April 2017) revealed a funding level of 90% and an average employer's contribution rate of 14.9% plus a deficit contribution in 2017/18 of £41.5m. For most employers the deficit contribution will increase at 3.7% per annum for 16 years.

The chart below, taken from the certified actuarial valuation as at 31 March 2016, compares the assets and liabilities of the Fund at 31 March 2016. Figures are also shown for the last valuation as at 31 March 2013 for comparison.



The employer contributions for 2017/18 are based on the 2016 valuation and the recommended employer contributions for the period 1 April 2017 to 31 March 2020 are set out in the Schedule to the Rates and Adjustments of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Appendix 1 of the Funding Strategy Statement. Your Pension Service - Lancashire Fund Information

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

RATES AND ADJUSTMENTS CERTIFICATE ISSUED IN ACCORDANCE WITH REGULATION 62

NAME OF FUND	Lancashire County Pension Fund

PRIMARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2017 is 14.9% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2017 is set out in the attached schedule.

SECONDARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2017 is as follows:

2017/18	£36.0 million plus 0.6% of pensionable pay
2018/19	£37.1 million plus 0.7% of pensionable pay
2019/20	£38.1 million plus 0.9% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2017 is set out in the attached schedule.

CONTRIBUTION AMOUNTS PAYABLE

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in the schedule.

FURTHER ADJUSTMENTS

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

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

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

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

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

REGULATION 62(8)

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

Signature:

Name: John Livesey

Qualification: Fellow of the Institute and Faculty of Actuaries

Signature:

Name: Mark Wilson

Qualification: Fellow of the Institute and Faculty of Actuaries

Date of signing: 31 March 2017

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE DATED 31 MARCH 2017

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Major authorities							
Blackburn with Darwen Borough Council	14.8%	-2.4% plus £4,773,000	-1.4% plus £4,773,000	£4,857,500	12.4% plus £4,773,000	13.4% plus £4,773,000	14.8% plus £4,857,500
Blackpool Borough Council	14.8%	*£3,315,200	*£4,087,500	*£4,501,400	14.8% plus *£3,315,200	14.8% plus *£4,087,500	14.8% plus *£4,501,400
Burnley Borough Council	15.4%	*£1,379,800	*£1,370,600	*£1,361,400	15.4% plus *£1,379,800	15.4% plus *£1,370,600	15.4% plus *£1,361,400
Chorley Borough Council	14.4%	£790,500	£840,500	£966,300	14.4% plus £790,500	14.4% plus £840,500	14.4% plus £966,300
Fylde Borough Council	15.2%	*£583,800	*£579,900	*£576,000	15.2% plus *£583,800	15.2% plus *£579,900	15.2% plus *£576,000
Hyndburn Borough Council	15.3%	12.7%	12.7%	12.7%	28%	28%	28%
Lancashire Chief Constable	14.0%	**£1,791,700	**£1,858,000	**£1,926,700	14% plus **£1,791,700	14% plus **£1,858,000	14% plus **£1,926,700
Lancashire County Council - excluding schools	15.1%	*£9,534,200	*£9,470,300	*£9,406,900	15.1% plus *£9,534,200	15.1% plus *£9,470,300	15.1% plus *£9,406,900
Lancashire County Council schools	15.1%	4.7%	4.8%	4.9%	19.8%	19.9%	20.0%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Lancashire Fire & Rescue Service	14.7%	***(£312,700)	***(£324,300)	***(£336,300)	14.7% less ***£312,700	14.7% less ***£324,300	14.7% less ***£336,300
Lancaster City Council	15.5%	*£945,900	*£939,600	*£933,300	15.5% plus *£945,900	15.5% plus *£939,600	15.5% plus *£933,300
Pendle Borough Council	15.5%	*£1,219,900	*£1,211,700	*£1,203,600	15.5% plus *£1,219,900	15.5% plus *£1,211,700	15.5% plus *£1,203,600
Preston City Council	15.4%	*£1,409,100	*£1,399,700	*£1,390,300	15.4% plus *£1,409,100	15.4% plus *£1,399,700	15.4% plus *£1,390,300
Ribble Valley Borough Council	16.5%	**£173,500	**£179,900	**£186,500	16.5% plus **£173,500	16.5% plus **£179,900	16.5% plus **£186,500
Rossendale Borough Council	15.6%	*£996,900	*£990,200	*£983,600	15.6% plus *£996,900	15.6% plus *£990,200	15.6% plus *£983,600
South Ribble Borough Council	14.9%	**£547,200	**£567,500	**£588,400	14.9% plus **£547,200	14.9% plus **£567,500	14.9% plus **£588,400
West Lancashire District Council	16.3%	*£985,600	*£979,000	*£972,400	16.3% plus *£985,600	16.3% plus *£979,000	16.3% plus *£972,400
Wyre Borough Council	15.8%	*£707,700	*£702,900	*£698,200	15.8% plus *£707,700	15.8% plus *£702,900	15.8% plus *£698,200

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Other scheme employers							
Accrington & Rossendale College	15.1%	£269,300	£279,200	£289,600	15.1% plus £269,300	15.1% plus £279,200	15.1% plus £289,600
Blackburn College	14.2%	£82,800	£85,900	£89,000	14.2% plus £82,800	14.2% plus £85,900	14.2% plus £89,000
Blackburn St Mary's College	14.6%	£9,100	£9,400	£9,800	14.6% plus £9,100	14.6% plus £9,400	14.6% plus £9,800
Blackpool & The Fylde College	14.4%	£192,600	£199,700	£207,100	14.4% plus £192,600	14.4% plus £199,700	14.4% plus £207,100
Blackpool Coastal Housing	13.9%	-1.9%	-1.9%	-1.9%	12%	12%	12%
Blackpool Housing Company Ltd	13.4%	-0.1%	-0.1%	-0.1%	13.3%	13.3%	13.3%
Blackpool Sixth Form College	12.1%	-0.3%	-0.3%	-0.3%	11.8%	11.8%	11.8%
Burnley College	13.2%	£124,900	£129,500	£134,300	13.2% plus £124,900	13.2% plus £129,500	13.2% plus £134,300
Cardinal Newman College	13.9%	£49,400	£51,200	£53,100	13.9% plus £49,400	13.9% plus £51,200	13.9% plus £53,100
County Councils Network	5.2%	£700	£700	£800	5.2% plus £700	5.2% plus £700	5.2% plus £800
Edge Hill University	14.3%	£780,300	£809,200	£839,100	14.3% plus £780,300	14.3% plus £809,200	14.3% plus £839,100
Lancaster & Morecambe College	15.3%	£121,300	£125,800	£130,400	15.3% plus £121,300	15.3% plus £125,800	15.3% plus £130,400
Myerscough College	14.2%	£165,800	£171,900	£178,300	14.2% plus £165,800	14.2% plus £171,900	14.2% plus £178,300
Nelson and Colne College	14.0%	£50,700	£52,500	£54,500	14% plus £50,700	14% plus £52,500	14% plus £54,500
Police & Crime Commissioner	13.9%	£3,800	£3,900	£4,100	13.9% plus £3,800	13.9% plus £3,900	13.9% plus £4,100
Preston College	13.3%	£259,900	£269,500	£279,500	13.3% plus £259,900	13.3% plus £269,500	13.3% plus £279,500

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Runshaw College	15.7%	£86,000	£89,200	£92,500	15.7% plus £86,000	15.7% plus £89,200	15.7% plus £92,500
University of Central Lancashire	14.3%	£949,800	£984,900	£1,021,400	14.3% plus £949,800	14.3% plus £984,900	14.3% plus £1,021,400
Designated / Resolution body							
Blackpool Transport Services Ltd	23.1%	-23.1%	-23.1%	-23.1%	0%	0%	0%
Catterall Parish Council	25.3%	Nil	Nil	Nil	25.3%	25.3%	25.3%
Darwen Town Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Garstang Town Council	17.5%	Nil	Nil	Nil	17.5%	17.5%	17.5%
Habergham Eaves Parish Council	15.8%	Nil	Nil	Nil	15.8%	15.8%	15.8%
Kirkland Parish Council	25.2%	-0.7%	-0.7%	-0.7%	24.5%	24.5%	24.5%
Lancs Sports Partnership Ltd	10.9%	-0.6%	-0.6%	-0.6%	10.3%	10.3%	10.3%
Marketing Lancashire Ltd	12.6%	-1.1%	-1.1%	-1.1%	11.5%	11.5%	11.5%
Morecambe Town Council	19.2%	-1.2%	-1.2%	-1.2%	18%	18%	18%
Old Laund Booth Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Penwortham Town Council	15.8%	-3.4%	-3.4%	-3.4%	12.4%	12.4%	12.4%
Pilling Parish Council	27.6%	£100	£100	£100	27.6% plus £100	27.6% plus £100	27.6% plus £100
Preesall Town Council	23.2%	£100	£100	£100	23.2% plus £100	23.2% plus £100	23.2% plus £100
Rossendale Transport Ltd.	25.6%	Nil	Nil	Nil	25.6%	25.6%	25.6%
St Anne's on Sea Town Council	17.0%	£1,100	£1,100	£1,200	17% plus £1,100	17% plus £1,100	17% plus £1,200
The Lancashire Colleges Ltd	17.8%	-3.7%	-3.7%	-3.7%	14.1%	14.1%	14.1%
Whittle-le-woods Parish Council	17.0%	Nil	Nil	Nil	17%	17%	17%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Whitworth Town Council	12.8%	£2,200	£2,200	£2,300	12.8% plus £2,200	12.8% plus £2,200	12.8% plus £2,300

Academies / schools							
Academy at Worden	14.6%	£13,400	£13,900	£14,400	14.6% plus £13,400	14.6% plus £13,900	14.6% plus £14,400
Accrington Academy	14.3%	-2.9%	-2.9%	-2.9%	11.4%	11.4%	11.4%
Albany Science College (Academy)	16.2%	£23,800	£24,700	£25,600	16.2% plus £23,800	16.2% plus £24,700	16.2% plus £25,600
All Saints CE Primary School (Academy)	14.1%	£16,200	£16,800	£17,400	14.1% plus £16,200	14.1% plus £16,800	14.1% plus £17,400
Anchorsholme Academy	16.0%	£34,900	£36,200	£37,500	16% plus £34,900	16% plus £36,200	16% plus £37,500
ANWET - Darwen Aldridge Community Academy	14.3%	-2%	-2%	-2%	12.3%	12.3%	12.3%
ANWET - Darwen Vale Academy	15.1%	£64,600	£67,000	£69,500	15.1% plus £64,600	15.1% plus £67,000	15.1% plus £69,500
ANWET - Sudell PS Academy	19.1%	£18,300	£19,000	£19,700	19.1% plus £18,300	19.1% plus £19,000	19.1% plus £19,700
Bacup and Rawtenstall Grammar School (Academy)	14.8%	£22,600	£23,400	£24,300	14.8% plus £22,600	14.8% plus £23,400	14.8% plus £24,300
Belthorn Primary Academy	18.6%	£7,300	£7,600	£7,900	18.6% plus £7,300	18.6% plus £7,600	18.6% plus £7,900
BFET (Marton Primary Academy)	16.3%	£22,800	£23,600	£24,500	16.3% plus £22,800	16.3% plus £23,600	16.3% plus £24,500
BFET (South Shore Academy)	14.9%	£48,200	£50,000	£51,800	14.9% plus £48,200	14.9% plus £50,000	14.9% plus £51,800

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Bishop Rawstorne C of E High Academy	17.5%	£28,500	£29,600	£30,600	17.5% plus £28,500	17.5% plus £29,600	17.5% plus £30,600
Blackpool MAT (Revoe)	14.6%	£47,500	£49,300	£51,100	14.6% plus £47,500	14.6% plus £49,300	14.6% plus £51,100
Blessed Edward MAT (Christ)	16.3%	£11,900	£12,300	£12,800	16.3% plus £11,900	16.3% plus £12,300	16.3% plus £12,800
Blessed Edward MAT (St Cuthbert)	15.3%	£24,900	£25,800	£26,800	15.3% plus £24,900	15.3% plus £25,800	15.3% plus £26,800
Blessed Edward MAT (St Mary's)	15.5%	£46,500	£48,200	£50,000	15.5% plus £46,500	15.5% plus £48,200	15.5% plus £50,000
Bowland High Academy Trust	17.6%	£29,000	£30,100	£31,200	17.6% plus £29,000	17.6% plus £30,100	17.6% plus £31,200
Cidari Ed Ltd (Marsden St John)	17.0%	£9,600	£10,000	£10,400	17% plus £9,600	17% plus £10,000	17% plus £10,400
Cidari Edu Ltd (Baines Endowed)	12.7%	£39,300	£40,800	£42,300	12.7% plus £39,300	12.7% plus £40,800	12.7% plus £42,300
Cidari Education Trust	8.8%	£2,400	Nil	Nil	8.8% plus £2,400	8.8%	8.8%
Cidari Education Ltd (St Aidans)	14.0%	£17,100	£17,700	£18,400	14% plus £17,100	14% plus £17,700	14% plus £18,400
Cidari Education Ltd (St Barnabas)	16.2%	£20,100	£20,800	£21,600	16.2% plus £20,100	16.2% plus £20,800	16.2% plus £21,600
Cidari Education Ltd (St James)	13.8%	£17,300	£17,900	£18,600	13.8% plus £17,300	13.8% plus £17,900	13.8% plus £18,600
Clitheroe Royal Grammar School (Academy)	16.7%	£58,000	£60,100	£62,400	16.7% plus £58,000	16.7% plus £60,100	16.7% plus £62,400
CSCST (Burnley High Free School)	13.6%	£300	£300	£300	13.6% plus £300	13.6% plus £300	13.6% plus £300
Devonshire Academy	15.7%	£36,900	£38,300	£39,700	15.7% plus £36,900	15.7% plus £38,300	15.7% plus £39,700
Education Partnership Trust (Coal Clough)	17.6%	£20,000	£20,700	£21,500	17.6% plus £20,000	17.6% plus £20,700	17.6% plus £21,500
Education Partnership Trust (Eden School)	10.7%	£1,400	£1,500	£1,600	10.7% plus £1,400	10.7% plus £1,500	10.7% plus £1,600
Education Partnership Trust (Pleckgate HS)	15.9%	£66,200	£68,600	£71,200	15.9% plus £66,200	15.9% plus £68,600	15.9% plus £71,200
FACT (Unity Academy)	13.5%	£59,500	£61,700	£64,000	13.5% plus £59,500	13.5% plus £61,700	13.5% plus £64,000

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
FCAT (Aspire Academy)	17.1%	£48,500	£50,300	£52,200	17.1% plus £48,500	17.1% plus £50,300	17.1% plus £52,200
FCAT (Montgomery HS Academy)	14.3%	£55,000	£57,000	£59,100	14.3% plus £55,000	14.3% plus £57,000	14.3% plus £59,100
Fulwood Academy	15.2%	-3.9%	-3.9%	-3.9%	11.3%	11.3%	11.3%
Fylde Coast Academy Trust	13.4%	£1,500	£1,600	£1,600	13.4% plus £1,500	13.4% plus £1,600	13.4% plus £1,600
Garstang Community Academy	17.9%	£27,900	£28,900	£30,000	17.9% plus £27,900	17.9% plus £28,900	17.9% plus £30,000
Hambleton Primary Academy	13.6%	£6,800	£7,100	£7,300	13.6% plus £6,800	13.6% plus £7,100	13.6% plus £7,300
Hawe Side Primary School	15.6%	£17,500	£18,100	£18,800	15.6% plus £17,500	15.6% plus £18,100	15.6% plus £18,800
Hodgson Academy	17.5%	£43,400	£45,000	£46,700	17.5% plus £43,400	17.5% plus £45,000	17.5% plus £46,700
Lancashire Care Foundation	20.1%	-5%	-5%	-5%	15.1%	15.1%	15.1%
Lancaster Girls Grammar School (Academy)	15.5%	£41,900	£43,400	£45,000	15.5% plus £41,900	15.5% plus £43,400	15.5% plus £45,000
Lancaster Royal Grammar School (Academy)	17.9%	£66,500	£69,000	£71,500	17.9% plus £66,500	17.9% plus £69,000	17.9% plus £71,500
Langdale Free School	15.4%	Nil	Nil	Nil	15.4%	15.4%	15.4%
Lostock Hall Academy Trust	17.2%	£30,100	£31,200	£32,400	17.2% plus £30,100	17.2% plus £31,200	17.2% plus £32,400
Maharishi School (Free School)	18.4%	-0.1%	-0.1%	-0.1%	18.3%	18.3%	18.3%
Moorside Community PS Academy	14.8%	£10,800	£11,200	£11,600	14.8% plus £10,800	14.8% plus £11,200	14.8% plus £11,600
Norbreck Primary Academy	15.0%	£18,400	£19,100	£19,800	15% plus £18,400	15% plus £19,100	15% plus £19,800
Parbold Douglas CE Academy	16.1%	£9,700	£10,100	£10,400	16.1% plus £9,700	16.1% plus £10,100	16.1% plus £10,400
Park Academy	13.2%	£55,300	£57,300	£59,500	13.2% plus £55,300	13.2% plus £57,300	13.2% plus £59,500
Parklands High School (Academy)	14.6%	£25,900	£26,800	£27,800	14.6% plus £25,900	14.6% plus £26,800	14.6% plus £27,800
Pendle Education Trust (Colne Primet)	17.5%	£14,200	£14,700	£15,300	17.5% plus £14,200	17.5% plus £14,700	17.5% plus £15,300
Pendle Education Trust (Castercliff)	17.2%	£24,900	£25,800	£26,800	17.2% plus £24,900	17.2% plus £25,800	17.2% plus £26,800

