**Appendix 'A'**

**ACCOUNTS OF THE FUND**

**Responsibilities for the Statement of Accounts**

**The responsibilities of the administering authority**

The administering authority is required:

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

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

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

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

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

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

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

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

**Neil Kissock**

**Director of Financial Resources**

**31 July 2017**

**ANNUAL GOVERNANCE STATEMENT 2016/17**

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

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

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

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

**LANCASHIRE COUNTY PENSION** **FUND**

**Fund account**

|  |  |  |  |
| --- | --- | --- | --- |
| **2015/16** |  | **Note** | **2016/17** |
| **£m** |  |  | **£m** |
|  | **Dealing with members, employers and others directly involved in the Fund** |  |  |
| 238.6 | Contributions | 6 | 245.5 |
| 5.5 | Transfers in from other pension funds | 7 | 10.9 |
| **244.1** |  |  | **256.4** |
| (245.8) | Benefits | 8 | (261.1) |
| (12.5) | Payments to and on account of leavers | 9 | (15.7) |
| **(258.3)** |  |  | **(276.8)** |
| **(14.2)** | **Net withdrawals from dealings with members** |  | **(20.4)** |
| (45.3) | Management expenses | 10 | (49.6) |
| **(59.5)** | **Net withdrawals including fund management expenses** |  | **(70.0)** |
|  | **Returns on investments** |  |  |
| 99.1 | Investment income | 11 | 109.9 |
| 165.9 | Profit and losses on disposal of investments and changes in the market value of investments | 14 | 1,133.2 |
| **265.0** | **Net return on investments** |  | **1,243.1** |
| **205.5** | **Net increase / (decrease) in the net assets available for benefits during the year** |  | **1,173.1** |
| **5,830.7** | **Opening net assets of the scheme** |  | **6,036.2** |
| **6,036.2** | **Closing net assets of the scheme** |  | **7,209.3** |

**Net assets statement**

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

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

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

|  |  |
| --- | --- |
| Neil Kissock | County Councillor Alan Schofield |
| Director of Financial Resources | Chair of the Audit and Governance Committee |

**NOTES TO THE FINANCIAL STATEMENTS**

1. **PENSION FUND OPERATIONS AND MEMBERSHIP**

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

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

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

* 1. **General**

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

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

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

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

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

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

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

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at [Your Pension Service - Lancashire Fund Information](http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e)

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

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

* 1. **Membership**

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

Organisations participating in the Lancashire County Pension Fund include:

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

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

|  |  |  |
| --- | --- | --- |
| **31 March 2016** | **Lancashire County Pension Fund** | **31 March 2017** |
| 369 | Total number of employers | 413 |
| 261 | Number of employers with active members | 287 |
|  | **Number of active scheme members** |  |
| 27,106 | County Council | 26,416 |
| 29,223 | Other employers | 29,499 |
| **56,329** | **Total** | **55,915** |
|  | **Number of pensioners** |  |
| 22,414 | County Council | 23,141 |
| 22,093 | Other employers | 23,012 |
| **44,507** | **Total** | **46,153** |
|  | **Number of deferred pensioners** |  |
| 33,253 | County Council | 34,668 |
| 28,377 | Other employers | 30,573 |
| **61,630** | **Total** | **65,241** |
| **162,466** | **Total membership** | **167,309** |

* 1. **Funding**

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

* 1. **Benefits**

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

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

1. **BASIS OF PREPARATION**

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

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

**2.1 Accounting standards issued but not yet adopted**

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

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

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

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

1. **ACCOUNTING POLICIES**
   1. **Fund Account - revenue recognition**

**3.1.1 Contribution income**

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

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

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

**3.1.2 Transfers to and from other schemes**

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

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

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

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

* + 1. **Investment income**
       1. **Interest income**

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

* + - 1. **Dividend income**

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

* + - 1. **Distribution from pooled funds**

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

* + - 1. **Property related income**

Property-related income consists primarily of rental income.

