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# LPP

Local Pensions Partnership

## A Leader in Pension Services

Annual Report  
2016 – 2017

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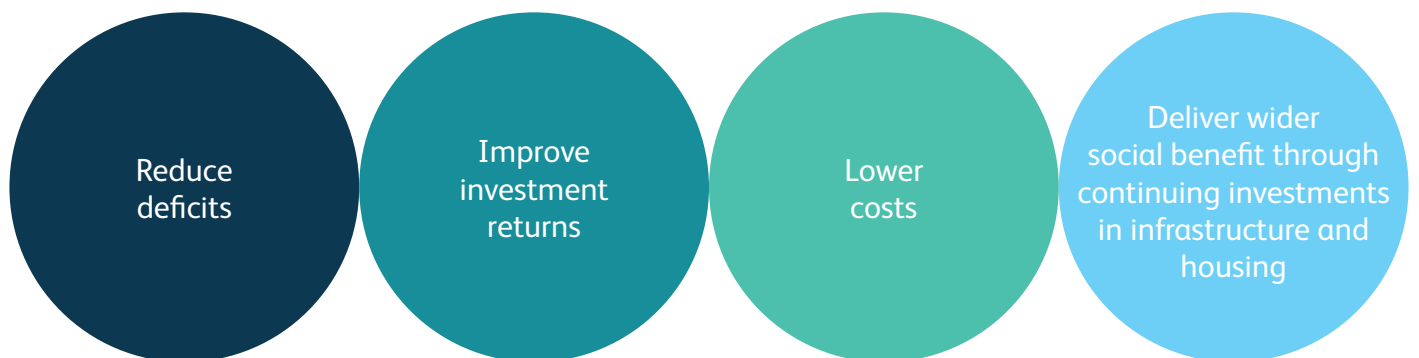
**LPP** is a pension services business operating on a ‘not-for-profit’ philosophy. LPP aims to help clients improve investment outcomes, reduce risks, costs and pension deficits, and achieve stable employer contribution rates.



Please visit  
[localpensionspartnership.org.uk](http://localpensionspartnership.org.uk)  
for more information

# About us

Local Pensions Partnership Ltd (LPP) started operation in April 2016 following the coming together of two local government pension scheme (LGPS) funds – Lancashire County Pension Fund (LCPF) and London Pensions Fund Authority (LPFA).



Both funds recognised an opportunity to fulfil their responsibilities more effectively and efficiently by working together, and to provide a pension services organisation for wider collaboration across the pensions industry. In particular, there was a shared objective to reduce pension deficits for the benefit of our clients, members and employers.

LPP's founders set out to create a pension services business, delivering a comprehensive range of services across liability and risk management, pension administration and investment management, which would operate to the highest standards of governance, be a regulated investment business authorised by the Financial Conduct Authority (FCA), and deliver the resulting benefits of scale to members and employers.

This is the start of the journey and LPP has spent the first year embedding its business processes. We have already exceeded all the objectives set in year one and are confident that we will continue to demonstrate that collaboration and best in class governance is the key to a secure retirement for the members of our client pension funds. We are confident that there are more benefits in the years to come.

# Key facts

Assets under management

£12.5<sup>bn</sup>

Group employees

245

of which investment and risk professionals

23

Provided pension administration services to

7

LGPS funds

7

emergency service pension schemes,  
representing approximately

1,200

employers, with over

517,000

members

as at 31 March 2017



*Our first year has been one of monumental effort and change*

# Chairman's welcome



**I'm delighted to present LPP's first Annual Report. This report represents our first full year of operation, having launched in April 2016, and I'm pleased to report on a successful year.**

Much of my career has been spent in and around pensions, from academic life and the Organisation for Economic Co-operation and Development (OECD) to The Pensions Regulator. In this time, I've learnt that for pension funds to be successful for their members, they need to focus on deficit reduction, risk management and look at both sides of the balance sheet, not just the assets. When I learned about the formation of LPP, a new organisation which encapsulated these beliefs, I wanted to be involved.

LPP is a unique proposition: a pension services business operating on a 'not-for-profit' philosophy, and offering a full suite of industry-leading pension services covering liability and risk management, pension administration and investment management. Through aggregating assets and expertise, refining governance, and sharing costs, we can help our clients improve investment outcomes, reduce risks, costs and pension deficits, and achieve stable employer contribution rates.