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Pendle Education Trust (Walter Street Primary School)	15.5%	£14,700	£15,200	£15,800	15.5% plus £14,700	15.5% plus £15,200	15.5% plus £15,800
Penwortham Priory Academy	15.4%	£17,100	£17,700	£18,300	15.4% plus £17,100	15.4% plus £17,700	15.4% plus £18,300
Queen Elizabeth's Grammar School	16.1%	£67,100	£69,600	£72,200	16.1% plus £67,100	16.1% plus £69,600	16.1% plus £72,200
Ripley St Thomas C of E Academy	17.6%	£43,000	£44,600	£46,200	17.6% plus £43,000	17.6% plus £44,600	17.6% plus £46,200
Roseacre Primary Academy	15.3%	£23,100	£24,000	£24,800	15.3% plus £23,100	15.3% plus £24,000	15.3% plus £24,800
St Christopher's C of E high School (Academy)	16.1%	£88,000	£91,300	£94,600	16.1% plus £88,000	16.1% plus £91,300	16.1% plus £94,600
St Georges Academy	15.1%	£39,200	£40,700	£42,200	15.1% plus £39,200	15.1% plus £40,700	15.1% plus £42,200
St Luke and St Philip (Academy)	14.7%	£28,100	£29,100	£30,200	14.7% plus £28,100	14.7% plus £29,100	14.7% plus £30,200
St Michael's C of E High School (Academy)	16.5%	£45,600	£47,200	£49,000	16.5% plus £45,600	16.5% plus £47,200	16.5% plus £49,000
St Wilfrid's C of E Academy	13.9%	£91,900	£95,300	£98,800	13.9% plus £91,900	13.9% plus £95,300	13.9% plus £98,800
Tarleton Academy	14.9%	£29,400	£30,500	£31,600	14.9% plus £29,400	14.9% plus £30,500	14.9% plus £31,600
Tauheedul Education Trust	11.2%	-1.1%	-1.1%	-1.1%	10.1%	10.1%	10.1%
Tauheedul ET (Eden BS Preston)	10.8%	£900	Nil	Nil	10.8% plus £900	10.8%	10.8%
Tauheedul ET (Eden GS Birmingham)	10.1%	Nil	Nil	Nil	10.1%	10.1%	10.1%
Tauheedul ET (Eden GS Slough)	12.2%	£100	Nil	Nil	12.2% plus £100	12.2%	12.2%
Tauheedul ET (Olive Blackburn)	8.5%	-1%	-1%	-1%	7.5%	7.5%	7.5%
Tauheedul ET (Olive London)	8.3%	-1.1%	-1.1%	-1.1%	7.2%	7.2%	7.2%
Tauheedul ET Eden BS Bolton FS	14.2%	£100	£100	£100	14.2% plus £100	14.2% plus £100	14.2% plus £100
Tauheedul ET Eden GS Coventry	8.6%	-0.3%	-0.3%	-0.3%	8.3%	8.3%	8.3%
Tauheedul ET Eden GS Waltham	11.6%	£1,300	£1,300	£1,400	11.6% plus £1,300	11.6% plus £1,300	11.6% plus £1,400

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Tauheedul ET Islam Girls HS	16.1%	£17,900	£18,600	£19,200	16.1% plus £17,900	16.1% plus £18,600	16.1% plus £19,200
Tauheedul Islam Boys High School (Free School)	10.5%	£900	£900	£1,000	10.5% plus £900	10.5% plus £900	10.5% plus £1,000
Thames Primary Academy	14.2%	£29,100	£30,200	£31,300	14.2% plus £29,100	14.2% plus £30,200	14.2% plus £31,300
The Heights Free School	14.0%	£22,600	£23,400	£24,300	14% plus £22,600	14% plus £23,400	14% plus £24,300
Tower MAT (Blackpool Gateway Academy)	12.0%	£4,400	£4,600	£4,700	12% plus £4,400	12% plus £4,600	12% plus £4,700
Waterloo Primary School (Academy)	14.2%	£30,900	£32,000	£33,200	14.2% plus £30,900	14.2% plus £32,000	14.2% plus £33,200
Wensley Fold CE Primary Academy	14.1%	£29,900	£31,000	£32,200	14.1% plus £29,900	14.1% plus £31,000	14.1% plus £32,200
Westcliff Primary School (Academy)	15.3%	£12,600	£13,100	£13,500	15.3% plus £12,600	15.3% plus £13,100	15.3% plus £13,500
Witton Park Academy Trust	15.8%	£55,900	£58,000	£60,100	15.8% plus £55,900	15.8% plus £58,000	15.8% plus £60,100
Admitted bodies (community)							
Arnold Schools Ltd.	19.4%	£26,200	£27,100	£28,100	19.4% plus £26,200	19.4% plus £27,100	19.4% plus £28,100
Blackpool Fylde Wyre Blind Society	21.6%	-20.6%	-20.6%	-20.6%	1%	1%	1%
Blackpool Zoo	19.6%	-4.4%	-4.4%	-4.4%	15.2%	15.2%	15.2%
Blackpool, Fylde and Wyre Credit Union	21.2%	-1.6%	-1.6%	-1.6%	19.6%	19.6%	19.6%
Calico Housing Limited	13.8%	£209,200	£216,900	£224,900	13.8% plus £209,200	13.8% plus £216,900	13.8% plus £224,900
Catholic Caring Services	16.6%	£65,500	£67,900	£70,400	16.6% plus £65,500	16.6% plus £67,900	16.6% plus £70,400
Chorley Community Housing	16.4%	-3.9%	-3.9%	-3.9%	12.5%	12.5%	12.5%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Community and Business Partners CIC	14.8%	-2%	-2%	-2%	12.8%	12.8%	12.8%
Community Council of Lancashire	19.5%	£26,000	£27,500	£28,500	19.5% plus £26,000	19.5% plus £27,500	19.5% plus £28,500
Community Gateway Association	16.1%	-1.5%	-1.5%	-1.5%	14.6%	14.6%	14.6%
Contour Housing Group	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
Fylde Community Link	16.8%	£11,200	£11,700	£12,100	16.8% plus £11,200	16.8% plus £11,700	16.8% plus £12,100
Galloways Society for Blind	20.2%	£16,600	£17,200	£17,800	20.2% plus £16,600	20.2% plus £17,200	20.2% plus £17,800
Hyndburn Homes Ltd	18.4%	-2.8%	-2.8%	-2.8%	15.6%	15.6%	15.6%
Kirkham Grammar School (Independent)	19.9%	£29,300	£30,400	£31,500	19.9% plus £29,300	19.9% plus £30,400	19.9% plus £31,500
Lancashire County Branch Unison	18.2%	-18.2%	-18.2%	-18.2%	0%	0%	0%
Lancaster University	13.4%	£504,700	£523,400	£542,700	13.4% plus £504,700	13.4% plus £523,400	13.4% plus £542,700
Leisure in Hyndburn	13.0%	£47,800	£49,600	£51,400	13% plus £47,800	13% plus £49,600	13% plus £51,400
Local Pensions Partnership Ltd	12.4%	Nil	Nil	Nil	12.4%	12.4%	12.4%
Lytham Schools Foundation	18.0%	-4.4%	-4.4%	-4.4%	13.6%	13.6%	13.6%
North West & North Wales Sea Fisheries Committee	16.6%	£25,500	£26,500	£27,500	16.6% plus £25,500	16.6% plus £26,500	16.6% plus £27,500
Pendle Leisure Trust	12.6%	£20,600	£21,400	£22,200	12.6% plus £20,600	12.6% plus £21,400	12.6% plus £22,200
Preston Care and Repair	13.7%	£3,600	Nil	Nil	13.7% plus £3,600	13.7%	13.7%
Progress Housing Group Ltd	17.9%	-2.3%	-2.3%	-2.3%	15.6%	15.6%	15.6%
QEGS Blackburn Ltd	16.5%	-0.3%	-0.3%	-0.3%	16.2%	16.2%	16.2%
Ribble Valley Homes Ltd	18.9%	-10.2%	-10.2%	-10.2%	8.7%	8.7%	8.7%
Rossendale Leisure Trust	13.6%	-2.1%	-2.1%	-2.1%	11.5%	11.5%	11.5%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Surestart Hyndburn	13.8%	£22,400	£23,200	£24,100	13.8% plus £22,400	13.8% plus £23,200	13.8% plus £24,100
The Ormerod Home Trust Ltd.	21.2%	£145,100	£150,400	£156,000	21.2% plus £145,100	21.2% plus £150,400	21.2% plus £156,000
Together Housing	14.7%	£87,700	£90,900	£94,300	14.7% plus £87,700	14.7% plus £90,900	14.7% plus £94,300
University of Cumbria	14.0%	£608,700	£631,200	£654,600	14% plus £608,700	14% plus £631,200	14% plus £654,600
Wyre Housing Association	19.3%	£257,600	£267,100	£277,000	19.3% plus £257,600	19.3% plus £267,100	19.3% plus £277,000
Admitted bodies (contractor)							
Alternative Futures Group Ltd	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
Andron (formerly Solar)	21.3%	-21.3%	-21.3%	-21.3%	0%	0%	0%
Bootstrap Enterprises Ltd	18.8%	-17.9%	-17.9%	-17.9%	0.9%	0.9%	0.9%
Bulloughs (Carr Head PS)	25.6%	£500	Nil	Nil	25.6% plus £500	25.6%	25.6%
Bulloughs (Lytham Hall)	21.0%	Nil	Nil	Nil	21%	21%	21%
Bulloughs (Our Lady)	16.8%	-7.3%	-7.3%	-7.3%	9.5%	9.5%	9.5%
Burnley Leisure	13.6%	-2%	-2%	-2%	11.6%	11.6%	11.6%
Capita (Rossendale BC Transfer)	20.7%	-20.7%	-20.7%	-20.7%	0%	0%	0%
Catering Academy Ltd	20.1%	-20.1%	-20.1%	-20.1%	0%	0%	0%
Caterlink (Mount Pleasant School)	16.8%	-1.9%	-1.9%	-1.9%	14.9%	14.9%	14.9%
CG Cleaning (Kennington Rd)	22.7%	-17.4%	Nil	Nil	5.3%	22.7%	22.7%
CG Cleaning (St Augustine)	22.1%	-3%	Nil	Nil	19.1%	22.1%	22.1%
Churchill (Holy Family)	21.4%	-16%	Nil	Nil	5.4%	21.4%	21.4%
Churchill (St Anne St Joseph)	18.5%	-2.8%	Nil	Nil	15.7%	18.5%	18.5%
Cofely FM Ltd (Blake/Cross)	26.7%	-26.7%	-26.7%	-26.7%	0%	0%	0%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Cofely FM Ltd (Lend Lease)	21.9%	-5.4%	-5.4%	-5.4%	16.5%	16.5%	16.5%
Cofely FM Ltd (Pleckgate)	18.8%	-10.8%	-10.8%	-10.8%	8%	8%	8%
Cofely FM Ltd (Witton Park)	23.2%	-3.2%	-3.2%	-3.2%	20%	20%	20%
Compass Contract Services	23.4%	-0.4%	-0.4%	-0.4%	23%	23%	23%
Compass Contract Services (UK) Ltd (Preston College)	20.9%	-0.9%	-0.9%	-0.9%	20%	20%	20%
Consultant Caterers Ltd	22.5%	-17.8%	-17.8%	-17.8%	4.7%	4.7%	4.7%
Creative Support Limited (Midway Mental health)	18.2%	-4.2%	-4.2%	-4.2%	14%	14%	14%
Creative Support Ltd	21.0%	-21%	-21%	-21%	0%	0%	0%
Elite CES Ltd (Fulwood Cadley)	19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
Elite CES Ltd (Moor Nook PS)	23.1%	Nil	Nil	Nil	23.1%	23.1%	23.1%
Elite Cleaning and Environmental Services Ltd	16.7%	-9.8%	-9.8%	-9.8%	6.9%	6.9%	6.9%
Eric Wright Facilities Management Ltd (Highfield High School)	20.2%	-19.5%	-19.5%	-19.5%	0.7%	0.7%	0.7%
FCC Environment	20.6%	Nil	Nil	Nil	20.6%	20.6%	20.6%
Fylde YMCA	16.5%	-16.5%	-16.5%	-16.5%	0%	0%	0%
I CARE	26.1%	-26.1%	-26.1%	-26.1%	0%	0%	0%
Ind Living Fund (Blackpool BC)	19.7%	-2%	Nil	Nil	17.7%	19.7%	19.7%
Lend Lease Cons.(EMEA) ICT	18.8%	-5.3%	-5.3%	-5.3%	13.5%	13.5%	13.5%
Lend Lease Cons.(EMEA) ph3	13.9%	-3%	-3%	-3%	10.9%	10.9%	10.9%
Lend Lease Construction (EMEA) Limited (Fulwood Academy)	16.9%	-1.9%	-1.9%	-1.9%	15%	15%	15%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Liberata (UK) Ltd (Burnley)	18.7%	-1.4%	-1.4%	-1.4%	17.3%	17.3%	17.3%
Liberata UK Ltd (Pendle)	19.2%	-6.5%	-6.5%	-6.5%	12.7%	12.7%	12.7%
Mack Trading Int. (Ltd)	21.1%	-21.1%	-21.1%	-21.1%	0%	0%	0%
May Gurney Fleet and Passenger Services Limited	21.7%	-21.7%	-21.7%	-21.7%	0%	0%	0%
Mellor's (Bishop Rawstorne)	21.2%	-6%	-6%	-6%	15.2%	15.2%	15.2%
Mellors (Brinscall St John)	18.9%	-0.1%	-0.1%	-0.1%	18.8%	18.8%	18.8%
Mellor's (Hambleton PS)	27.6%	-1.7%	-1.7%	-1.7%	25.9%	25.9%	25.9%
Mellors (Queens Drive)	20.5%	Nil	Nil	Nil	20.5%	20.5%	20.5%
Mellors (Trinity, St Michael)	24.7%	Nil	Nil	Nil	24.7%	24.7%	24.7%
Mellor's (Worden SC)	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Mellor's Catering (Belthorn Academy)	21.1%	Nil	Nil	Nil	21.1%	21.1%	21.1%
NCP Services Ltd	23.6%	-23.6%	-23.6%	-23.6%	0%	0%	0%
RCCN (Basnett Nursery)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Ridge Crest Clean Nrth Sacred	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Service Alliance (Barnoldswick)	21.3%	Nil	Nil	Nil	21.3%	21.3%	21.3%
Service Alliance (Whalley PS)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Service Alliance Ltd (Altham)	25.7%	-3.1%	Nil	Nil	22.6%	25.7%	25.7%
Service Alliance Ltd (RCC)	26.6%	£500	Nil	Nil	26.6% plus £500	26.6%	26.6%
South Ribble Community Leisure (Serco)	13.5%	£80,400	£83,400	£86,500	13.5% plus £80,400	13.5% plus £83,400	13.5% plus £86,500
Urbaser Ltd	23.9%	£400	£400	£400	23.9% plus £400	23.9% plus £400	23.9% plus £400