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

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

* + - 1. **Movement in the net market value of investments**

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

**3.2 Fund account – expense items**

**3.2.1 Benefits payable**

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

**3.2.2 Taxation**

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

**3.2.3 Management expenses**

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

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

**3.2.4 Administrative expenses**

Administration expenses consist of the following:

* Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
* Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer’s help desk or other employer support, and communications with employers; and
* Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

**3.2.5 Oversight and governance costs**

Oversight and governance expenses include the following costs:

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

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

**3.2.6 Investment management expenses**

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

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

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

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

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

**3.3 Net assets statement**

**3.3.1 Financial assets**

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

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

**3.3.2 Freehold and leasehold properties**

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

**3.3.3 Foreign currency transactions**

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

**3.3.4 Loans and receivables**

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

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

**3.3.5 Cash and cash equivalents**

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

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

**3.3.6 Financial liabilities**

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

**3.3.7 Actuarial present value of promised retirement benefits**

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

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

**3.3.8 Additional voluntary contributions**

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

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

**3.3.9 Securities lending**

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

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

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

1. **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

**4.1 Unquoted private equity and infrastructure investments**

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

**4.2 Pension Fund liability**

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

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

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

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

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

1. **CONTRIBUTIONS RECEIVABLE**

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

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

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

1. **TRANSFERS IN FROM OTHER PENSION FUNDS**

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

1. **BENEFITS PAYABLE**

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

1. **PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

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

1. **MANAGEMENT EXPENSES**

|  |  |  |
| --- | --- | --- |
| **2015/16** |  | **2016/17** |
| **£m** |  | **£m** |
| 4.1 | Fund administrative costs | 3.2 |
| 32.5 | Investment management expenses1 | 42.7 |
| 8.7 | Oversight and governance costs2 | 3.7 |
| **45.3** |  | **49.6** |

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

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

**10.1**  **Investment management expenses**

|  |  |  |
| --- | --- | --- |
| **2015/16** |  | **2016/17** |
| **£m** |  | **£m** |
| 1.5 | Transaction costs | 1.6 |
| 27.9 | Fund value based management fees1 | 31.8 |
| - | Cost of global equities transition | 2.0 |
| 2.9 | Performance related fees | 7.1 |
| 0.2 | Custody fees | 0.2 |
| **32.5** |  | **42.7** |

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

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

1. **INVESTMENT INCOME**

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

1. **PROPERTY INCOME**

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

1. **STOCK LENDING**

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

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

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

**14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

**2016/17**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Market value as at**  **1 April 2016** | **Purchases at cost and derivative payments** | **Sales proceeds and derivative receipts** | **Change in market value** | **Market value as at**  **31 March 2017** |
|  | **£m** | **£m** | **£m** | **£m** | **£m** |
| Fixed interest securities | 123.1 | 189.5 | (190.5) | 10.1 | 132.2 |
| Equities1 | 2,069.9 | 1,867.8 | (4,358.0) | 420.3 | - |
| Index linked securities | 63.7 | 125.1 | (66.7) | 5.0 | 127.1 |
| Pooled investment vehicles2 | 2,855.0 | 3,396.3 | (780.0) | 665.4 | 6,136.7 |
| Pooled property investments2 | 80.6 | 13.2 | 0.0 | 5.6 | 99.4 |
| Direct property | 608.1 | 95.2 | (104.5) | 38.2 | 637.0 |
| Derivatives contracts:  Forward currency contracts asset value | 294.5 |  |  | (329.0) | - |
| Cash deposits | 210.3 |  |  | 26.6 | 56.3 |
| Investment accruals | 13.1 |  |  |  | 2.7 |
| **Total Investment assets** | **6,318.3** |  |  | **842.2** | **7,191.4** |
| Derivatives contracts:  Forward currency contracts liability value | (291.0) |  |  | 291.0 | - |
| **Net investment assets** | **6,027.3** |  |  | **1,133.2** | **7,191.4** |