We operate within the wider context of Government's reform agenda for pension funds. We share and support the Government's vision and objectives on the pooling of public sector pension fund assets, infrastructure investing, improved risk management and private sector consolidation. Amongst the LGPS, LPP has taken a lead on infrastructure investing and it is positive to see pension fund assets being put to good use while also generating returns for members. We have allocated c.9.5% of LPP's assets under management to global infrastructure investments. These include historical allocations of infrastructure assets by our full-service clients – LCPF and LPFA. Exposure to direct UK infrastructure investments is made via GLIL Infrastructure, a £1.3 billion infrastructure investment joint-venture between Greater Manchester Pension Fund, LCPF, LPFA, Merseyside Pension Fund and West Yorkshire Pension Fund.

Our first year has been one of monumental effort and change. I would like to thank my Board colleagues and the staff for their

support and hard work. My personal and special thanks to Councillor David Borrow, former Deputy Leader of Lancashire County Council, for being instrumental in supporting the development and launch of LPP. We are delivering in line with our business strategy and our full-service clients have already identified a reduction in costs on the pre-pooling position. We are building LPP into a successful pension services business and I look forward to what we will achieve in the coming years.

**Michael O'Higgins**  
Chairman





# Strategy and business review





*LPP's first year of operation provides a solid foundation for growing our business*

## Chief Executive's statement



**LPP's first year of operation has been one of positive change and provides a solid foundation for growing our business. We have continued to build on the successes our two full-service clients achieved in running in-house investment portfolios, risk management and pension administration.**

We provide to clients our in-house investment capabilities, risk management and pension administration service. From day one, we have set ourselves an ambitious business plan to deliver improved returns, effective liability and risk management, and savings in investment management and pension administration costs for our clients.

In our initial business planning, we estimated an on-going reduction in investment fees of £6 million per annum for our two full-service clients. We now expect to deliver an on-going reduction in investment fees of approximately £7.5 million per annum in our global equities pooled fund. We expect this level of reduction to increase in the future once all pooling vehicles and target operating models are established. It is important to note that these fee reductions have not been sought at the expense of performance. We have increased our assets under management from £10.5 billion to £12.5 billion, and worked with other LGPS funds to expand the GLIL infrastructure joint venture to enable a wider collaboration and scale in infrastructure investing.

LPP is much more than an investment pool – we are aiming to deliver broader improvements across liability and risk management, employer and member pension administration. The creation of LPP gives us a unique opportunity. Through aligning administration, investment and risk operations we have created an organisation which serves approximately 1,200 employers with more than 517,000 members across seven LGPS funds and seven emergency service pension schemes. The scale, the structure, the wealth of knowledge and expertise we have at LPP can help our clients achieve fully-funded pensions over the long term.

Through cross-pool initiatives, we have shared our experience and best practice with other LGPS funds and collaborations. We have also worked collaboratively with others on issues such as responsible investing and stewardship initiatives. Additionally, we have shared our learning on consolidation in the public sector with the Government

as part of its review of private sector pension arrangements.

Like all good businesses, the key to our success is our people. As part of our strategic business plan, we have significantly increased resources in key functions, including finance, governance, legal, compliance and investment operations. This has been possible due in part to reduced fees paid to external fund managers, and an increased allocation to internally managed funds.

As we enter our second phase of development, we look forward to delivering on the challenges we have set ourselves. We have a comprehensive three-year business plan taking us to 2020.

Delivery of benefits for our clients and their members and employers is our key objective. Growth opportunities will be pursued in order to achieve additional reduction in deficit levels, access to a broader range of investment opportunities, or dilution of overheads for the benefit of all stakeholders. It will play an important role and we will maximise the advantages it provides.

I would like to thank our clients for their trust and confidence in us, and our staff for their dedication and hard work.

**Susan Martin**  
Chief Executive

## LPP business model

LPP started operation in April 2016 as a pension services business. LPP aims to be 'a leader in pension services'; delivering sustainable pensions and sharing savings with clients.