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
West Lancashire Community Leisure (Serco)	14.9%	-14.9%	-14.9%	-14.9%	0%	0%	0%

Other employers confirmed post valuation							
Freckleton Parish Council	18.6%	Nil	Nil	Nil	18.6%	18.6%	18.6%
PET (West Craven)	17.2%	£18,100	£18,800	£19,500	17.2% plus £18,100	17.2% plus £18,800	17.2% plus £19,500
Andron Heyhouses	23.3%	Nil	Nil	Nil	23.3%	23.3%	23.3%
Blessed Edward Trust	10.7%	Nil	Nil	Nil	10.7%	10.7%	10.7%
Churchill Moorside	25.1%	-4.3%	-4.3%	-4.3%	20.8%	20.8%	20.8%
Clayton-le-Woods Parish Council	17.8%	-0.9%	-0.9%	-0.9%	16.9%	16.9%	16.9%
Cliviger Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Compass HHC	21.6%	Nil	Nil	Nil	21.6%	21.6%	21.6%
Education Partnership Trust	11.2%	-0.4%	-0.4%	-0.4%	10.8%	10.8%	10.8%
FCAT Mereside Primary Academy	16.3%	£27,600	£28,600	£29,700	16.3% plus £27,600	16.3% plus £28,600	16.3% plus £29,700
Mellors Lostock	21.9%	Nil	Nil	Nil	21.9%	21.9%	21.9%
PET	15.5%	£700	£700	£700	15.5% plus £700	15.5% plus £700	15.5% plus £700
Tauheedul Highfield Humanities	16.4%	£57,700	£59,800	£62,000	16.4% plus £57,700	16.4% plus £59,800	16.4% plus £62,000
Tauheedul Olive Birmingham	7.6%	Nil	Nil	Nil	7.6%	7.6%	7.6%
Tauheedul Olive Bolton	11.1%	Nil	Nil	Nil	11.1%	11.1%	11.1%
Tauheedul Olive Preston	9.7%	Nil	Nil	Nil	9.7%	9.7%	9.7%
Taylor Shaw (Parklands HS)	22.4%	-3%	-3%	-3%	19.4%	19.4%	19.4%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Tor View	12.6%	£57,300	£59,400	£61,600	12.6% plus £57,300	12.6% plus £59,400	12.6% plus £61,600
Vision Learning Trust	13.3%	-0.1%	-0.1%	-0.1%	13.2%	13.2%	13.2%

Employers grouped with Council							
Andron Fearns Sport College	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Bulloughs (St Patrick)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Churchill (Clayton Brook)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Churchill (Morecambe Bay)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Consultant Cleaners (St James)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (St Annes)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (Carr Hill)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
I Care (Ind)	14.8%	-2.4%	-1.4%	Nil	12.4%	13.4%	14.8%
Maxim (Acorns PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (Newton Bluecoat)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (St Matthews CE PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Delph Side PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Holy Cross)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Little Hoole)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (White Ash PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Premiserv (St Peter)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Burscough)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Our Ladys Catholic HS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
RCCN (St Johns)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Whitefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Clitheroe Pendle Primary)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Mary Magdalene)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Marys RCP)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Wilfred)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Whittlefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Other interested bodies with no pensionable employees

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

Notes:

1. Cash payments in respect of £ lump sums marked * are payable by 30 April 2017. Cash payments in respect of £ lump sums marked ** are payable by 30 April of the year in which they are due. Cash payments in respect of £ lump sums marked *** are payable by the end of the year in which they are due Where applicable these amounts have been reduced to reflect this early payment;

2. With the agreement of the Administering Authority employers may also opt to pay any other element of their employer contributions early, with either all three years being paid in April 2017 or payment being made in the April of the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - Payments made in the April of the certified year will be reduced by 2.1% (i.e. the above amounts will be multiplied by 0.979)
   - 2018/19 payments made in April 2017 will be reduced by 6.3% (i.e. the above amounts will be multiplied by 0.937)
   - 2019/20 payments made in April 2017 will be reduced by 10.2% (i.e. the above amounts will be multiplied by 0.898)

   For these cases the employer will need to estimate in advance the pensionable pay for the entire period, and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 19th April or 22nd April as appropriate following the year-end).

3. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014;

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

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

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

7. The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The employers (both existing and new) that will be included in the captive are those with less than 150 active members (excluding major Councils). New employers entering the Fund who fall into this category will also be included. For those employers in the ill-health captive arrangement, allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

K Contacts

http://www.yourpensionservice.org.uk

Benefits and other administrative issues

LPP – Your Pension Service

PO Box 1381

Preston

PR2 0WP

Phone: 0300 323 0260

Email:Askpensions@localpensionspartnership.org.uk

Investment management

LPP

Norwest Court
Guildhall Street
Preston

PR1 3NU

Phone: 0300 323 0260

Email: info@localpensionspartnership.org.uk

2nd Floor

169 Union Street

London SE1 0LL

Phone: 020 7369 6000

Email: info@localpensionspartnership.org.uk

Pension Fund Accounts

Abigail Leech

Head of Pension Fund

Telephone: 01772 530808

E-mail: abigail.leech@lancashire.gov.uk

L Glossary

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

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

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

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

Actuarial valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the fund actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits.

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

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

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

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

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

Asset allocation

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

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

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

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

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

Bid price
The price a buyer pays for a stock.

Bonds
Loans, with a fixed rate of interest, made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date.

Career average revalued earnings (CARE) scheme.
With effect from 1 April 2014, the benefits accrued by members of the LGPS will be in the form of CARE benefits. Every year a member accrues a pension benefit equivalent to 1/49th of their pensionable pay in that year. The pension accrued will increase in line with the annual change in the consumer prices index over the period to retirement.

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

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

Conflicts of interest
Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of those conflicts are inherent in any large, diversified organisation,

while others stem from the nature of the services offered to clients. Those conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer price index (CPI)
CPI is a measure of inflation based on the change in the price of a fixed basket of goods and services. The difference between CPI and retail price index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and council tax, and includes other items not used in RPI. The basket of goods and services on which CPI is based is expected to provide lower, less volatile, inflation increases.

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

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

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

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

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

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

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

Deficit
The extent to which the Fund's past service liabilities exceed the value of the Fund's assets.

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

Discount rate
The rate of interest used to convert a future cash amount to a present day value. It is a measure of the 'time value' of money.

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

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

ESG (environmental, social and corporate governance)
Responsible Investors understand that ESG characteristics are financially material to investment decision-making if they are likely to have an impact on a company and its performance within the period of their ownership. Long term investors such as pension funds which aim to hold assets for an extended period of time need to assess the impact of a variety of potential influences, some of which are systemic risks which are not possible to predict with certainty (such as climate change).

Investors who integrate the consideration of ESG characteristics are seeking insight into future risks and opportunities which may be financially material to the investments they are already holding or those that are under consideration.
Environmental criteria look at how a company performs as a steward of the natural environment both as a consumer of resources and a producer of goods, services and waste.
Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates.
Governance criteria examine a company's management and decision-making framework, the corporate culture this creates and the quality of corporate leadership offered.
ESG is often used as a catch-all term for the approach to assessing these various criteria as part of being an informed and responsible investor.

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

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

Future service contribution rate

The contribution rate payable by an employer, expressed as a % of pensionable pay. This rate is the rate which will be sufficient to meet the costs of new benefits being accrued by active members in the future.

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

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

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

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

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

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

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

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

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

Myners review

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

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

Past service liability
The value, in present day terms, of the benefits accrued by members up to the valuation date. Calculated on the basis of a set of assumptions agreed between the administering authority and the actuary.

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

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

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

Private equity
Shares in un-quoted companies.

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

Quantitative easing
The introduction of new money into the money supply by a central bank. The central bank increases the money supply and buys government bonds.

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

Responsible investment
An approach to investment which recognises that the consideration of environmental, social and governance factors forms an important part of the evaluation of the future risks and opportunities

facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

Pension funds invest the retirement savings of scheme members in order to fund the benefits they are entitled to receive in the future. There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

Scheduled bodies
Organisations which are listed in parts 1 and 2 of schedule 2 to the LGPS Regulations 2013. These bodies automatically have the right to offer LGPS membership to eligible employees.

Organisations listed in part 1 are required to enrol eligible employees into the LGPS. This list includes, but is not limited to: County and District Councils, Combined Authorities, Fire and Rescue Authorities, Police and Crime Commissioners, Chief Constables, Further and Higher Education Corporations, Sixth Form Colleges and Academies.

If an organisation is listed in part 2 it can choose to offer membership to all or some employees. This list includes, but is not limited to: Parish Councils, subsidiaries of County or District Councils, Other precepting authorities not listed in Part 1.

Service level agreement
A commitment between a service provider (for example LPP) and a client (for example, the Fund) that defines exactly which services will be provided and the level or standard expected for those services.

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

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

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

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

50:50 scheme
In the LGPS, active members are given an option to accrue a lower benefit in return for paying a lower level of contribution.

Agenda Item 9

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None

Annual Administration Report 2018/19
(Appendix 'A' refers)

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

Executive Summary

The annual report set out at Appendix 'A' has been produced in accordance with the arrangements for the provision of pension administration services to the Lancashire County Pension Fund and describes performance against standards and targets during 2018/19.

Recommendation

The Committee is asked to note the contents of the annual 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.

The report attached at Appendix 'A' has been produced to inform the Committee of performance against standards and targets set over the year to 31 March 2019.

Over the year, an overall performance of 87% has been achieved and all statutory requirements, including the production of annual benefits statements and annual allowance calculations, have been met. This represents a fall when compared to the overall performance of 96% figure for the previous year of 2017/18. The Local Pensions Partnership's new administration structure and case management system went live on 1 April 2018 and, as has been previously reported to the Committee, there were issues in the implementation of the new systems and processes that impacted on the level of service provided. Whilst performance since April has been below the required service level agreement, improvements have been apparent as the months have progressed.

The overall percentage of cases meeting the service level agreement in April and May 2018 were recorded as 66% and 73% respectively. Those figures have

Lancashire County Council

improved throughout the year and had risen to 93% in February 2019 and 94% in March 2019

During the 2018/19 period 7 out of the 10 areas of performance standard that are regularly reported to the Fund fell below the service level agreement.

Overall activity remains broadly the same as that reported in the previous year, with one notable difference in the measure of the calculation of retirement benefits which has increased to 5,434 a significant increase in the figure of 2797 quoted in the previous year. The increase is a result of a change in methodology on the measure of the calculation of retirement benefits within 10 working days.

The report states that during the reporting period 32,637 individual calculations and enquiries were dealt with in relation to the reported performance standard, an increase of just over 5,000 from the previous year. There is also an increase of the overall membership of the Lancashire Fund of just under 4,500 members.

The elapsed time from the notification of a retirement to the date a retirement is processed has increased from 42 days reported for 2017/18 to 53 days in the current report.

Compliments received for the service are broadly in line with the number received in 2017/18 however the number of complaints has risen from 49 in 2017/18 to 208 in the current report.

The online service for members continues to be actively promoted and the figure of 58,802 members who have signed up by the end of March 2019 is an increase of nearly 6,000 from the figure reported last year.

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

Appendix A

your pension service

LANCASHIRE COUNTY PENSION FUND

Annual Administration Report

1 April 2018 to 31 March 2019

Administered by Lancashire County Council

TSC APRIL 2019

1. INTRODUCTION

Purpose

This administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service (YPS) against the standards set out in the SLA during the period 1 April 2018 to 31 March 2019.

Annual Plan – 2018/19

Due ● Completed

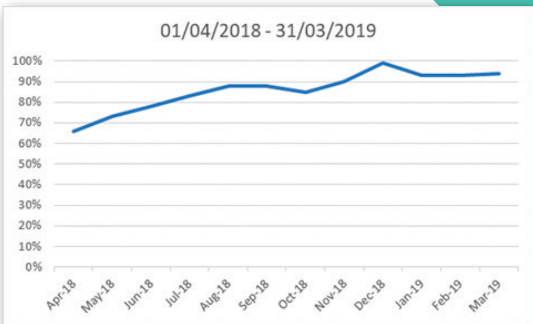
Responsibility Your Pension Service (YPS)

Event	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 IAS19 data											●	

2. PERFORMANCE STANDARD

Service Level Agreements

The SLA performance reported in this document is based on the types of cases detailed below. However, LPP also process other case types for members of the scheme which are outlined in the SLA or are critical to providing the pensions administration service. Whilst performance from April has been below SLA, improvements can be identified as the months progress. April 66%, May 73%, June 78%, July 83%, August 88%, September 88%, October 85%, November 90%. December 99%, January 93%, February 93%, March 94%.



LGPS

Performance Standard (Annual)

	Cases b/f & received	Cases completed	Within SLA	% Within SLA	Target	Cases ongoing
Estimate benefits within 10 working days	5,978	5,889	5,070	86%	95%	89
Calculation of retirement benefits within 10 working days *	5,434	4,500	4,000	90%	95%	934
Calculation of death benefits within 10 working days	3,785	3,374	2,809	83%	95%	411
Implement change in pensioner circumstance by payment due date	1,343	887	861	97%	95%	456
Respond to general correspondence within 10 working days of receipt	2,068	1,859	1,563	84%	95%	209
Action transfers out within 10 working days	2,481	2,378	1,801	76%	95%	103
Action transfers in within 10 working days	2,609	1,916	1,398	73%	95%	693
Pay refunds within 10 working days	4,053	3,643	3,369	92%	95%	410
Provide leaver statement within 10 days	6,933	5,649	5,003	89%	95%	1,284
Amend personal records within 10 working days	2,669	2,542	2,540	99%	95%	127
	37,353	32,637	28,414	87%		4,716

Target Missed

Target Hit

*The 'calculation of retirement benefits within 10 working days' refers to how many cases have been processed during the period. Not all cases processed will result in a pension being paid as members are able to defer payment of their benefits up to age 75. Those that have continued to payment stage are shown in the Customer Service section of the report.

3. MEMBERSHIP

Fund membership

Lancashire County Pension Fund	31/03/18	31/03/19
Number of active scheme members		
County council	25,126	25,721
Other employers	26,220	27,422
Total	**51,346**	**53,143**
Number of pensioners		
County council	23,722	24,692
Other employers	23,723	24,651
Total	**47,445**	**49,343**
Number of deferred pensioners (includes pending leavers)		
County council	37,410	37,691
Other employers	35,873	36,299
Total	**73,283**	**73,990**
Total membership	**172,074**	**176,476**

There were 5,089 pending leavers as at 31/03/2019, which for the purpose of this report have been moved from active status to deferred status.

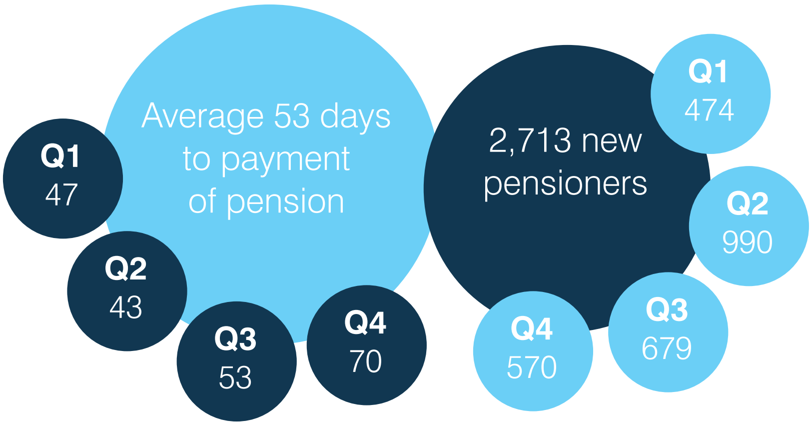
The pending leaver figures for the period ending 31/03/2018 had also been adjusted to 5,955.