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

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

**2015/16**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Market value as at**  **1 April 2015** | **Purchases at cost and derivative payments** | **Sales proceeds and derivative receipts** | **Change in market value** | **Market value as at**  **31 March 2016** |
|  | **£m** | **£m** | **£m** | **£m** | **£m** |
| Fixed interest securities | 148.8 | 103.2 | (126.8) | (2.1) | 123.1 |
| Equities1 | 2,000.7 | 377.7 | (347.6) | 39.1 | 2,069.9 |
| Index linked securities | 317.9 | 865.0 | (1,115.5) | (3.7) | 63.7 |
| Pooled investment vehicles2 | 2,697.1 | 918.5 | (842.6) | 82.0 | 2,855.0 |
| Pooled property investments2 | 43.0 | 31.9 | - | 5.7 | 80.6 |
| Direct property | 531.4 | 84.4 | (52.6) | 44.9 | 608.1 |
| Derivative Contracts:  Forward currency contracts asset value | 632.4 |  |  |  | 294.5 |
| Cash deposits | 60.0 |  |  |  | 210.3 |
| Investment accruals | 11.7 |  |  |  | 13.1 |
| **Total investment assets** | **6,443.1** |  |  |  | **6,318.3** |
| Derivative contracts:  Forward currency contracts liability value | (629.6) |  |  |  | (291.0) |
| **Net investment assets** | **5,813.5** |  |  | **165.9** | **6,027.3** |