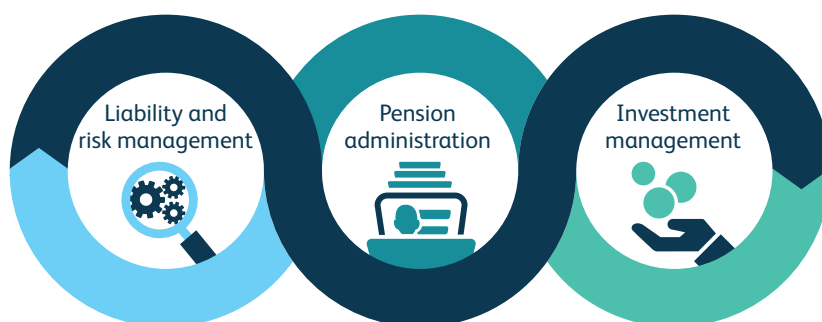
LPP's principal activity is the provision of a full pension service covering liability and risk management, investment management, and pension administration. We manage £12.5 billion of assets on behalf of two full-service clients (LCPF and LPFA) via our FCA-authorized subsidiary, Local Pensions

Partnership Investments Ltd (LPP I). We provide pension administration services to approximately 1,200 employers with more than 517,000 members across seven LGPS funds and seven emergency service pension schemes. In addition, we support a number of pension funds with our technical pension consultancy and support services in areas such as the Guaranteed Minimum Pension Reconciliation. LPP delivers unique benefits to clients through its focus on liability and risk management as well as seeking strong investment performance.

As a business operating on a not-for-profit philosophy, savings and surpluses not re-invested in the business are passed back to clients through an annual rebate mechanism. Shareholders do not receive a dividend.

Both full-service clients retain their strategic LGPS responsibilities, but they have fully delegated to LPP their pension administration and investment management activities.

### LPP business model



## Strategy

LPP has a dual strategy – to deliver benefits to our two full-service clients as set out in the originating agreements, and to embark on growing the business. LPP plays an important role in assisting LGPS clients to meet their financial goals. Our aim is to deliver sustainable pensions and to share the benefits of success with clients – including members and employers.

The key benefits of our business model are:

- Improved investment returns through lower investment management costs;
- A governance model with full delegation to LPP and FCA oversight;
- Scale to gain access to a wider array of investment opportunities;
- Improved data quality, flow and control through a robust pension administration service model; and

- Long-term stable and improved funding ratios achieved through an integrated liability and risk management approach.

At the end of the period we have exceeded our initial expectations on performance, savings and delivery targets.

In order to meet the growth aspect of our strategy, we recognise that we need to build scale and strong client relationships. To that end, we aim to build on our reputation as a centre of pension administration expertise covering both employer and member functions, to enhance and develop our liability and risk management solutions, and to continue to build LPP I into a scalable, low-cost, high-performing investment platform that benefits from a robust governance structure. We have initiated a Transformation Programme, a group-wide initiative, to critically identify and implement areas of improvement, and reorganise our

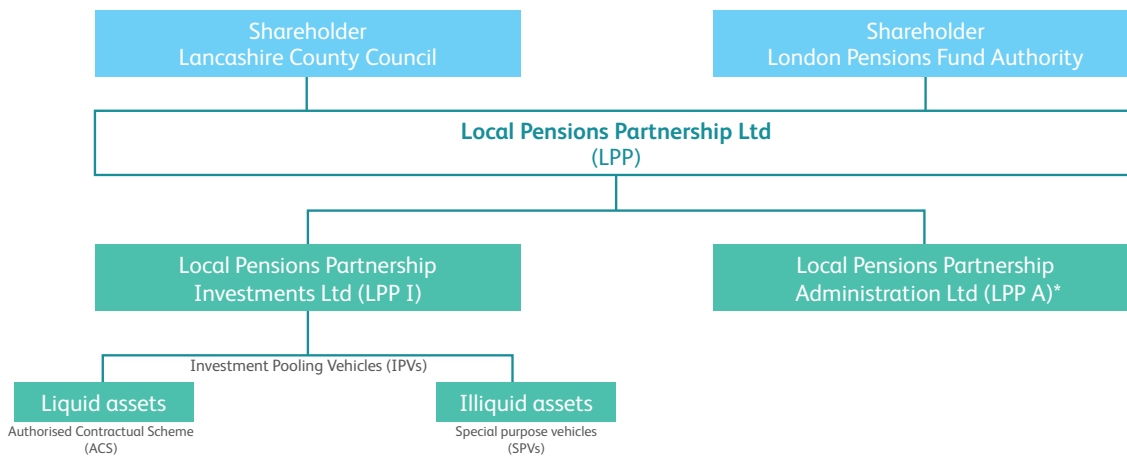
business operation. It is important that we are agile, responsive and efficient as the business moves forward.