	Q1	Q2	Q3	Q4
Pending Leavers	5,955	6,278	6,498	5,089

4. CUSTOMER SERVICE

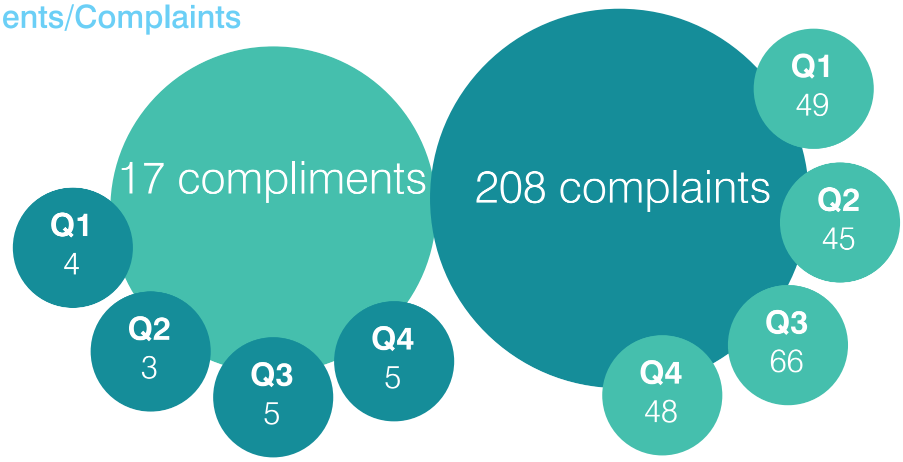
Retirement Experience

Elapsed time from notification of retirement to date retirement processed .



The average 70 days to payment of pension reported for Q4 is due to the bulk closure of cases where members could not be contacted, most of which were approaching 365 days elapsed time in our case management system.

Compliments/Complaints



During the period the service received 17 compliments, these related to the helpful, prompt and professional service provided by the staff within Your Pension Service.

The complaints in general related to scheme rule changes and delays in processing benefits, it is worth noting that this was at times due to pending information from the employer or previous scheme provider.

5. EMPLOYER RISK

Admissions and Terminations

During the period 1 April 2018 to 31 March 2019 36 new admissions to the Fund have been completed. These arose from existing Fund employers contracting out services and academy conversions 33 employers left the Fund in the period.

36 New employers completed in the above period

Academy Conversions	13
Admission Bodies (Contractors)	23
Other (if there are any)	0
Total	**36**

33 Exiting employers completed in the above period

Charities	2
Housing	6
Admission Bodies(Contractors)	23
Other	2
Total	**33**

LCPF admissions and exits in progress at 31/03/2019

Admissions

Academy Conversions	15
Admission Bodies (Contractors)	13
Total	**28**

Exits

Academy Conversions	17
Housing	1
Total	**18**

6. COMMUNICATIONS

Engagement

Communications are delivered by the Engagement Team, they are the link between Your Pension Service scheme members and employers.

Employers

Employer engagement activity for 1 April 2018 to 31 March 2019

Activity	Numbers Delivered
Employer Visit	12
Employer Training	5
Practitioners Conference	1

Scheme member

Member engagement activity for 1 April 2018 to 31 March 2019

Activity	Numbers Delivered
Pre Retirement Course	28
Pension Surgery	18
Scheme Basics	21
Stall Holder	1
Redundancy Presentation	1
TUPE Presentation	3

Contact Centre

A dedicated Contact Centre is the first point of contact for both scheme members and employers. Over the period 86.52% of calls were successfully answered against a target of 90%. Call wait time has been amended to measure from when the caller selects an option in line with industry standard.

In previous reports the Lancashire County Pension Fund and Cumbria County Pension Fund calls have been recorded together. The below revised table now provides Lancashire County Pension Fund calls only.

Lancashire County Pension Fund	Annual	Q4
Total Calls answered	39,303	10,629
Connect Rate	86.52%	95.82%
Call Waiting (Max)	00:33:22	00:14:09
Call Waiting (Avg)	00:03:36	00:01:28
Talk Time (Avg)	00:04:53	00:05:04
Wrap Time (Avg)	00:01:14	00:00:43
Total Time on Call (Avg)	00:06:26	00:06:33

Call Category

Lancashire County Pension Fund	Annual
General Enquiries	34,353
Pensions Online	3,678
P60	1,272

Contact Centre Satisfaction Survey

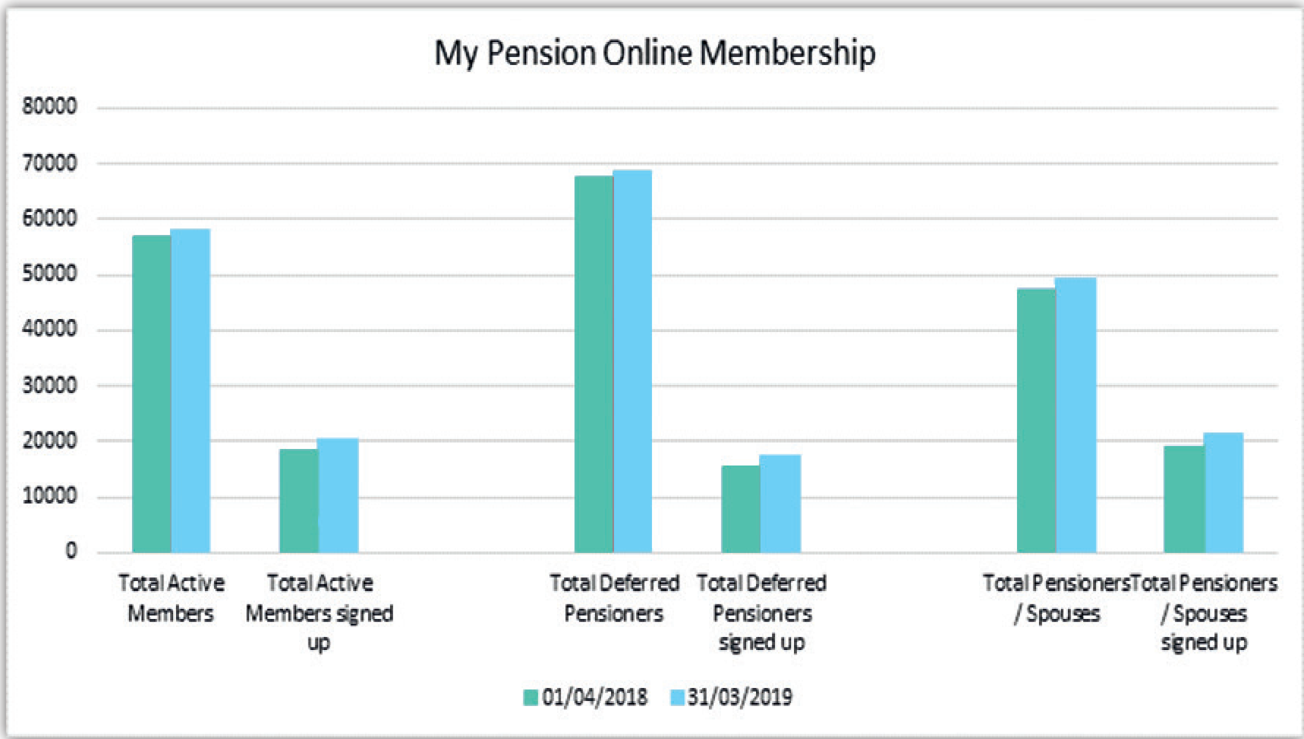
In January we introduced a satisfaction survey to better understand our members satisfaction with the service we provide. Since implementation we have been able to survey 17.12% of our callers with on-boarding now increasing to over 30% on average. Of this 17.12%, 92.46% of them provided us with an indication they were satisfied with our service, providing us with an average score of 4.67 out of 5.

7. MY PENSION ONLINE (MPO)

My Pension Online is the online facility which allows members to manage their Pension online. Via My Pension Online members can:

- Securely update changes to their contact and bank details
- Run pension forecasts to assist with retirement planning
- View annual benefit statements and other correspondence
- View nominated beneficiaries
- Access relevant forms and guides
- See how their pension is growing
- Contact YPS

My Pension Online was first launched in 2013 and since then 58,802 members have signed up to view their pension online. We recently launched a 'refreshed' version of My Pension Online which aims to enhance the online experience for all members.



Employer Services Online (ESS)

Currently there are 194 users registered to access the online employer facility this is across 101 employers. In the main, the service is used to view member records and calculate estimate of benefits, including pension strain.

**an audit of users is carried out at year end, those who have not accessed ESS within a 12 month period are deleted.

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected: (All Divisions);

Consultation on changes to the Local Valuation Cycle and the Management of Employer Risk
(Appendix 'A' refers)

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

Executive Summary

The Ministry of Housing, Communities and Local Government are seeking views and consulting upon changes to the Local Government Pension Scheme regulations. The consultation focusses on the cycle of the local valuation process and also addresses issues concerned with the management of employer risk. The closing date for responses to the consultation is 31st July 2019.

Recommendation

The Committee is asked to note the contents of the consultation as presented at Appendix 'A', and are invited to provide any comments they may have to the Head of Fund for consideration in the Fund's final response.

Background and Advice

On the 8th May 2019 the Ministry of Housing, Communities and Local Government opened a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk policy'. The consultation closes on the 31st July 2019.

The consultation covers the following areas:

- **Proposals to amend the local fund valuation cycle of the Local Government Pension Scheme from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024.**

The preferred option within the consultation for transitioning into this is to allow the 2019 valuation to complete as anticipated with a further transitional valuation performed in 2022 prior to the commencement of quadrennial valuation in 2024. In effect this brings the local valuation in line with the national Local Government Pension Scheme valuation conducted by the Government Actuary's Department.

Although a driver for this change would be simply to keep the local and national valuation cycles aligned for ease of administration. The consultation paper also suggests that a longer valuation cycle would produce greater stability in employer contribution rates and save costs.

However, a longer valuation cycle could also potentially result in greater changes in employer contribution rates at each valuation and reduce the level of risk monitoring on scheme employers.

As a result the consultation proposes to allow funds to conduct interim valuations and/or amend contributions in between valuations when certain conditions, to be set out in the authority's Funding Strategy Statement, are satisfied.

The Scheme Advisory Board will be invited to provide guidance to funds on the matters to be included in their Funding Strategy Statements in relation to the new powers to conduct interim valuations or review employer contribution rates mid-cycle.

- **Exit payments**

Where a scheme employer ceases participation within the Fund the regulations allow for the Fund to require the exiting employer make a payment covering any outstanding pension deficit liability.

The proposal in the consultation allows for the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant. In effect employers defer exit payments that would otherwise be due upon their termination from the fund, and provide an ongoing commitment to meet their existing liabilities, in an agreement with the fund.

For other employers who may not have a sufficiently strong covenant there are already provisions in place in the current regulations to spread the re-payment of any exit payment. Proposals in the consultation ask whether further protections may be needed in respect of this, such as a maximum time-limit for payment.

- **Exit Credits**

These were introduced in May 2018 and allow a scheme employer, who has ceased participation within the Fund in a surplus position, to receive an exit credit payment.

Unforeseen issues have arisen in relation to the interaction of the new provisions with existing outsourcing arrangements entered into on a "pass-through" basis. Such agreements will commonly involve the outsourcing authority subsidising all or part of the contractor's LGPS contributions during the period of the contract, and also taking on liability for any deficit at the point of exit. However, because exit credits were not permitted by the Local Government Pension Scheme Regulations at the time these arrangements were negotiated, the outsourcing agreement will make no reference to what happens if the contractor's notional fund is in surplus at the exit date. The net result is that the contractor may be entitled to claim a substantial exit credit, even though it has borne no pensions risk during the contract.

The proposal is to amend the 2013 Regulations retrospectively to address this issue, by requiring an administering authority to take into account a scheme employer's exposure to risk when calculating the value of an exit credit. In particular, if the service provider has not borne any pensions risk, but has become entitled to an exit credit, then the exit credit should be assessed as nil.

- **Removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the Local Government Pension Scheme to their non-teaching staff for new entrants**.

This proposal has been driven by various changes within the sector, including the facts that institutions in this sector are now officially categorised as non-public sector, are increasingly autonomous, and also that Further Education institutions and sixth form colleges can now legally become insolvent.

Access to the Local Government Pension Scheme would still be available for the purposes of recruitment and retention, but the decision whether to offer membership to a new employee would become a matter for each individual employer. Those already in employment, however, would retain their protected right to membership of the Local Government Pension Scheme for as long as they remain in continuous employment (including following a TUPE transfer).

Consultations

The consultation document has already been shared with the Fund's scheme employers who are invited to respond in their own right. The Fund will work closely with the Scheme actuary in providing its own response and will take on board any comments provided by members of the committee.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified by the proposals set out within the consultation document.

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

Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

May 2019
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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May 2019

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covers the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result. Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme. Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.

	When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle[1], and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.

- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended[2] to allow the payment of 'exit credits' to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016[3]. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS's funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019**.

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[2] S.I. 2018/493
[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

Changes to the Local Government Pension Scheme (LGPS) valuation cycle

1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes[4].

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

[4] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Dealing with changes in circumstances between valuations

2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations[5]. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

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[5] https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement[6] requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

[6] Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Flexibility on exit payments

3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis[7] on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers[8] in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

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[7] Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

[8] Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)[9]:

> *"(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—*
>
> *(a) the contribution at the primary rate should be adjusted; or*
>
> *(b) any prior secondary rate adjustment should be increased or reduced,*
>
> *with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable."*

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[9] In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?

3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector[10] defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become "deferred employers". A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a 'relevant event' (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

[10] These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;
2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;
3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Exit credits under the LGPS Regulations 2013

4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes[11] to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016[12], as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

[11] S.I. 2018/493
[12] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

situations, scheme employers often use a ‘pass-through’ approach to limit the service provider’s exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider’s LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider’s liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer’s exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS[13]. Use of the deemed employer approach,

[13] https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Employers required to offer LGPS membership

5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.
- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.
- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation 'Insolvency regime for further education and sixth form colleges', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a "funded scheme". This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

Public sector equality duty

6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation*.*

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None

2019 Valuation process and timetable

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

Executive Summary

The current cycle of triennial valuations of the Pension Fund, which determines future levels of employer contribution, is currently in progress and will once complete, be based on the position of the Fund at 31 March 2019. This report sets out the timetable to achieve the setting of new employer contribution rates which will take effect from 1 April 2020.

Recommendation

The Committee is asked to note the timetable for the 2019 valuation as detailed in this report.

Background and Advice

The broad objective of the valuation is to maintain a level of contributions sufficient to ensure that the Fund maintains, as far as possible, a near 100% funded position, whilst recognising pressures on scheme employers' budgets.

The Fund is required to undertake a full actuarial valuation of its liabilities every three years for the purpose of setting employer contribution rates and deficit recovery periods and payments. The current valuation will assess the position based on data at 31 March 2019, with any new contribution rates taking effect from 1 April 2020.

As in previous valuations the Fund will seek to engage with Groups of employers as well as providing the opportunity for individual employers to discuss their position with officers and the actuary.

The Valuation Process

The broad timetable for the valuation process is set out below:

- Mid-June – Fund Officers and Actuary meet to consider any issues emerging from early data analysis.
- End June – Provision of full Fund data covering all individuals and employers

presented to the Fund Actuary.

- Early September – Preliminary results available.
- Mid-September – Group meetings with employers to present preliminary results and identify issues (Local Authorities – 27 September 2019 am), (Colleges and Universities – 27 September 2019 pm), (Academies – 01 October 2019 am) (Other Scheme employers – 01 October 2019 pm)
- October – Final results issued
- November – 1:1 sessions offered to each employer to meet with the actuary and Fund representatives.

The actuary's final report which will include the certified Rates and Adjustments Certificate will be presented to the Committee in the first quarter of 2020 together with the updated Funding Strategy Statement and the new Investment Strategy Statement.

Consultations

The timetable has been shared and agreed with the Local Pensions Partnership, to ensure that delivery of the key stages are achievable.