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

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

**Investments analysed by fund manager**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **31 March 2016** | |  | **31 March 2017** | | |
| **£m** | **%** |  | **£m** | **%** | |
| **Public equity** | |  |  |  | |
| 733.3 | 12.1% | Baillie Gifford | - | - | |
| 350.1 | 5.8% | MFS | - | - | |
| 324.6 | 5.4% | Morgan Stanley | - | - | |
| 209.7 | 3.5% | NGAM | - | - | |
| 496.0 | 8.2% | Robeco | - | - | |
| 234.5 | 3.9% | AGF | - | - | |
| 251.2 | 4.2% | MFG (Magellan) | - | - | |
| **2,599.4** | **43.1%** |  | **-** | **-** | |
| **Private equity** | | | | |
| 336.5 | 5.6% | Capital Dynamics | 452.7 | 6.3% | |
| 11.7 | 0.2% | Standard Life | 28.2 | 0.4% | |
| **348.2** | **5.8%** |  | **480.9** | **6.7%** | |
| **Long term credit investments** | | | | |
| 56.0 | 0.9% | Ares Institutional | - | - | |
| 74.5 | 1.2% | Babson | - | - | |
| 73.0 | 1.2% | Hayfin | 52.4 | 0.7% | |
| 0.0 | 0.0% | Highbridge | 0.0 | 0.0% | |
| 4.9 | 0.1% | Kreos | 33.8 | 0.5% | |
| 5.9 | 0.1% | Muzinich Private Debt Fund | 17.6 | 0.2% | |
| 47.3 | 0.8% | Permira Credit Solutions | 76.6 | 1.1% | |
| 57.0 | 0.9% | THL | - | - | |
| 18.4 | 0.3% | White Oak | 68.8 | 1.0% | |
| 83.6 | 1.4% | Heylo Housing | 138.6 | 1.9% | |
| 214.6 | 3.5% | Prima | 256.8 | 3.6% | |
| 83.0 | 1.4% | Venn Commercial Real Estate | 83.7 | 1.2% | |
| 11.4 | 0.2% | Westmill | 10.9 | 0.2% | |
| 125.0 | 2.1% | Bluebay | 132.5 | 1.8% | |
| 60.0 | 1.0% | HSBC | 71.5 | 1.0% | |
| 83.1 | 1.4% | Investec | 101.7 | 1.4% | |
| 134.0 | 2.2% | Pictet | 159.6 | 2.2% | |
| 89.2 | 1.5% | CRC | 152.5 | 2.1% | |
| 53.0 | 0.9% | EQT | 51.2 | 0.7% | |
| 109.9 | 1.8% | MFO King Street | 128.4 | 1.8% | |
| 52.4 | 0.9% | Monarch | 67.0 | 0.9% | |
| 54.0 | 0.9% | Neuberger Berman | 61.9 | 0.9% | |
| 47.6 | 0.8% | Pimco Bravo | 64.8 | 0.9% | |
| **1,537.8** | **25.5%** |  | **1,730.2** | **24.1%** | |
| **Liquid credit (cash and bonds)** | | | | | |
| 283.8 | 4.7% | Local Pensions Partnership and LCC Treasury Management | 135.2 | 1.9% | |
| **283.8** | **4.7%** |  | **135.2** | **1.9%** | |
| **Global equity funds** | | | | | |
| - | - | Local Pensions Partnership | 3,168.2 | 44.1% | |
| - | - |  | **3,168.2** | **44.1%** | |
| **Infrastructure** | | | | | |
| 62.6 | 1.0% | Arclight Energy | 95.7 | 1.3% | |
| 66.4 | 1.1% | Capital Dynamics Cape Byron | 85.7 | 1.2% | |
| 31.7 | 0.5% | Capital Dynamics Clean Energy | 31.1 | 0.4% | |
| 76.0 | 1.3% | Capital Dynamics Red Rose | 60.5 | 0.8% | |
| 0.7 | 0.0% | Capital Dynamics US Solar | - | - | |
| 9.6 | 0.2% | EQT Infrastructure | 26.6 | 0.4% | |
| 34.3 | 0.6% | Global Infrastructure Partners | 60.3 | 0.8% | |
| 70.4 | 1.1% | Guild Investments Ltd | 130.1 | 1.8% | |
| 0.0 | 0.0% | GLIL Infrastructure | 42.6 | 0.6% | |
| 35.2 | 0.6% | Highstar Capital | 61.5 | 0.9% | |
| 34.0 | 0.6% | Icon Infrastructure | 69.8 | 1.0% | |
| 7.5 | 0.1% | ISQ Global Infrastructure | 101.3 | 1.4% | |
| 135.9 | 2.3% | Madrilena Red de Gas (MRG) | 146.6 | 2.0% | |
| 5.2 | 0.1% | Stonepeak Infrastructure | 28.9 | 0.4% | |
| **569.5** | **9.5%** |  | **940.6** | **13.1%** | |
| **Property** | | | | | |
| 608.1 | 10.1% | Knight Frank | 637.0 | 8.9% | |
| 30.4 | 0.5% | Gatefold Hayes | 33.4 | 0.5% | |
| 14.0 | 0.2% | Kames Target | 25.0 | 0.4% | |
| 36.1 | 0.6% | M&G Europe fund | 41.0 | 0.6% | |
| **688.6** | **11.4%** |  | **736.4** | **10.2%** | |
| **6,027.3** | **100.0%** |  | **7,191.4** | **100.0%** | |

**Fixed interest securities**

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

**Equities**

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

**Index linked securities**

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

**Direct property investments**

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

**Pooled investment vehicles**

|  |  |  |
| --- | --- | --- |
| **31 March 2016** |  | **31 March 2017** |
| **£m** | **UK managed funds:** | **£m** |
| 60.0 | Fixed income funds | 71.5 |
| 88.6 | Private equity | 79.5 |
| 107.7 | Infrastructure | 136.1 |
| 173.1 | Long term credit investments | 189.6 |
| 44.5 | Property funds | 58.3 |
|  | **Overseas managed funds:** |  |
| 1,097.3 | Fixed income funds | 1,125.1 |
| 259.6 | Private equity | 401.4 |
| 461.8 | Infrastructure | 761.8 |
| 120.6 | Long term credit investments | 204.1 |
| 485.7 | Equity funds | 3,168.2 |
| 0.6 | Cash funds | 0.0 |
| 36.1 | Property funds | 41.0 |
| **2,935.6** |  | **6,236.1** |

**Property holdings**

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

Details of these directly owned properties are as follows.