We are gearing up for growth in our corporate resources including finance, human resources, governance, information technology, legal and client management. These areas are essential to support frontline services and demonstrate to our existing and potential clients that we have a robust and sustainable business model as well as provide top-class service quality.

In the coming years, we will continue to develop the business and capitalise on growth opportunities as they arise for the benefit of not just our clients and shareholders, but ultimately for their pension fund members and employers.

# Business structure

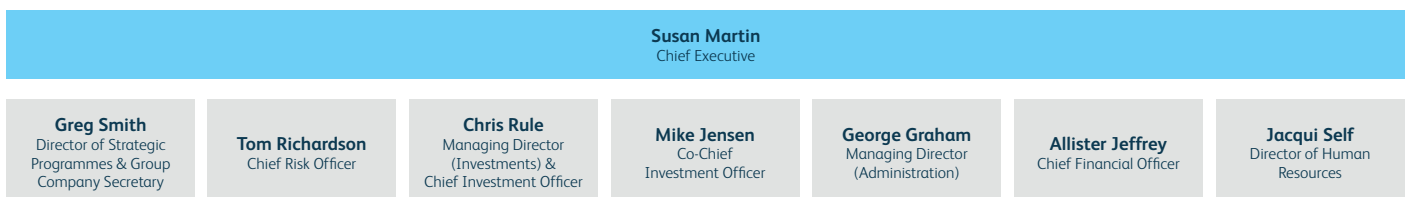
LPP comprises a holding company, Local Pensions Partnership Ltd, and two subsidiaries: Local Pensions Partnership Investments Ltd (LPP I), Local Pensions Partnership Administration Ltd (LPP A) and other indirect subsidiaries as defined on page 40 (together ‘the group’). The Executive Committee drives the delivery of the liability management, pension administration and investment management services. Long term stable and improved funding ratios are achieved through an integrated liability and risk management approach.



*\*LPP A has been non-trading since 1 November 2016, with all pension administration business being delivered by LPP under the management of the LPP Executive Committee and overseen by the LPP Board. A structural review will take place during 2017-2018.*

The Executive Committee of LPP is responsible for the execution of LPP’s strategy and the day-to-day management of the business. The Executive Committee comprises eight executives.

## The LPP Executive Committee



# People and culture

**LPP is a unique start-up: a pension services business owned by public sector shareholders and operating within the private sector. This brings dynamism, innovation and diversity; behavioural characteristics which are reflected in our culture and values. They enable us to understand our clients and their challenges, as well as the financial services market in which we operate.**

We have a team of highly talented and experienced staff, many of whom worked in our shareholders' organisations, and we have also recruited additional colleagues throughout the period. As such we benefit from a stable workforce, with excellent knowledge of our clients, as well as expertise in asset and risk management, and pension administration which has been enhanced by recent recruitment. This has resulted in an innovative and 'can-do' environment.

We encourage and particularly support continued learning and development for all our people through the attainment of knowledge, skill, experience and professional qualifications. During the period, we have committed significant additional investment to our learning and development programme. In addition, we have rolled out a Leadership Programme, providing the development opportunity for our staff to become our future leaders.





*We benefit from a stable workforce, with excellent knowledge of our clients*

## Business operation



### Liability management

Since launch, LPP has invested significantly in the skills, tools and processes to enable effective asset and liability management (ALM) on behalf of our clients. The benefit of such an approach to asset and liability management is that it provides greater stability of contributions for employers and greater certainty of pension payments for members.

The approach and the process we have adopted include:

#### Implementing state-of-the-art analytical tools

We have implemented a market-leading asset and liability management tool to enable us to monitor our clients' assets and liabilities through realistic scenario analysis. The tool is an integral part of our evolving Risk Management Framework which aims to deliver the following:

- Projections of assets, liabilities and range of possible future funding levels over the short and long term;
- Identification, monitoring and reporting of key risk drivers;
- Development of risk mitigation strategies;
- Analysis of the impact of policy alternatives;
- Analysis of the impact of hedging strategies;
- Stress testing to help understand possible future risks; and
- Scenario analysis to improve understanding of balance sheet dynamics.