Implications:

This item has the following implications, as indicated:

Risk management

The valuation process is essentially a risk management process in which the Fund is required to strike a balance between various competing interests in order to set contributions rates that continue to be able to meet pension benefits when they fall due.

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
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
(All Divisions);

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 Terms of Reference of the Pension Fund Committee's include a requirement to monitor internal audit reports relating to the Pension Fund: this report gives a summary of the work done during 2018/19 and planned for 2019/20 including that for Local Pensions Partnership Ltd by Deloitte LLP.

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 council's Head of Pension Fund and the Director of Strategic Programmes & Group Company Secretary for Local Pensions Partnership Limited have been consulted about the contents of this report.

Implications:

This item has the following implications, as indicated:

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
N/A		

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 terms of reference for the county council's Audit, Risk and Governance Committee give it a wider remit to oversee internal audit activity, and its terms of reference address its oversight of the work of the Internal Audit Service in some detail. This includes 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…."

1.3 The council's 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 during the year.

1.4 This report is therefore presented to the Pension Fund Committee for information regarding the outcomes of the internal audit work done during 2018/19 and the work included in the annual plan for 2019/20 relating to the Lancashire County Pension Fund. It focusses on the work of the council's Internal Audit Service but also refers to the work undertaken by Deloitte for the Local Pension Partnership Ltd.

2 Internal audit work 2018/19

2.1 Details of the work undertaken by the Internal Audit Service and the assurance it provides for 2018/19 are set out below, and explanations of the assurance provided are set out in section 5 of this report.

Audit work	Assurance
Oversight of the Lancashire County Pension Fund	
Performance management	Substantial
New custodianship arrangements for the Lancashire Pension Fund	Substantial
Accounting for the Pension Fund through the council's general ledger	Substantial
Follow-up of the action arising from audit work during 2017/18 relating to oversight of the Lancashire Pension Fund	Action complete
Obtaining and understanding the assurance provided by Local Pensions Partnership Limited own internal auditors	
Assessment of the assurance provided by Deloitte over the Fund's administration and investment operations outsourced to Local Pensions Partnership Limited (LPP)	Limited: see paragraph 3.4 below

Performance management

2.2 The council's Governance Policy Statement sets out the roles of the Pension Fund Committee, Pension Board and senior post-holders in relation to the governance and oversight of the Fund. This includes oversight of the Fund's performance and particularly the performance of its investments.

2.3 The Pension Fund Committee takes the role of scheme manager and receives regular reports from the head of service for the Pension Fund and LPP. The committee is advised by the Investment Panel and assisted by the Pension Board whose independent advisors and chair respectively have been appointed for their expertise, and is provided with sufficient, relevant information to assess and effectively challenge the performance of the Fund.

New custodianship arrangements

2.4 The Pensions Act requires the Pension Fund to have adequate internal control mechanisms in place, including arrangements for safe custody and security of the assets of the scheme. The Fund therefore requires a custodian to hold its assets.

2.5 The custodian appointed by the council (Northern Trust) holds £1.6 billion of the £7.9 billion of assets belonging to the Pension Fund: the remaining assets are held by the custodian for LPP (BNY Mellon). Northern Trust obtains information from BNY Mellon and presents information on the whole fund to the council.

2.6 We identified no unmitigated risks in the course of our audit and no further action is required of management.

Cash flow management

2.7 The Pension Fund disburses approximately £20 million per month as pensions and other expenses are paid, offset by contributions and other income. The Fund's policy is to maintain a minimum balance of £70 million, held in cash or other highly liquid assets. This is managed by the county council and is separate from the funds invested by LPP. Any surplus cash should be invested in accordance with the investment strategy to minimise risk and ensure liquidity.

2.8 As at 1 January 2019 the balance of cash and short-term liquid assets was £154 million. This higher balance has arisen due to payments in advance by employers to address deficits following the last valuation in 2016: employers were offered a discount on their deficit payments if they paid these in 2017, and many employers took up this offer.

2.9 The Pension Fund Treasury Management Strategy sets out how surplus cash is managed the short term and we confirmed that surplus cash is managed in accordance with this strategy.

3 Internal audit work undertaken by Deloitte during 2018/19

3.1 Local Pensions Partnership Limited has appointed Deloitte 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 county 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 council's Audit, Risk and Governance Committee and Pension Fund Committee.

3.2 During 2018/19 Deloitte has completed and reported two audits under the second year of its three-year risk-based audit plan and the final audit from the first year of its plan.

Control area	Assurance
Investment operations (2017/18)	Effective with scope for improvement
GDPR readiness assessment (2018/19)	Effective with scope for improvement
Investments: Markets in Financial Instruments Directive ('MIFID II') compliance (2018/19)	Effective

3.3 Deloitte's classification scheme differs slightly from that used by the council's Internal Audit Service, and an explanation of the assurance provided is set out in section 5 of this report.

3.4 Deloitte's intention at the start of the year was to undertake nine audits but, during the year, the audits of administration transformation (phase 2) and of core systems and infrastructure were removed from the plan. Since only two of the remaining seven audits have been completed and formally reported, the assurance that the council can take over the Fund’s administration and investment operations outsourced to LPP is limited. LPP is expected to report Deloitte's findings on the following areas of its plan for 2018/19 over the summer of 2019:

- Cyber security
- Core financial controls: management information and reporting
- Investments: third party oversight
- Investments: legal and regulatory compliance
- Benefits administration

4 Internal audit plans 2019/20

4.1 The following work relating to the Lancashire County Pension Fund has been included on the internal audit plan for the county council in 2019/20.

Operational area of activity	Audit work
Collecting contributions from employers	Assessment of the controls over the collection of contributions from employers.
Employers' satisfaction with the Fund's administration	Support to management through an independent survey of the employers' satisfaction with the Fund's administration.
Accounting for the Pension Fund through the council's general ledger	Compliance testing of key controls.
LPP's compliance with its contractual obligations	Review of the accuracy of the performance data reported by LPP to demonstrate its achievement of its contractual performance targets.
Obtaining and understanding the assurance provided by the Pension Fund's own internal auditors.	Assessment of the assurance provided by Deloitte over the operation of the Fund by LPP.

4.2 In addition to completing work for 2018/19, the work that Deloitte plans to undertake for LPP during 2019/20 is as follows:

Coverage	Key risk areas
Contributions	A key element of managing the administration of a pension scheme is ensuring that LPP is receiving all the contributions due per the Schedule of Rates.
Benefit 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 geographically dispersed teams. This audit will focus on accuracy benefit calculations for retirements at Normal Retirement Age, early retirement, dependent pensions and ill health and approval of payments.
Core financial controls	The design and operation of core financial controls is essential to enable effective function of LPP. A number of new procedures have been recently implemented to monitor LPP's cash flow and this will audit will consider these, along with the wider cash flow and liquidity related processes.
Investment portfolio monitoring	For an investment portfolio to derive the desired returns, ongoing portfolio performance and risk monitoring is essential. It is expected that in March/ April 2019 the new portfolio and order management system will be procured and by December 2019 Local Pension Partnership Investments Ltd will be operating a combined portfolio model. The audit will consider the processes for ongoing monitoring of portfolio from a risk and return perspective in order to identify the investments that have performance or risk concerns. This review would also assess the management information in place, after implementation of the new systems, to report the portfolio performance and risk measurement against the risk limits.
Senior Managers and Certification Regime (SMCR)	The extension of the Senior Managers and Certification Regime to almost all regulated firms will be implemented on 9 December 2019. This audit will consider management's plans on implementing SMCR.
Data quality	In addition to the requirements of the Pensions Regulator, the triennial valuation of the local government pension schemes, as at 31 March 2019, will be undertaken during 2019/20 and therefore it is essential that LPP is able to demonstrate that it holds accurate and complete member data and data held in manual spreadsheet reconciles to the data held in Altair. As part of this review we will also consider the process and controls in place to ensure the security of member data held outside of the Altair system.
HR and payroll compliance	An essential part of delivering LPP's business model is the maintenance of an effective HR and payroll function.
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.

Coverage	Key risk areas
Covenant reporting	LPP provides a covenant risk advice to the Shareholder companies to assist the funds in managing their risk of an employer loss event. In order to manage its own risk LPP will need to make sure it has common processes in place to: deliver service; retain sufficient and appropriate evidence for advice given; and communicate finding to shareholders so they can make informed decisions on the level of employer risk they are prepared to accept.

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 2018/19 are as follows.

Assurance levels

Assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' 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: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant 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: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, 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: 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: matters that individually have no major impact on achieving the service's objectives, 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	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. Multiple high priority findings/ issues or significant number of either high or medium priority findings/ issues.
Effective with scope for improvement	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. Some high priority issues or a significant number of medium and low priority findings/ issues.
Effective	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. No high priority findings/ issues. Some moderate and low priority findings/ issues.

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, 21 June 2019

Electoral Division affected: (All Divisions);

Responsible Investment Report
(Appendix 'A' refers)

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
mukhtar.master@lancashire.gov.uk

Executive Summary

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

The report at Appendix A provides the Pension Fund Committee with an update from LPP Investments Ltd on responsible investment matters during the first quarter of 2019

Recommendation

The Committee is asked to note the report.

Background and Advice

The report at Appendix 'A' has been prepared by the Head of Responsible Investment 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 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 2019 and focusses on the period from 1st January to 31st March 2019. 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.

Points to note:

- As reported at the last Pension Fund Committee, the Fund is still awaiting the results of the consultation carried out by the Financial Reporting Council regarding an updated 2019 UK Stewardship Code. Further information on the new Stewardship Code will be shared with the Committee in due course and as such the Fund's Stewardship Code Compliance Statement will be updated accordingly.

- At the Pension Fund Committee on the 8th June 2018, approval was given for the Local Pensions Partnership (the Partnership) to become a signatory to the Principles of Responsible Investment replacing the Lancashire County Pension Fund. To this end the Partnership has submitted its first set of reporting to the Principles of Responsible Investment and a full transparency report will be available from their website in due course.

- The proposal to have a joint working group with the London Pensions Fund Authority has been delayed as the authority are currently working with external advisors to develop its own Responsible investment policy. Once this work is complete discussions will be undertaken to assess whether or not a joint working group would be appropriate.

Further to their meeting held on the 8 April 2019, the Scheme Advisory Board have published a report titled 'Analysis of the Investment Strategy Statements of the LGPS Administration Authorities which was produced by ShareAction and commissioned by Unison. . The report in essence reviews the level of responsible investment coverage within the Investment Strategy Statement (the Statement) of all funds within the LGPS. It is worth noting that the analysis is based purely on Statements and does not consider any separate responsible investment policies. The report highlights a general need for improvement for all funds, by ranking and scoring each of the LGPS funds, including the Lancashire Fund

Each Fund's Statement was separately reviewed and scored against a range of criteria such as Climate Change, executive pay, workers' rights and other social and environmental issues. This score was then used to attribute a rating for each Fund. Rankings were from 'A' to 'E', where 'A' is 'Progressing in all areas' and 'E' is 'No disclosure'. The Lancashire County Pension Fund achieved a ranking category of 'C' which equates to 'Starting to take action'. As the table from the report shows Lancashire is assessed as being in a better position than most of the other Funds:

Table 1: Overall rankings of LGPS funds

Ranking	Factors	Score	Number	%
A	Progressing across all areas	>12-18	3	3
B	Action being taken in at least one area	>8-12	8	9
C	Starting to take action	>4-8	23	26
D	Limited disclosure	>0-4	49	55
E	No disclosure	0	5	5

(South Yorkshire Transport Pension Fund were excluded from the rankings)

The report can be accessed by clicking the following link
https://lgpsboard.org/images/PDF/BoardApril2019/UNISONShareActionLGPS_responsible_investment_final_report319.pdf

Consultations

Frances Deakin the Head of Responsible Investment at the Local Pensions Partnership was consulted regarding this report.

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.

The Lancashire County Pension Fund 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 the Funds fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments.
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

Appendix A

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

Lancashire County Pension Fund

Pension Fund Committee
Responsible Investment Report

21 June 2019

Title of Paper	Quarterly Report on Responsible Investment (2019 Q1)
Lead Officer:	Frances Deakin Head of Responsible Investment 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 is 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. LCPF's ISS is supplemented by a Responsible Investment Policy which explains that 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 (LPPI) as LCPF's provider of investment management services. The report which follows provides the Committee with an update on RI activity during the period 1 January to 31 March 2019 plus insights on current and emerging issues.

3. Voting Globally

Through its investment in the LPPI 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 LPPI. This reflects that clients owning units in the GEF are beneficial owners in common but do not directly own shares in underlying companies.

LPPI exercise shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers and take account of voting recommendations 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. LPPI review voting recommendations and take the final decision on all voting.

In the first quarter of 2019 shareholder voting headlines for the GEF were as follows:

<u>LPPI Global Equities Fund (GEF)</u>

Total company meetings taking place	69
Total resolutions (management and shareholder proposals)	883
Total company proposals in the period	857
Total shareholder proposals in the period	26

Company Proposals

Voting Supported Management	791	92%
Voting Opposed Management	66	8%

Shareholder Proposals

Shareholder proposals supported by LPPI	12	46%
Votes against shareholder proposals	14	54%

The following table summarises resolutions by type and indicates where opposition voting was concentrated in Q1.

	Proposals			
	For	Against	Withhold	Total
Anti-takeover Related	2			2
Capitalization	34	1	3	38
Director Related	423	28	2	453
Non-Salary Compensation	71	8	4	83
Preferred/Bondholder	2	2		4
Reorg. and Mergers	41		2	43
Routine/Business	218	8	8	234
SH-Compensation	1	4		5
SH-Corp Gov	1			1
SH-Director Related	4	5		9
SH-Health/Env	1	1		2
SH-Other/Miscellaneous	1	2		3
SH-Routine/Business	4	1	1	6
Total	803	60	20	883

LPPI voted against or withheld support for management proposals in 66 instances (across 15 company meetings).

This included opposing management nominations in the election / re-election of 30 directors. Voting reflected concerns with the composition and independence of company boards as a whole, and with the independence of individual Board members.

LPPI voted against all non-independent directors at the Canon AGM (Japanese Technology company) as four of the six board members are insiders (33% independence) and the board lacks gender diversity. (Result: 8% against)

LPPI voted against the re-election of a director proposed by JM Financials (Indian Investment Bank) as the individual failed to attend at least 75% of board meetings in the fiscal year with no satisfactory explanation. (Result: 9% against)

LPPI voted against all directors at Groupo LALA (Mexican consumer staples) for poor practices including failing to disclose the names of director nominees in sufficient time, not adequately disclosing director remuneration and bundling the election of its directors into a single voting item. (Result: all proposals passed – detailed voting statistics unavailable).

Management proposals on compensation arrangements prompted 12 opposition votes. These were in reaction to examples of poor practices and weak corporate governance including inadequate information being released in an untimely manner, a lack of appropriate remuneration capping and inadequate disclosure of performance conditions.

At Hua Hong Semiconductor Ltd (Hong Kong Information Technology) LPPI voted against the Share Option Scheme due to performance conditions not being adequately disclosed and directors being eligible to receive options who were involved in the administration of the compensation programme. (Result: 16% against)

At Pepkor Holdings Ltd (South African consumer discretionary) LPPI voted against the Remuneration Implementation Report in opposition to a large increase in the CFO's basic remuneration without adequate supporting information/explanation (Result:6% against).

LPPI supported 12 shareholder proposals across 11 company meetings in Q1.
6 featured at the AGM of Hyundai Mobis Co. (South Korean automotive parts manufacturer) and included proposals to increase the number of directors, nominate candidates as outside (independent) directors, and nominate candidates for the Audit Committee). None of the resolutions passed.

At CGI Group Inc. (Canadian IT Consulting & Services) an advisory vote on executive compensation was proposed (seeking the opportunity for shareholders to give their opinions on CGI's executive compensation policy). The proposal reflected that it is increasingly common practice for company AGMs in Canada to accommodate a shareholder "say on pay" but, in this case, the resolution gained only 23% support.