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

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

**Operating leases**

The Fund leases out property under operating leases.

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

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

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

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

**Cash deposits**

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

**15. FINANCIAL INSTRUMENTS CLASSIFICATION**

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **31 March 2016** | **Fair value through profit or loss** | **Loans**  **and**  **receivables** | **Financial liabilities at amortised cost** |
|  | **£m** | **£m** | **£m** |
| **Financial assets** |  |  |  |
| Fixed interest securities | 123.1 |  |  |
| Equities | 2,069.9 |  |  |
| Index linked securities | 63.7 |  |  |
| Pooled investment vehicles | 2,935.6 |  |  |
| Derivative contracts | 294.5 |  |  |
| Cash deposits |  | 210.3 |  |
| Investment accruals | 13.1 |  |  |
| Debtors |  | 27.7 |  |
| **Total financial assets** | **5,499.9** | **238.0** |  |
| **Financial liabilities** |  |  |  |
| Derivative contracts | 291.0 |  |  |
| Creditors |  |  | 18.8 |
| **Total financial liabilities** | **291.0** |  | **18.8** |

**16. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

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

**17. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY**

**17.1 Valuation of financial instruments carried at fair value**

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

**17.1.1 Level 1**

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

**17.1.2 Level 2**

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

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

**17.1.3 Level 3**

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

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

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

**17.1.4 Fair value hierarchy**

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

Loans and receivables are excluded from this table as they are held at amortised cost.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **31 March 2017** | **Quoted market price**  **Level 1** | **Using observable inputs**  **Level 2** | **With significant unobservable inputs**  **Level 3** | **Total** |
|  | **£m** | **£m** | **£m** | **£m** |
| Financial assets at fair value through profit and loss | 3,549.9 | 158.7 | 2,789.5 | 6,498.1 |
| Non-financial assets at fair value through profit and loss (property holdings) |  | 637.0 |  | 637.0 |
| **Net investment assets** | **3,549.9** | **795.7** | **2,789.5** | **7,135.1** |
| **31 March 2016\*** | **Quoted market price**  **Level 1** | **Using observable inputs**  **Level 2** | **With significant unobservable inputs**  **Level 3** | **Total** |
|  | **£m** | **£m** | **£m** | **£m** |
| Financial assets at fair value through profit and loss | 3,341.1 | 245.6 | 1,913.2 | 5,499.9 |
| Non-financial assets at fair value through profit and loss (property holdings)\* |  | 608.1 |  | 608.1 |
| Financial liabilities at fair value through profit and loss | (291.0) |  |  | (291.0) |
| **Net investment assets** | **3,050.1** | **853.7** | **1,913.2** | **5,817.0** |

\*The information for 2015/16 has been restated from the audited 2015/16 accounts to include investments in directly held property as a result of changes to the Code.

**17.1.5 Reconciliation of fair value measurements within level 3**

|  |  |
| --- | --- |
|  | **Financial assets at fair value through profit and loss** |
|  | **£m** |
| **Market value 1 April 2016** | **1,913.2** |
| Purchases during the year and derivative payments | 878.4 |
| Sales during the year and derivative receipts | (364.2) |
| Unrealised gains | 290.8 |
| Realised gains | 71.3 |
| **Market value 31 March 2017** | **2,789.5** |

**18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**18.1 Risk and risk management**

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

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

**18.2 Market risk**

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

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

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

**18.3 Other price risk**

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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