### Employer risk management

The Employer Risk team works with employers of pension fund clients in order to manage data flow, accuracy and employer risk. This includes assessing the solvency of each employer and implementing additional security to protect taxpayers from inheriting pension fund liabilities. LPP provides this service to four clients and helps to ensure clients take timely action to manage the risks identified. During 2016-2017, as part of the triennial valuation process for one of our clients, our employer risk support has resulted in additional security of over £112 million being implemented, making a total of £438 million security implemented since the 2013 triennial valuation.



### Pension administration

LPP provides pension administration services to a wide range of clients including LGPS, Firefighters' and Police pension schemes, representing approximately 1,200 employers with over 517,000 members.

Our services include:

- Full pension administration functions for London Boroughs, County Councils and emergency service authorities, and
- Special projects, employer and member engagement activities.

We deliver our services in line with The Pension Regulator Code of Practice 14, which relates to the administration and management of public sector schemes.

The pension administration business was created from the services transferred from Lancashire County Council (LCC) and LPFA, both of which had a record of success. This level of success has continued into year one of the group. Our service model is sustainable and provides 'value-for-money' for clients:

- We are a centre of LGPS, Firefighters' and Police pension scheme administration expertise. Our staff are specialists with in-depth knowledge and experience in all aspects of LGPS and other public sector scheme administration;
- We achieve economies of scale through servicing a much larger client base;
- We have the scale to make greater investment in technology to achieve greater efficiencies;
- Our services can be accessed either via competitive tender or local government shared service arrangements; and
- We apply best-in-class practices, processes and systems.

These are the foundations for us to build stronger relationships with clients and to continue to provide a high standard of service.

# Business operation continued



### Performance

We have exceeded our performance targets during the period while providing a significant amount of additional support to clients. For example, we have provided Guaranteed Minimum Pension Reconciliations for 11 existing clients and two other schemes, resulting in improvements in their data quality and the accuracy of payments.

### Growth

During the period, LPP delivered high quality, cost effective pension administration services to existing clients. This included engaging with LCC and LPFA's existing partners and seeking to transfer their administration to LPP via sub-contracting arrangements. This was achieved, and all historic shared services and contractual arrangements are now managed by LPP.

We also participated in a number of new contract tenders during the period. We are working to take on new work for a Fire Authority which has been awarded through a shared service route. In addition, we have been successful in joining the national framework for Police Pension Administration, which will give rise to tender opportunities.

### Investment management

LPP's investment philosophy has two key aims: (i) to help clients achieve a faster reduction in pension deficits by maximising risk-adjusted investment returns and lowering costs; and (ii) to deliver stable and sustainable investment outcomes to meet clients' long-term pension funding requirements. At all times, we operate within each client's independent and sovereign strategic asset allocation objectives.

With this philosophy in mind, we have established a fully-functioning, low-cost and high performing FCA-regulated investment business, enabling full investment management delegation from clients. Our model is built upon three pillars:

- Scale – enables us to access a broader range of investment opportunities;
- Governance – delegated, independent decision making and governance structures enabling effective investment management; and
- In-house investment and risk management – a deep and broad in-house investment and risk management expertise across major asset classes in both public and private markets, which enable us to better understand clients' liabilities and funding requirements and to develop appropriate investment strategies to meet these requirements.

During the first period of operations, we have made significant progress on both the strategic development of the business and capabilities alongside the core investment and risk management objectives. Assets under management (AUM) have also increased by a further £2 billion to £12.5 billion since launch.

### Key investment highlights

In parallel to the day-to-day tasks of managing the portfolios, we successfully launched the LPP I Global Equities Fund within an Authorised Contractual Scheme (ACS) on 1 November 2016 and transitioned more than £5 billion into this vehicle, consolidated holdings and aligned the portfolio with our thematic objectives. In doing so, we expect to deliver an on-going reduction in investment fees of approximately £7.5 million.

In addition, regulatory permissions were expanded to accommodate wider asset pooling into private markets assets and the new Private Equity pool vehicles were launched at the end of March 2017. We have worked to ensure we share experience with our peers within the LGPS sector and continue to do so as we launch new asset pooling vehicles.

Across asset classes, performance has been strong against a backdrop of increased volatility (geo-political and market) with no material detractors. For our clients, the strong performance has helped deliver significant improvements in their funding ratios. The investment pipeline has remained strong with a combination of high conviction, direct and indirect new investments completed across the portfolios.