At Starbucks Inc (USA Restaurants) a proposal sought a comprehensive report on reducing the company's environmental impacts by stepping up the scale and pace of sustainable packaging initiatives. The company responded by outlining initiatives already underway which include its "Next Gen Cup Challenge," a $10 million commitment to develop a compostable, recyclable cup and two other environmental initiatives, its "Strawless Lids" commitment to eliminate plastic straws globally by 2020 and its "Greener Stores" goal to build 10,000 Greener Stores globally by 2025. The Board argued that given consistent reporting on its environmental performance and goals, and reported intentions to "scale up its enterprise sustainability efforts," the additional analysis and reporting would be duplicative and unnecessary. Whilst it did not pass, the resolution received 44.5% of votes, significantly closer to achieving a majority than a comparable resolution in 2018 which gained 29% support.

At the Toronto-Dominion Bank AGM (Canadian Diversified Bank) shareholders considered a detailed proposal (incorporating 6 requirements) to restrict the Bank's financing of existing and future energy projects and other high emitting activities. The broad intentions behind the proposal (that banks should routinely evaluate the risks faced from climate change and its regulation, should seek to limit financing for unsustainable projects, and should routinely report on the risks faced) are laudable, but the highly directive and prescriptive nature of the proposal counselled against giving support given the Bank's existing strong track record of environmental stewardship, alignment with appropriate best practice and commitment to public disclosure. Toronto-Dominion Bank is the only Canadian bank listed on the Dow Jones Sustainability World Index, is a signatory to the Equator Principles (a risk management framework for determining, assessing and managing environmental and social risk in projects) is annually disclosing on its climate change management to CDP and is reporting publicly against the Taskforce on Climate Related Financial Disclosure (TCFD) framework.

Members can view details of shareholder 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

LPPI 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 Scheme RI Roundtable.

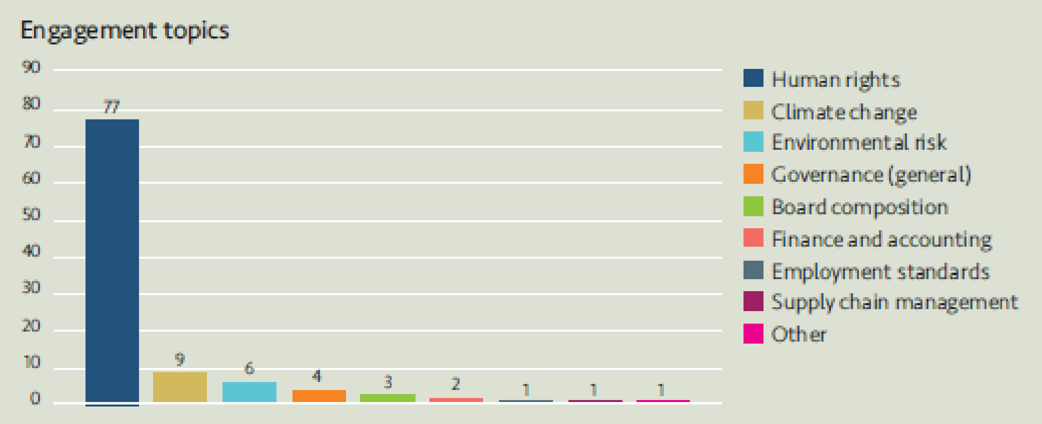
LAPFF

LAPFF has long been LCPF's preferred engagement partner. The Fund is a long-standing member of the Forum and the Head of Fund and Chair of the Pension Fund Committee both currently sit on the LAPFF Executive.

LAPFF's engagement programme reflects annual assessment of key priorities arising from across the collective equity holdings of LAPFF members. The Workplan for 2019 was considered and agreed by members at the last LAPFF Business Meeting (17 April 2019) following feedback received from funds as part of an annual consultation process.

On a quarterly basis LAPFF provide a summary of the engagement activities undertaken on behalf of member funds which is available from the LAPFF website.
http://www.lapfforum.org/publications/qrtly-engagement-reports/

Quantified across thematic topics, engagement activity by LAPFF in 2019 Q1 was as follows:



The predominant theme in Q1 was human rights, the relatively large number of interactions reflecting LAPFF's participation in two broader investor initiatives, one on the safety of mine tailings dams following the loss of life caused by the failure of the Vale tailings dam in Brumadinho Brazil in late January 2019 (on which further information appears below) and a second encouraging best practice by insurance companies in the provision of micro insurance policies offering fair and transparent products to the least well served sections of the community.

The 82 companies engaged with and the topics covered by LAPFF in Q1 were as follows:

Company	Activity	Topic	Outcome
AFRICAN RAINBOW MINERALS	ESP	Sent letter	Human Rights
AIA	ESP	Sent letter	Human Rights
ANGLO AMERICAN	ESP	Sent letter	Human Rights
ANGLO GOLD ASHANTI	ESP	Sent letter	Human Rights
ANTOFAGASTA MINERALS	ESP	Sent letter	Human Rights
ANZ-AUSTRALIA & NEW ZEALAND BANK	HBE	Sent Letter	Governance (General)
ARCELORMITTAL SA (2)	ECE	Meeting	Climate Change
ASIA COMMERCIAL JOINT STOCK BANK	ESP	Sent letter	Human Rights
BANCO BRADESCO	ESP	Sent letter	Human Rights
BANCO DAVIVIENDA	ESP	Sent letter	Human Rights
BANCO DE CHILE	ESP	Sent letter	Human Rights
BANCO DE CREDITO E INVERSIONES	ESP	Sent letter	Human Rights
BANCO SANTANDER CHILE	ESP	Sent letter	Human Rights
BANCO SANTANDER MEXICO	ESP	Sent letter	Human Rights
BANCO SANTANDER SA	PPI	Meeting	Employment Standards
BANDHAN BANK	ESP	Sent letter	Human Rights
BANK CENTRAL ASIA	ESP	Sent letter	Human Rights
BANK MANDIRI	ESP	Sent letter	Human Rights
BANK OF NINGBO	ESP	Sent letter	Human Rights
BANK OF THE PHILIPPINE ISLANDS	ESP	Sent letter	Human Rights
BANK RAKYAT	ESP	Sent letter	Human Rights
BARRICK	ESP	Sent letter	Human Rights
BB SEGURIDADE PARTICIPACOES	ESP	Sent letter	Human Rights
BBVA CONTINENTAL	ESP	Sent letter	Human Rights
BDO UNIBANK	ESP	Sent letter	Human Rights
BHP	ESP	Sent letter	Human Rights
BOTSWANA INSURANCE HOLDINGS	ESP	Sent letter	Human Rights
CARCA LTD (2)	CAM	Sent letter	Finance and Accounting
CHINA MERCHANT'S BANK	ESP	Sent letter	Human Rights
CHINA PACIFIC INSURANCE	ESP	Sent letter	Human Rights
CHIPOTLE MEXICAN GRILL INC	CAM	Sent Letter	Environmental Risk
CODELCO	ESP	Sent letter	Human Rights
COMMERCIAL INTERNATIONAL BANK	ESP	Sent letter	Human Rights
CREDICORP	ESP	Sent letter	Human Rights
CREDIT AGRICOLE EGYPT	ESP	Sent letter	Human Rights
DISCOVERY	ESP	Sent letter	Human Rights
ENTERPRISE GROUP	ESP	Sent letter	Human Rights
EXXON MOBIL CORPORATION (2)	ECE	Meeting	Climate Change
FIRSTRAND	ESP	Sent letter	Human Rights

Company	Activity	Topic	Outcome
FREEPORT-MCMORAN	ESP	Sent letter	Human Rights
GENERAL ELECTRIC COMPANY (3)	ECE	Received Letter	Climate Change
GHANA COMMERCIAL BANK	ESP	Sent letter	Human Rights
GLENCORE	ESP	Sent letter	Human Rights
GOLD FIELDS	ESP	Sent letter	Human Rights
GOLDCORP	ESP	Sent letter	Human Rights
GUARANTY TRUST BANK	ESP	Sent letter	Human Rights
HDFC STANDARD LIFE	ESP	Sent letter	Human Rights
HYDRO	ESP	Sent letter	Human Rights
ICICI PRUDENTIAL	ESP	Sent letter	Human Rights
ITAU UNIBANCO	ESP	Sent letter	Human Rights
JX NIPPON	ESP	Sent letter	Human Rights
KASIKORNBANK	ESP	Sent letter	Human Rights
KENYA COMMERCIAL BANK	ESP	Sent letter	Human Rights
KOTAK MAHINDRA BANK	ESP	Sent letter	Human Rights
LIBERTY HOLDINGS	ESP	Sent letter	Human Rights
LOCKHEED MARTIN CORPORATION	OTH	Sent Letter	Human Rights
LONMIN	ESP	Sent letter	Human Rights
MAX FINANCIAL	ESP	Sent letter	Human Rights
MCDONALD'S CORPORATION	CAM	Sent Letter	Environmental Risk
MEARS GROUP PLC	ESP	Meeting	Board Composition
MILLENNIUM & COPTHORNE HOTELS PLC (2)	CAM	Sent Letter	Board Composition
MINERA SAN CRISTOBAL	ESP	Sent letter	Human Rights
MINSUR	ESP	Sent letter	Human Rights
MITSUBISHI MATERIALS	ESP	Sent letter	Human Rights
MMG	ESP	Sent letter	Human Rights
NATIONAL MICROINSURANCE BANK	ESP	Sent letter	Human Rights
NESTLE SA (2)	HBE	Meeting	Governance (General)
NEWCREST MINING	ESP	Sent letter	Human Rights
NEWMONT	ESP	Sent letter	Human Rights
OLD MUTUAL	ESP	Sent letter	Human Rights
ORANO	ESP	Sent letter	Human Rights
PEPSICO INC.	HBE	Meeting	Supply Chain Management
PING AN	ESP	Sent letter	Human Rights
POLYRUS	ESP	Sent letter	Human Rights
PORTO SEGURO	ESP	Sent letter	Human Rights
RESTAURANT BRANDS INTERNATIONAL INC	CAM	Sent Letter	Environmental Risk
RIO TINTO	ESP	Sent letter	Human Rights
RIO TINTO GROUP (GBP) (2)	ECE	Meeting	Climate Change
SANLAM	ESP	Sent letter	Human Rights
SOUTH32	ESP	Sent letter	Human Rights
SOUTHERN COMPANY	ECE	Meeting	Climate Change
STANDARD BANK GROUP	ESP	Sent letter	Human Rights

17 of the companies engaged with (highlighted above) are held within the LPPI Global Equities Fund in which LCPF owns units.

LPPI is engaging via a range of investor collaborations on an ongoing basis and is communicating with investee companies and other parties including policy makers, regulators, service providers and external asset managers. Examples of engagement from Q1 include the following activities and initiatives.

Investor Mining & Tailings Safety Initiative

LPP was a signatory to an investor letter to 683 mining companies globally seeking improved public disclosure on the extent of their involvement with tailings dams (Tailings Storage Facilities). This investor initiative follows the disaster at the Vale mine in Brumadinho Brazil in January 2019 which killed +300 people. The letter to mining companies was signed by 96 investors representing $10.3tn and recognises that inadequate information exists on the incidence and scale of tailings storage globally (which prevents an assessment of both the risks faced and how well they are being managed by companies).

The campaign to establish publicly available baseline information on the incidence of Tailings Storage Facilities has escalated and is now being convened as The Investor Mining & Tailings Safety Initiative through a steering committee chaired by the Church of England Pensions Board and the Swedish Council on Ethics (for the AP Funds which make up the Swedish pension system). The initiative is backed by the PRI, who, along with the International Council on Mining and Metals and United Nations Environment Programme (UNEP) have appointed Professor Bruno Oberle as an Independent Chair to oversee a review aimed at establishing an international standard for tailings dams to improve the safety of mine waste storage facilities across the world.

The review will establish an international standard for the safe management of tailings storage facilities that can be applied to all tailings dams wherever they are located and whoever operates them. Regular updates on the progress of the investor initiative are being provided and reportedly the programme is on the radar of banks and insurers interested in the availability of improved data for risk quantification as a result of the increased disclosure being sought.

Further information on the initiative is available here:
https://www.churchofengland.org/investor-mining-tailings-safety-initiative

Climate Action 100+ (Update)

At its last meeting the Committee learned that LPPI had co-filed its first shareholder proposal at a company AGM, calling on Exxon Mobil to set short, medium, and long-term targets for emissions reductions in line with the Paris Agreement.
LPP was one of 30+ investors who co-ordinated to co-file the proposal.

It was outlined that Exxon was utilising a process overseen by the Securities and Exchange Commission (SEC) seeking not to table the proposal at the AGM. Ultimately this move was successful – the proposal did not make it onto the ballot paper for the AGM on 29 May 2019 after the argument was accepted that it could be interpreted as seeking to micro-manage the company. The SEC judgement was despite receiving additional representation from shareholders (including LPP) who were supportive of the resolution.

A war of words between Exxon and the proposers has ensued, with the two funds who led the co-filing (the Church Commissioners for England, and New York State Common Retirement Fund) utilising a process called exempt solicitation to publicly share thoughts on the engagement process (and their AGM voting intentions) with other shareholders via documents formally published on the SEC website. The proponents made a case for voting against all members of the Exxon Board as a signal of significant concerns, and for supporting other shareholder proposals featured on the ballot (which included separating the role of CEO and Chairman and establishing a new Board Committee on Climate Change to evaluate Exxon Mobil's strategic vision and response to climate change).

Exxon responded by placing a statement on their website calling into question the accuracy of comments made about the engagement underway with CA100+. Full details are available **here.**

The Exxon AGM falls into Q2 and at the time of writing only preliminary meeting results were available on the outcome of voting. These indicate that none of the proposals achieved the majority vote needed, the largest support (40%) being for an independent Chairman. The confirmed results from the Exxon AGM will be shared with the Committee as part of Q2 reporting.

5 Shareholder Litigation

LPPI 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 records to establish rights of ownership is an ongoing task.

IPS provide LPPI with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report for Q1 2019 confirms that 4 new potential cases have been identified where the Fund may have an entitlement to join a class action and eligibility is being assessed, there are a further 2 cases where eligibility has been confirmed and a claim will be filed and 7 which have been discounted following further analysis. In Q1 the Fund received a disbursement of monies relating to one filed claim that has reached settlement.

6. Active Investing

The LCPF Responsible Investment Policy describes active investing as the search for sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. The Fund has not set allocations for investments within specific sectors or identified impact themes but in general favours investments with positive social outcomes and has expressed an interest in understanding where current investments are delivering social benefits in addition to generating investment returns. Examples of socially positive investments are available from across the asset classes the fund invests in.

Case Study: Private Equity – Investing in Healthcare (SDG 3)
LCPF's strategic asset allocation to Private Equity is 5% of the portfolio.
13% of the Fund's current private equity investments are in the health care sector.

Through managers Advent Life Sciences and Endeavour Vision, LCPF is investing in private equity funds which partner and provide development capital to specialist companies turning break-through science into approved medicines and medical products.

The Endeavour Medtech Growth Fund has invested in 12 med tech companies to date, with a total investment value of over EUR 115 million. Companies include Symetis, creator of next generation heart valve replacement solutions that offer an alternative to high-risk open-heart surgery; Gynesonics, a ground-breaking treatment for uterine fibroids without the need for a hysterectomy (preserving the ability to conceive); Vertiflex, developers of a minimally invasive device to reduce pain and improve mobility for patients suffering a painful narrowing of the spinal canal (lumbar spinal stenosis) and

Relievant, a new system focused on a specific form of chronic low back pain which eliminates the need for patients to use opioids and have spinal injections.

Advent Life Sciences have invested over £300m into early stage drug and device development over the last ten years, contributing to 14 regulatory approvals (innovative science translated into approved medicines or products). Examples include UniQure's Glybera drug (the first gene therapy approved by the European Medicines Agency) and CardiAQ Valve Technologies' minimally invasive valve replacement which provides an alternative to open heart surgery. Currently Advent is seeking to contribute to the relief of social pressures through innovations which address drug resistant bacteria, pain management solutions to reduce opioid usage and developments in cancer immunotherapies.

LCPF made a EUR 25m commitment (GBP 18m) to the Endeavour Medtech Growth Fund in 2014 and invests in two funds managed by Advent Life Sciences. The first (Fund II) comprises a commitment of GBP 20m made in 2015 and the second (Fund III) a commitment of GBP 15m made in December 2018.