**18.3.1 Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2016/17 reporting period.

|  |  |
| --- | --- |
| **Asset type** | **Potential market movements (+/-)** |
| Total bonds (including index linked) | 6.4% |
| Total equities | 9.6% |
| Alternatives | 6.4% |
| Total property | 2.4% |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset type** | **31 March 2017** | **Percentage change** | **Value on increase** | **Value on decrease** |
|  | **£m** | **%** | **£m** | **£m** |
| Investment portfolio assets: |  |  |  |  |
| Total bonds (including index linked) | 1,433.1 | 6.4% | 1,524.8 | 1,341.4 |
| Total equities | 3,649.1 | 9.6% | 3,999.4 | 3,298.8 |
| Alternatives | 1,313.8 | 6.4% | 1,397.9 | 1,229.8 |
| Total property | 736.4 | 2.4% | 746.7 | 726.1 |
| **Total assets available to pay benefits** | **7,132.4** |  | **7,676.2** | **6,588.6** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset type** | **31 March 2016** | **Percentage change** | **Value on increase** | **Value on decrease** |
|  | **£m** | **%** | **£m** | **£m** |
| Investment portfolio assets: |  |  |  |  |
| Total bonds (including index linked) | 1,233.0 | 6.4% | 1,311.9 | 1,154.1 |
| Total equities | 2,902.9 | 9.6% | 3,181.6 | 2,624.2 |
| Alternatives | 975.7 | 6.4% | 1,038.1 | 913.3 |
| Total property | 688.8 | 2.4% | 705.3 | 672.3 |
| **Total assets available to pay benefits** | **5,800.4** |  | **6,236.9** | **5,363.9** |

**18.4 Interest rate risk**

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

|  |  |  |
| --- | --- | --- |
| **31 March 2016** | **Asset type** | **31 March 2017** |
| **£m** |  | **£m** |
| 210.3 | Cash and cash equivalents | 56.3 |
| **210.3** | **Total** | **56.3** |

**18.4.1 Interest rate risk - sensitivity analysis**

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset type** |  | **Change in year in net assets available to pay benefits** | |
|  | **31 March 2017** | **+100BPS** | **-100BPS** |
|  | **£m** | **£m** | **£m** |
| Cash and cash equivalents | 56.3 | 0.6 | (0.6) |
| **Total change in assets available** | **56.3** | **0.6** | **(0.6)** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset type** |  | **Change in year in net assets available to pay benefits** | |
|  | **31 March 2016** | **+100BPS** | **-100BPS** |
|  | **£m** | **£m** | **£m** |
| Cash and cash equivalents | 210.3 | 2.1 | (2.1) |
| **Total change in assets available** | **210.3** | **2.1** | **(2.1)** |

**18.5 Currency risk**

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

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

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

|  |  |  |
| --- | --- | --- |
| **31 March 2016** | **Currency exposure – asset type** | **31 March 2017** |
| **£m** |  | **£m** |
| 850.9 | Overseas bonds (including index linked) | 1,071.4 |
| 2,622.9 | Overseas equities | 3,569.6 |
| 868.0 | Overseas alternatives | 1,101.9 |
| 36.1 | Overseas property | 41.0 |
| **4,377.9** | **Total overseas assets** | 5,783.9 |

**18.5.1 Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be [6.1%].

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2015/16 6.1%).

A 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Currency exposure - asset type** |  | **Change in year in net assets available to pay benefits** | |
|  | **31 March 2017** | **+6.1%** | **-6.1%** |
|  | **£m** | **£m** | **£m** |
| Overseas bonds (including index linked) | 1,071.4 | 3,787.3 | 3,351.8 |
| Overseas equities | 3,569.6 | 1,136.7 | 1,006.0 |
| Overseas alternatives | 1,101.9 | 1,169.1 | 1,034.6 |
| Overseas property | 41.0 | 43.5 | 38.5 |
| **Total change in assets available** | 5,783.9 | **6,136.6** | **5,431.0** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Currency exposure - asset type** |  | **Change in year in net assets available to pay benefits** | |
|  | **31 March 2016** | **+6.1%** | **-6.1%** |
|  | **£m** | **£m** | **£m** |
| Overseas bonds (including index linked) | 850.9 | 902.8 | 799.0 |
| Overseas equities | 2,622.9 | 2,782.9 | 2,462.9 |
| Overseas alternatives | 868.0 | 920.9 | 815.0 |
| Overseas property | 36.1 | 38.3 | 33.9 |
| **Total change in assets available** | **4,377.9** | **4,644.9** | **4,110.8** |