The focus of UN Sustainable Development Goal 3 is to ensure healthy lives and promote well-being for all at all ages. SDG 3 includes a target (3.1) to reduce premature mortality from non-communicable diseases by one third by 2030, and an accompanying indicator (3.1.4) related to the mortality rate attributable to cardiovascular disease, cancer, diabetes and chronic respiratory disease. LCPF's private equity investments in healthcare innovation are contributing both generally, and in some cases directly, to progress against SDG 3.

Other Insights

- FRC Consultation: Proposed Revision to the UK Stewardship Code (Update)

As reported to the Committee at its last meeting, a consultation on a revised UK Stewardship Code ran between 30 January 2019 and 29 March 2019. LPP made a response to the consultation which is publicly available from the FRC website here.

The proposals to revise the current code outline a more stretching and rigorous reporting regime which has intentionally gone beyond requirements specified within the revised Shareholder Rights Directive. This reflects that effective stewardship is being identified as an important part of institutional investors' responsibilities to their clients.

*The draft 2019 Code is an integral part of the UK's overall corporate governance framework. It **significantly raises the standard expected from institutional investors** and aims to create a market for stewardship driven by a demand from asset owners and **beneficiaries** for better quality information about how asset managers and service providers fulfil their responsibilities. Those who become signatories will be making a serious commitment to maintaining and improving the quality and integrity of UK financial markets. The FRC will be devoting more resource to evaluating the quality of disclosure of both policies and activities.*

One of the chief changes proposed is an extension to current reporting requirements (which can be seen to directly address criticisms of the boilerplate and box ticking approach seen to have developed under the current code).

Under the revised Stewardship Code proposals, signatories will be required to

- produce and submit a **Policy and Practice Statement** (PPS) to the FRC. This must disclose their stewardship approach and explain how it complies with Principles and Provisions defined by the Code. It must also contain disclosure on corporate purpose, values and culture and how these enable obligations to clients and beneficiaries to be met;
- produce and submit an **Annual Activities and Outcomes Report** (AAOR) to the FRC. This must demonstrate and confirm
    - compliance with the approach explained in the PPS
    - activities undertaken to implement code provisions in the preceding 12 months
    - evaluation of how well stewardship objectives have been met, and/or activities have enabled clients to meet their objectives
    - the outcomes achieved.

AAORs and PPS will need to be made publicly available.

The changes are a significant step up and will involve a greater reporting burden for LGPS pension funds which are required to be signatories to the UK Stewardship Code and reporting on their compliance with its requirements.

A final version of the revised code is still awaited, though the timetable for adoption is very short. It is intended that a 2019 Stewardship Code will be published on 16th July 2019 and new requirements will come into effect from that point, with first statements of compliance due to be submitted for assessment by the end of the year. The consultation papers include only limited information on the FRC assessment process for evaluating the quality of stewardship arrangements and it is not clear what scoring or ranking mechanism will be adopted and what levels of performance will be differentiated.

Once a final version of the revised Code (and accompanying guidance) have been published, LCPF will need to revisit the Fund's current statement of compliance and address new requirements for considerably more detailed disclosure.

- LPP: First detailed reporting against the Principles of Responsible Investment

LPP became a PRI signatory in July 2018 and reported in detail against the PRI framework for the first time in March 2019 (covering the period to 31 December 2018). The outcome of the annual reporting process is a publicly available Transparency Report for each signatory which will be accessible from the PRI website in due course. Separately, LPP will receive a confidential Assessment Report providing a relative score based on the PRI's evaluation of the arrangements and activities described.

Reporting to the PRI significantly extends the level of information being publicly released on LPP's approach to stewardship and RI and gives greater context to our policies and examples of our actions in practice which contribute to supporting greater transparency.

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected: None

Lancashire County Pension Fund Risk Management Framework
(Appendix 'A' refers)

Contact for further information:
Mukhtar Master, (01772) 5 32018 mukhtar.master@lancashire.gov.uk
Governance & Risk Officer, Lancashire County Pension Fund

Executive Summary

The Risk Management Framework forms part of the internal controls to ensure that the Local Government Pension Scheme is administered and managed in accordance with the scheme rules and with the requirements of the law.

The framework sets out all the key processes and responsibilities for effective risk management and thereby ensure compliance against all relevant Scheme guidance, regulation and legislation.

Recommendation

The Committee is asked to note the new Lancashire County Pension Fund Risk Management Framework as set out at Appendix 'A'.

Background and Advice

Effective risk management stands at the heart of sound corporate governance across all organisations and functions and the Local Government Pension Scheme is no exception.

The introduction of governance requirements in the Scheme in 2015, specifically the Pensions Regulator's new role and the establishment of local pension boards, reflect the increasing importance of risk management.

The Risk Management Framework forms part of the internal controls for the purpose of ensuring that the Scheme is administered and managed in accordance with the scheme rules and with the requirements of the law.

The Risk Management Framework primarily aims to:

- Establish and maintain a robust framework and procedures for the identification, analysis, assessment and management of risk;
- Outline key roles and responsibilities for risk management;

- Comply with all the relevant guidance, regulation and legislation in relation to risk management.

A copy of the updated LCPF Risk Management Framework is set out at Appendix A.

Consultations

The Local Pensions Partnership was consulted.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire Local Pension Board provide scrutiny and support to the Pension Fund Committee, in relation to their responsibility to ensure there is effective risk management over the Pension Fund operations.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Risk Management Framework

Version 1

Date: May 2019

Introduction

This is the Risk Management Framework of Lancashire County Pension Fund, administered by Lancashire County Council, the administering authority. The Fund must establish and operate internal controls which must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law. The Risk Management Framework forms part of the internal controls.

Lancashire County Pension Fund's administration and investment provision is carried out by the Local Pension Partnership (LPP). LPP is a not for profit organisation, 50% owned by Lancashire County Council, which provides pooled services for a number of LGPS funds.

Purpose of the Framework

This framework sets out how the Fund intends to manage and treat risk, with the aim of:

- Integrating risk management into the culture and day-to-day activities of the Fund;
- Raise awareness of the need for risk management by all those connected with the management of the fund;
- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- Ensure consistent application of risk management across the Fund;
- Comply with guidance, regulation and legislation:
    - CIPFA – Managing Risk in the LGPS;
    - Pensions Act 2004;
    - The Pensions Regulator's Code of Practice 14.

Risk Management

Risk can be identified as 'the chance of something happening which may have an impact on the achievement of an organisation's objectives.'

Risk Management requires identification and assessment of risks (the 'inherent risks') and responding to them.

The response to a risk may involve one or more of the following:

- Tolerating risk;
- Mitigating the risk in an appropriate way to constrain the risk to an acceptable level;
- Transferring the risk;
- Terminating the activity giving rise to the risk.

Principles of the Risk Management Framework

- The informed acceptance of risk is an essential element of good business strategy;

- Risk management is an effective means to enhance and protect the Pension Fund over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed business decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the Administering Authority's risk management strategy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls;
- Supports the achievement of Fund objectives - understanding potential risk outcomes can allow the Fund to reduce uncertainty which may affect the achievement of key objectives;
- Effective risk management provides the framework to identify and respond to risks and ultimately inform Fund decision-making

Types of Risk

The risks for the Fund are grouped into four specific categories:

1. Investments & Funding Risks – investment strategy, returns on investment, custody of Fund assets, actuarial valuation and funding, cash flow and admitted bodies arrangements;
2. Operational Risks – committee and Fund governance, risk management, compliance, business and IT continuity, information security, fraud risk and so on;
3. Member Risks - benefit payments, member communications, data quality and contribution;
4. Transition Risks – investment transition, administration transition, external drivers, and new client on-boarding.

Transition risks are all risks associated with the transition to pooled services for LCPF for Administration and Investment services with LPP.

Employer Risks would be recorded within the 'Operational Risk' grouping of the Risk Register. However it is worth noting that a separate policy exists dated January 2016 titled – 'Lancashire County Pension Fund – Future Employer Risk Management Framework and Approach to Covenant Review'. The 'covenant', within a pension's context, relates to an assessment of an employer's longer-term ability to meet its financial commitments to the fund. This includes the ability to meet any historic deficit payments due as well as ongoing employer contributions.

Risk Management Process

The risk management process is a continuous cycle of:

1. **Risk Identification** – this is the process of recognising risks and opportunities that may impact on the Funds objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks and hazards; and learning from review of how past and current risks have manifested.
2. **Risk Analysis** - Having identified potential risks, the next stage of the process is to analyse and profile each of them.

For this the LCPF use a standard methodology and template
Each risk is scored from 1 to 4 for Probability and 1 to 4 for Impact.

The table below demonstrates the criteria used for rating and assessing LCPF risks:

			LIKELIHOOD OF RISK OCCURRING			
			1	2	3	4
	Financial Impact	Qualitative Impact	1 in 20 years/ 5% Unlikely Could occur once in 20 years	1 in 5 years/ 20% Possible Could occur once in 5 years	1 in 2 years / 50% Likely Could occur in next 24 months	1 in1 years / 95-10% Happening Happening already or highly likely
4	>£150m	• Critical impact on operational performance (>10% of membership affected recovery time > 1 year); • Critical breach in laws and regulations that could result in material fines or consequences; • Critical impact on the reputation of the Fund which could threaten its future viability, adverse national media coverage; • Affect such that it undermines the ability to achieve key Fund goals and objectives (survival).	4	8	12	16
3	£75m-£150m	• Significant impact on operational performance (5 – 9% of membership affected/ recovery time 8–12 months); • Significant breach in laws and regulations resulting in significant fines and consequences; • Significant impact on the reputation or Fund (some national media coverage); • Potential to have high impact on Fund goal and objectives.	3	6	9	12
2	£5m–£75m	• Moderate impact on operational performance (1 – 4% of membership affected/ recovery time 3 – 7 months); • Moderate breach in laws and regulations resulting in fines and consequences; • Moderate impact on the reputation or brand of the organisation (some media coverage); • Potential to have moderate impact on Fund goal and objectives.	2	4	6	8
1	<£5m	• Minor impact on operational performance (<1% of membership affected/ recovery time <3 months); • Minor breach in laws and regulations with limited consequences; • Minor impact on the reputation of the organisation; • Comparatively less impact on Fund goal and objectives.	1	2	3	4

Each risk is subsequently recorded on a 'Risk Register'. For each risk the following is recorded:

- Risk Reference;
- Risk Title;
- Risk Description;
- Risk Drivers;
- Risk Owner;
- Inherent Risk Score/Rating;
- Controls;
- Residual Risk Score/Rating;
- Risk Actions.

3. **Risk Control** – describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control and mitigation mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:
   - Governance and decision making structures;
   - System procedures and controls;
   - Resource allocation and management;
   - Separation of duties;

- Actuarial/Audit/Regulatory Reviews.

4. **Risk Monitoring** – regular reviews of the risk register is a central component of effective risk management:

   - Reviewed by the LCPF Committee and Local Pension Board every six months;
   - Reviewed by LCPF Officers and LPP Risk Team every quarter;

   The review would consider whether:

   - The nature of the risk has changed;
   - The control environment has changed;
   - The probability of the risk occurring has changed;
   - The impact of the risk occurring has changed;
   - Any new or emerging risks need to be considered.

Roles & Responsibilities

Head of Fund:

- Maintenance of the risk register;
- Monitoring and reporting progress against identified action plans to manage/reduce risk;
- Development of Key Risk Indicators to facilitate evaluation of risks across the Fund and 'Direction of Travel' for known risks;
- Identification of new /emerging risks via use of Key Risk Indicators and internal knowledge of the Fund as well as external sources;
- Liaison with the Pension Fund Committee and Local Pension Board to update the status of existing of existing and new/emerging risks;
- Preparation of updates for and reporting to the Pension Fund Committee/Local Pension Board on a regular basis.

Pension Fund Committee:

- On a periodic basis (at least annually) perform a formal risk assessment, ensuring the risk register remains up to date;
- Receive 6 monthly updates / reporting for review. Reporting should include direction of travel for known risks, Key Risk Indicators, management's view on the Fund's risk profile, known risk events and any new/emerging risks;
- Review and monitor the effectiveness of controls in place for each risk, ensuring these remain appropriate;
- Use the risk reporting to inform decisions in respect of actions required to manage/mitigate risk.

Lancashire Local Pension Board:

- Review the Pension Fund Committee's formal periodic assessment of Fund risks, providing support and challenge to the assessment;

- Evaluate and challenge the way in which the Head of Fund and the Pension Fund Committee carry out their risk management roles;
- Review the Pension Fund Committee's periodic assessment of risk reporting and the appropriateness of decisions made in respect of risk management and mitigation;
- Review and challenge the Pension Fund Committee's controls in place, ensuring the Committee implements risk mitigation plans where appropriate.

Lancashire County Council Internal Audit and Information Governance Team

- Provide expert guidance on risk management as required;
- Carry out periodic audits of the Fund's risk management process.

Local Pensions Partnership

- Provide regular and accurate updates on risks they are managing;
- Ensure that appropriate organisational risk management procedures are in place for the services that they provide;
- Carry out both internal and external audits of all organisational risk management processes at least annually;
- LPP have a separate organisational Risk Management Framework and Risk Register.

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

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 conferences/seminars and internal training workshops which have been attended by individual members of the Committee since the last meeting.

Recommendation

The Committee is asked to note the report and any feedback given at the meeting in relation to specific training received by individual members of the Committee.

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 at external conferences/events or internal workshops.

2nd April 2019 – Workshop on the Local Pension Partnership pension administration service (Service Improvement Plan) attended by County Councillor J Burrows and Councillor D Borrow.

9th May 2019 - SPS ESG & Sustainable Investments For Pension Funds Conference at Le Meridien, Piccadilly, London attended by County Councillor K Ellard.

Lancashire County Council

13th-15th May 2019 - PLSA Local Authority Conference 2019 at the DeVere Cotswold Water Park Hotel, South Cerney, Gloucestershire, attended by Mr P Crewe.

15th May 2019 – Workshop on Employer Covenant Risk and Emerging Issues at County Hall, Preston attended by County Councillors E Pope, K Ellard, J Mein and A Schofield and Ms J Eastham and Councillor D Borrow.

Individual members of the Committee are requested to provide feedback on their experiences at the meeting regarding the above.

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

The cost of attendance, together with travel and subsistence costs, were met by the Pension Fund.

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

Paper	Date	Contact/Tel
Attendance approved by the Head of Fund under the Scheme of Delegation to Heads of Service	April/May 2019	Mike Neville (01772) 533431
Attendance sheets for pension workshop.	April/May 2019	Mike Neville (01772) 533431

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

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
None;

Review of Committee Member Training Record for 2018/19
(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 2018/19.

Recommendation

The Committee is asked to review the 2018/19 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 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.

Lancashire County Council

In addition, the Fund maintains a central record of both 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:

a) how the knowledge and skills framework has been applied
b) what assessment of training needs has been undertaken
c) 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.

Over the last year all members of the Committee have had an opportunity to attend a range of internal workshops, external conferences/seminars and access to online training modules 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 2018/19 attached at Appendix 'A'.

Consultations

The Head of Fund and the LCPF Governance and Risk Officer.