**18.6 Credit risk**

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £56.3m (31 March 2016: £210.3m.) This was held with the following institutions:

|  |  |  |  |
| --- | --- | --- | --- |
| **31 March 2016** | **Summary** | **Rating** | **31 March 2017** |
| **£m** |  |  | **£m** |
|  | **Bank deposit accounts** | | |
| 154.8 | Northern Trust | A1+ | 47.9 |
| 55.4 | Svenska Handelsbanken | A1+ | 8.4 |
|  | **Bank current accounts** | | |
| 0.1 | NatWest | A3 | - |
| **210.3** | **Total** |  | **56.3** |

**18.7 Liquidity risks**

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2017 are due within one year.

**19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC’S)**

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2016 to 31 March 2017 for Prudential and 1 September 2015 to 31 August 2016 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Equitable Life** | **Prudential** | **Total** |
|  | **£m** | **£m** | **£m** |
| **Value at start of the year** | **0.8** | **22.0** | **22.8** |
| Income (incl. contributions, bonuses, interest & transfers in) | 0.0 | 7.0 | 7.0 |
| Expenditure (incl. benefits, transfers out & change in market value) | (0.1) | (4.7) | (4.8) |
| **Value at the end of the year** | **0.7** | **24.3** | **25.0** |

**20. CURRENT ASSETS**

|  |  |  |
| --- | --- | --- |
| **31 March 2016** |  | **31 March 2017** |
| **£m** |  | **£m** |
| 13.9 | Contributions due – employers | 14.1 |
| 4.6 | Contributions due – members | 4.6 |
| 9.2 | Debtors | 12.0 |
| **27.7** |  | **30.7** |

|  |  |  |
| --- | --- | --- |
| **31 March 2016** | **Analysis of debtors** | **31 March 2017** |
| **£m** |  | **£m** |
| 14.9 | Other local authorities | 14.6 |
| 12.8 | Other entities and individuals | 16.1 |
| **27.7** |  | **30.7** |

**21. CURRENT LIABILITIES**

|  |  |  |
| --- | --- | --- |
| **31 March 2016** |  | **31 March 2017** |
| **£m** |  | **£m** |
| 1.1 | Unpaid benefits | 5.7 |
| 17.7 | Accrued expenses | 7.1 |
| **18.8** |  | **12.8** |

|  |  |  |
| --- | --- | --- |
| **31 March 2016** | **Analysis of creditors** | **31 March 2017** |
| **£m** |  | **£m** |
| 2.1 | Other local authorities | 5.0 |
| 16.7 | Other entities and individuals | 7.8 |
| **18.8** |  | **12.8** |

**22. CONTRACTUAL COMMITMENTS**

As at 31 March 2017 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £743.8m (2016: £665.3m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £390.7m (2016: £497.2m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £24.6m (2016: £19.9m). These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £0.6m (2016: £13.8m). These amounts are expected to be drawn down over the next few months.

**23. RELATED PARTY TRANSACTIONS**

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

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

**23.1 Lancashire County Council**

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.4 m (2015/16: £3.7m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £87.0m to the fund in 2016/17 (2015/16: £81.4m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2017 amount to £8.2m (2015/16: nil).

**23.2 Employers within the Fund**

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2017 payroll, are included within the debtors figure in note 20.

**23.3 Pension Fund Committee, Pensions Board and Senior Officers.**

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2016/17 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2017.