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 for training and 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	2018/19	M Neville 01772 533431
Scheme of Delegation approvals for member attendance at external Conferences/Seminars	2018/19	M Neville 01772 533431

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee - Training Record for 2018/19

County Councillors (members of the Committee)

Date(s)	Workshop, pre Committee briefing, external Conference/Seminar.	Venue	Provider
County Councillor J Burrows			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
22 Nov 2018	Northern Conference on Pension Funds	Manchester	SPS Conferences
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
12 March 2019	Workshop on Asset safety and cyber resilience	County Hall, Preston	R Frazer/D Seary. Northern Trust
County Councillor S Clarke			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
County Councillor G Dowding			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
7 Feb 2019	LAPF Strategic Investment Forum	London	LAPF
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
County Councillor C Edwards			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP

Appendix A

14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
17/18 Jan 2019	Governance Conference	Bristol	LGPS
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
29 March 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor K Ellard			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
17/19 Oct 2018	Annual Conference and Exhibition	Liverpool	PLSA
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
29 March 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor T Martin			
10 May 2018	Conflicts of Interest	Online module	Pension Regulator
10 May 2018	Maintaining accurate member data	Online module	Pension Regulator
10 May 2018	Providing information to members and others	Online module	Pension Regulator
10 May 2018	Reporting breaches of the law	Online module	Pension Regulator
10 May 2018	Managing risk and internal controls	Online module	Pension Regulator
10 May 2018	Maintaining member contributions	Online module	Pension Regulator
10 May 2018	Resolving internal disputes	Online module	Pension Regulator
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
14 June 2018	Information Governance	Online module	Me Learning
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP

County Councillor J Mein			
10th May 2018	ESG and Sustainable Investments for Pension Funds Conference	London	SPS
21/23 May 2018	Local Authority Conference 2018	Gloucestershire	PLSA
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
12 March 2019	Workshop on Asset safety and cyber resilience	County Hall, Preston	R Frazer/D Seary. Northern Trust
County Councillor E Pope (Chair)			
21/23 May 2018	Local Authority Conference 2018	Gloucestershire	PLSA
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
6/7 Sept 2018	Investment Seminar	Newport, South Wales	LGC
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Introduction to the LGPS	London	CIPFA
17/19 Oct 2018	Annual Conference and Exhibition	Liverpool	PLSA
15 Nov 2018	Ministry for Housing, Communities and Local Government and Local Government Pension Scheme Advisory Board Infrastructure event.	LGA offices, London	LGA
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
5/7 Dec 2018	Annual Conference	Bournemouth	LAPFF
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
13 Mar 2019	Local Authority Pension Fund Investment Issues Conference.	London	SPS
6/8 Mar 2019	Investment Conference 2019	Edinburgh	PLSA
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor A Riggott			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP

8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor A Schofield			
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech and H Gallacher
6/7 Sept 2018	Investment Seminar	Newport, South Wales	LGC
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
23/24 Sept 2018	Pension Trustees Circle Seminar	York	EPFIF
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor K Snape (replaced County Councillor Fillis May 2018)			
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor A Snowden			
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers

Co-opted Members

Date(s)	**Workshop, pre Committee briefing, external Conference/Seminar.**	**Venue**	**Provider**
Mr Paul Crewe (Trade Union Representative)			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP

8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
Mr James Tattersall (Trade Union Representative)			
Councillor D Borrow (Borough, District and City Councils)			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
16/18 July 2018	Investment Seminar	Hertfordshire	LAPFF
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
6/8 Mar 2019	Investment Conference 2019	Edinburgh	PLSA
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
Councillor I Moran (Borough, District and City Councils)			
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
Councillor Mark Smith (Blackpool Council)			
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers

Councillor Ron Whittle (Blackburn with Darwen Council)			
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	R J Tomlinson LPP
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	A Leech/H Gallacher
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	F Deakin LPP
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
Ms Jennifer Eastham (FE and HE Sector)			
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP

County Councillors (Replacements for regular members of the Committee)

Date(s) and if replacement	Workshop, pre Committee briefing, event, Conference, Seminar.	Venue	Provider
County Councillor C Crompton			
14th Sept 2018 (K Snape)	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
County Councillor B Dawson			
8 June 2018 (J Mein)	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
30 Nov 2018 (J Mein)	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	J Livesey - Mercers
County Councillor J Eaton			
8th June 2018 (C Edwards)	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
29 March 2019 (A Snowden)	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP

County Councillor P Rigby			
14th Sept 2018 (J Burrows)	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
6 Nov 2018 (J Burrows)	Workshop on the Actuarial Valuation	County Hall, Preston	J Livesey, Mercers
29 March 2019 (S Clarke)	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP
County Councillor P Steen			
14th Sept 2018 (A Snowden)	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	C Rule, LPP
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	A Devitt
County Councillor D Yates			
8th June 2018 (A Snowden)	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	W Bourne LLPB Chair
County Councillor M Salter			
29 March 2019 (J Burrows)	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	G Smith LPP

Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
(All Divisions);

Lancashire County Pension Fund Branding
(Appendix 'A' refers)

Contact for further information:
Mukhtar Master, (01772) 5 32018 mukhtar.master@lancashire.gov.uk
Governance & Risk Officer, Lancashire County Pension Fund

Executive Summary

Many local government Pension Schemes in England and Wales have developed their own brand and logo. Having a brand offers many benefits such as brand recognition, consistency and communicating the required level of professionalism and quality.

Officers have commissioned a local branding agency to develop a brand and logo for the Lancashire County Pension Fund. A proposal of this design is set out in Appendix A.

Recommendation

The Committee is asked to comment on the branding design set out in Appendix A.

Background and Advice

Many local government pension funds in England and Wales have developed their own brand and logo to clearly differentiate the Pension Fund from individual employers within the scheme. This ensures employers and members within the scheme are able to easily identify when correspondence and information received is from the Pension Fund.

The administrative function of the Lancashire Fund did develop its own branding known as 'Your Pensions Service' a number of years ago and that function, including the branding, was incorporated into the Local Pensions Partnership Ltd. The Head of Fund, in consultation with the Chair of the Committee, has agreed that following the establishment of the Partnership it was now timely to commission work on branding for the Lancashire County Pension Fund.

Benefits of Branding

- It provides customer recognition for the fund;

- Standardises the look across all fund documents, reports, presentations and websites;
- It fosters and communicates professionalism, quality, experience, reliability and trust.

Developing the Brand

Officers commissioned a local agency to develop a brand and logo. Wash Design was recommended by the communications team within the Council as they have experience of working with Lancashire County Council. The cost of producing the design for the Fund was £3,960.

Wash Design adopted a three stage development process for the design which included regular consultation with the Head of Fund, the Governance and Risk Officer and Chair of the Committee through the use of workshops.

The Design

The branding design that has been developed and selected for the Fund is a design called 'Finances building' and can be seen at Appendix 'A'.

Consultations

During the design process consultations have taken place with the Head of Fund, the Chair of the Pension Fund Committee and the Leader of Lancashire County Council.

Implications:

This item has the following implications, as indicated:

Financial

The cost of developing the new branding has been met by the Pension Fund budget.

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

Wash

Proposition

Say 'pension' and most minds will leap to the end product: the pounds and pence that come each week or month in retirement. But the power of a pension, the promise we offer our members, can't be expressed in numbers.

In some ways, it's about feeling rewarded for your efforts as an employee – getting something back after years of putting something in. In other ways, it's about working together – with the stability that comes from the gathered weight of thousands of members across Lancashire.

Above all, it's about peace of mind. Being part of the Lancashire County Pension Fund is a chance to lay the foundations for later life, building financial security for tomorrow.
It's something we can put our trust in, because it's ours – built, funded and managed right here.

Finances building

The logo mark represents the growth of savings building over time. We have used a vibrant colour palette that have a fresh modern feel that can be mixed with photography that has a relaxed feel.

Lancashire County
Pension
Fund

Lancashire County
Pension
Fund

Lancashire County
Pension
Fund

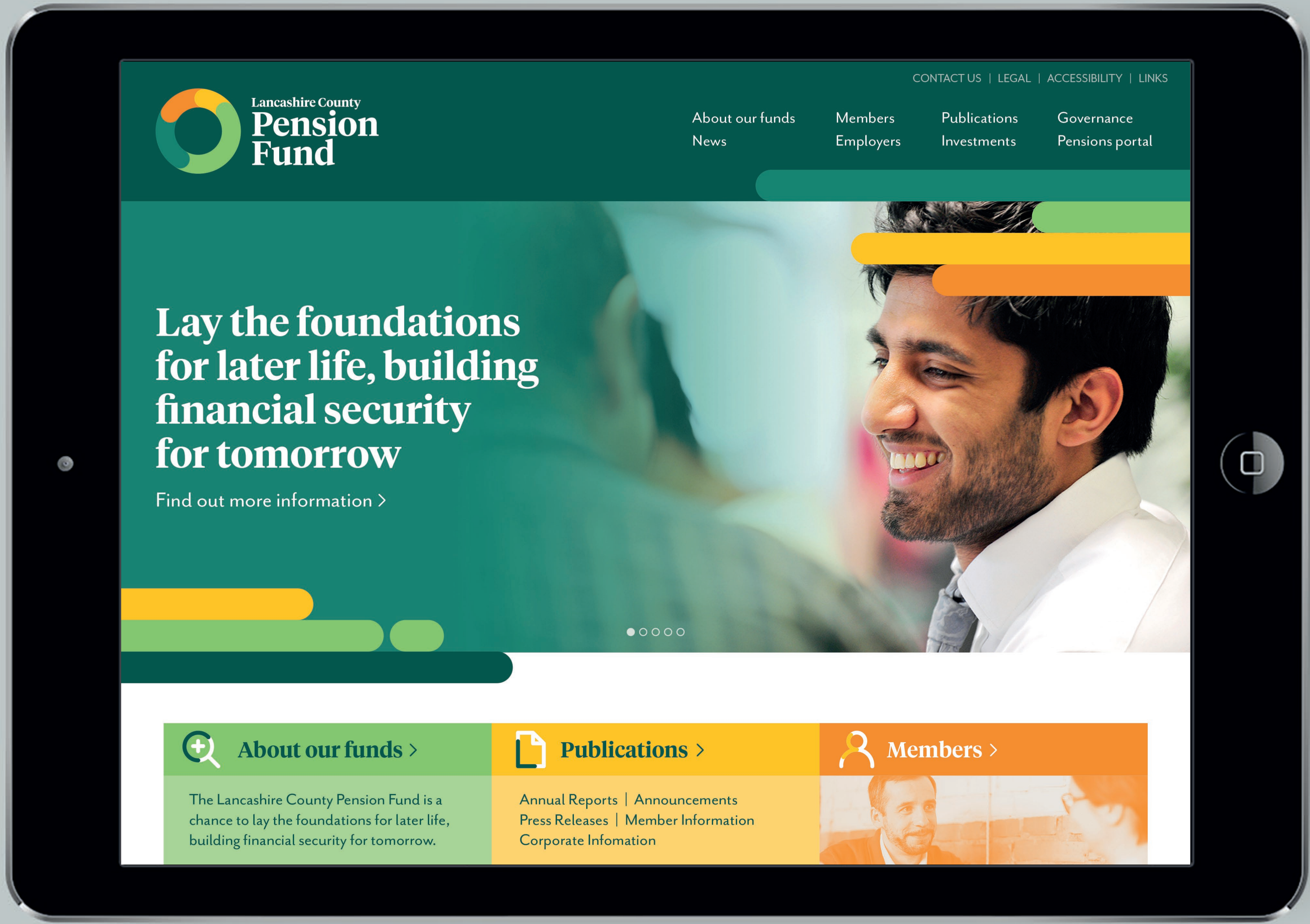
Lancashire County
Pension
Fund

Tiempos Semi-Bold Typeface

Mr Eaves San OT Book as supporting font

Relaxed people photography with a warm, comforting feeling can be used with the visual identity to add personality to the brand.

Stationery examples



Website homepage example

An example of icons built up using the colourful lines

Annual report cover and spread examples

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Investment Policy and Performance

MACRO OUTLOOK – THE LAST 12 MONTHS

2017 was a year of stronger, broad-based economic expansion, which saw world gross domestic product (GDP) increase at the fastest pace since 2011 and roughly 70% of global economies seeing stronger growth compared to 2016. Despite this "synchronised growth" the acceleration in world GDP stemmed predominantly from firmer growth in several developed economies. The cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerged from recession, explains roughly a third of global economic growth between 2016 and 2017.

After a couple of years of monetary policy divergence, with the Federal Reserve Bank (FED) continuing to tighten alongside advanced economies' ongoing accommodative policies, the first steps towards convergence were taken as the Bank of England (BOE) increased interest rates for the first time in almost a decade and the European Central Bank (ECB) scaled back its asset purchase programme.

This year saw a rise in geopolitical risks around the world, from continuing conflicts in Syria and Yemen to rising tensions between the United States (U.S.) and Iran, Russian sanctions, as well as North Korea (amid the latter's nuclear development programme). Furthermore, an ongoing spat between Qatar and other regional countries including Saudi Arabia increased risks in the Middle East, while trade tensions between U.S. and China raised concerns over the possibility of reciprocal tariffs and other protectionist policies. Despite this backdrop, risk assets performed exceptionally well with global equity indices reaching new highs at the end of 2017.

In the U.S., the economy also expanded at a faster pace in 2017 (full-year growth was at 2.3%), operating close to full employment. The labour market remained strong, with an average 180k new jobs a month, pushing the unemployment rate down to 4.1% from 4.7%. Despite the tightness in the labour market, wage growth only accelerated modestly which together with the FED's gradual interest rate hikes kept inflation in check. The trade weighted dollar was approximately 6% weaker at the end of 2017 compared to 2016 but has since stabilised in the first quarter of 2018 supported by rising rates, stronger growth and an increased supply of government bonds.

Additional fiscal spending and the recently enacted tax cuts should further support growth in 2018.

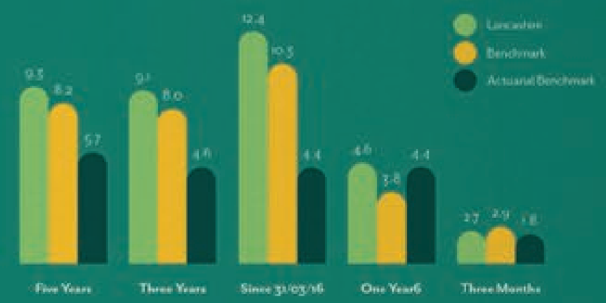
In the U.K., the economy continued to slow down (full-year growth was at 1.8%) amid lingering Brexit negotiations, which have weighed on investment and economic activities. Following the 2016 EU referendum, sterling depreciated sharply leading to inflationary pressures and decreased consumer spending. Consumption fared relatively well in the first half of 2017, buoyed by a further reduction in savings and an increase in shortterm credit, but was markedly lower in the second half as inflation continued to exceed wage gains. The BOE raised interest rates by 25 basis points in November 2017 for the first time since July 2007, reiterating that only limited and gradual interest rate hikes will follow. Despite this move, monetary conditions have remained broadly accommodative, as the BOE continues with its Quantitative Easing programme and its proceeds reinvestment. Sterling rebounded slightly on a trade weighted basis throughout the year, reflecting gains mainly against the Dollar, Swiss Franc and Chinese Renminbi, while it was approximately 4% weaker against the Euro, its main trading partner.

Over the year, the Fund's performance was mainly driven by the private equity and real estate assets classes, which strongly outperformed their respective benchmarks. Longer-term (over a 3-year or 5-year horizon) the Fund returns had been strong, comfortably outperforming both its actuarial benchmark and its policy portfolio. The triennial discount rate assumption (the actuarial benchmark) with effect from the 2016 actuarial valuation is an inflation-linked measure, CPI + 2.2% p.a. At the 31 March 2016 valuation this discount rate was 4.4% p.a. and this is reflected as a fixed actuarial benchmark from that date in the table below. Policy portfolio returns reflect the Fund's long-term strategic asset allocation returns (strategic weights multiplied by a benchmark asset class index).

Period Returns (%)	Years 1	3	5
Investment return	4.6	9.1	9.3
Actuarial benchmark	4.4	4.6	5.7
Policy portfolio	3.8	8.0	8.2

1 YEAR PERFORMANCE (%) BY ASSET CLASS

FUND RETURN (%) AS AT 31 MARCH 2018



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4. Critical Judgements in Applying Accounting Policies

4.1 Unquoted private equity and infrastructure investments

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

4.2 Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and other Major Sources of Estimation Uncertainty

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

Lorem ipsum dolor sit amet, consectetur adipiscing elit estibulum rhoncus sagittis exam tincidunt quam.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year are shown in the following table:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £1,538.9 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,364.0m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority loans to Heylo Housing Trust totals £198.3m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £113.3m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £100m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £200m.

Banner examples using key messages

Example signage

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

Document is Restricted

Appendix A

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

Document is Restricted

Appendix B

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

Document is Restricted

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Document is Restricted

Appendix B

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

Document is Restricted

Appendix C

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

Document is Restricted