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

**24. KEY MANAGEMENT PERSONNEL**

The key management personnel of the Fund are the Lancashire County Council Director of Financial Resources and the Head of Fund. Total remuneration payable to key management personnel is set out below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2016/17** | **Employment period** | **Salary1** | **Pension contributions1** | **Total including pension contributions1** |
|  |  | **£** | **£** | **£** |
| Head of Fund | 01/04/16 – 31/03/17 | 52,175 | 6,664 | 58,839 |
| Director of Financial Resources (Section 151 officer) | 01/04/16 – 31/03/17 | 4,732 | 563 | 5,295 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2015/16** | **Employment period** | **Salary1** | **Pension contributions1** | **Total including pension contributions1** |
|  |  | **£** | **£** | **£** |
| \*Director of Lancashire Pension Fund | 01/04/15 - 31/03/16 | 86,199 | 10,800 | 96,999 |
| \*\*Head of Fund | 01/12/15 – 31/03/16 | 16,316 | 2,167 | 18,483 |
| \*\*\*Director of Financial Resources (Section 151 officer) | 29/02/16 – 31/03/16 | 401 | 25 | 426 |
| \*\*\*\*Chief Investment Officer | 01/04/15 - 31/03/16 | 120,150 | 13,230 | 133,380 |

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

\*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31 March 2016.

\*\*The Head of Fund took up this new post on 1 December 2015

\*\*\*The Director of Financial Resources was appointed on 29 February 2016. This position was previously held by an interim consultant.

\*\*\*\*The Chief Investment Officer position transferred to the Local Pensions Partnership on 7 April 2016.

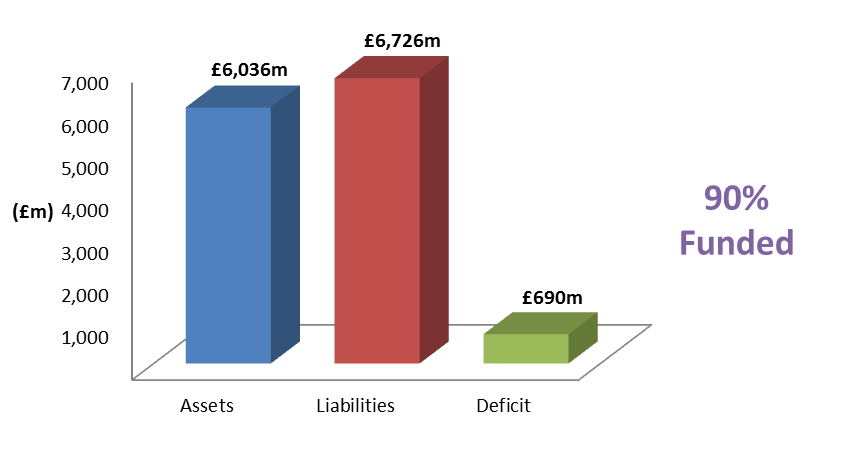
**25. FUNDING ARRANGEMENTS**

**Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary**

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

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund’s assets of £6,036 million represented 90% of the Fund’s past service liabilities of £6,726 million (the “Funding Target”) at the valuation date. The deficit at the valuation was therefore £690 million.



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £41.5 million. The Secondary rate of the employer’s contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years’ contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

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

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

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

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

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

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

The assets were assessed at market value.

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

**26.ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

|  | 31 March 2016 | 31 March 2017 |
| --- | --- | --- |
| Rate of return on investments (discount rate) | 3.6% per annum | 2.5% per annum |
| Rate of pay increases\* | 3.5% per annum | 3.8% per annum |
| Rate of increases in pensions  in payment (in excess of  Guaranteed Minimum Pension) | 2.0% per annum | 2.3% per annum |

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

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

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%.  Both of these factors combined served to significantly increase the liabilities over the year.  The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint, which serves to reduce the liabilities.

The value of the Fund’s promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £8,106 million.  Interest over the year increased the liabilities by c£291million, and allowing for net benefits accrued/paid over the period also increased them by c£6 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations).  There was then a further increase in liabilities of £1,662 million made up of “actuarial losses” (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2017 is therefore £10,065 million.

## John Livesey

## Fellow of the Institute and Faculty of Actuaries

## Mercer Limited

**May 2017**