Alongside this asset pooling and fund development work, we have made significant investment in our people, systems and processes to ensure we have a broad and resilient infrastructure. We have grown our teams in investment, investment operations and risk, and established robust and efficient governance structures, all of which operate with the oversight of our internal compliance function.



## **Responsible investment and stewardship**

In its own capacity as an asset manager and on behalf of its client pension funds, LPP is responsible for fulfilling the fiduciary duty to protect the long term financial interests of fund members and beneficiaries. This is achieved by investing assets prudently and sustainably with a view to achieving a long-term financial return. Fulfilling these commitments in practice involves governance and investment management arrangements which incorporate rigorous due diligence and effective challenge and oversight processes which generate consistent, insightful and responsible decisions.

The first period of LPP's operation has involved the successful coming together of two large pension funds with wholly aligned stewardship principles and beliefs, but a range of legacy arrangements which followed different approaches. It has been a priority to design, implement and transition client funds to common arrangements that meet the fiduciary needs of both using a consistent format suited to asset pooling. Central to this has been the establishment of an LPP Stewardship Committee chaired by the Chief Investment Officer. The Committee has responsibility for developing and delivering a coordinated approach to stewardship and engagement across the portfolio of both internally and externally managed investment funds.

Under the oversight of the Stewardship Committee, LPP has developed a Responsible Investment Policy that sets out the beliefs, standards, and procedures integral to our stewardship of client assets. The Policy covers how we select investments, exercise active ownership, and monitor and report on our stewardship activities. Importantly, the due diligence process for each investment contains an assessment from a responsible ownership perspective. Responsible investment is an integral part of our decision-making process rather than a separate consideration. Our Policy will continue to evolve.

We seek to maximise investment value and encourage high standards of corporate governance in the enterprises we invest in on behalf of our clients. We actively use influence as an institutional asset manager through routes including:

- Central management of shareholder voting with the support of a proxy voting provider;
- Direct representation on company boards or investor and advisory committees as appropriate; and
- Participating in a range of partnerships and collaborations with other investors.

We also support our clients in developing and implementing on stewardship themes they wish to specifically prioritise.

LPP's two full-service clients are both signatories to the UN Principles for Responsible Investment. They are also members of the Local Authority Pension Fund Forum and the Pensions and Lifetime Savings Association. We participate in stewardship and responsible investment activities alongside these organisations and other associations. We also provide dedicated stewardship support to clients.

As a member of the Responsible Investment Sub-Group of the LGPS Cross Pool Collaboration Group, the Responsible Investment Manager meets regularly with counterparts at each of the emerging LGPS pools to share insights and ideas. The group works collaboratively to develop responsible investment good practice across the LGPS. Additionally, LPP collaborates with a wide network of UK pension funds through the UK Pension Fund Responsible Investment Roundtable which offers further opportunities for joint action, sharing resources and adding influence to initiatives of common benefit to investors.

LPP has provided updates and training sessions for Pension Board and Pension Fund Committee members on responsible investment themes including the revised stewardship requirements for Administering

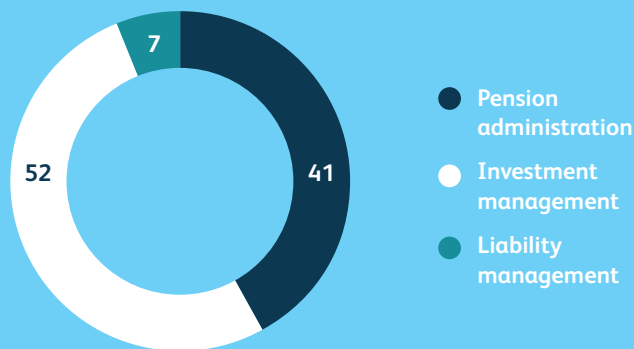
Authorities, introduced as part of pre-pooling arrangements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

As part of our ongoing support to our clients with regards to climate change, the Responsible Investment Manager organised a seminar for LPFA Board members and stakeholders in February 2017. The seminar encouraged information sharing with other pension funds and stimulated debate around the issue of fossil fuel investment and climate change risk and opportunity for pension funds as long term investors and fiduciaries.

LPP is a supporter of the Transition Pathway Initiative, an asset owner-led project launched in January 2017 which assesses how companies are preparing for the transition to a low-carbon economy by evaluating the quality of companies' management of their greenhouse gas emissions and the risks and opportunities related to the low-carbon transition.

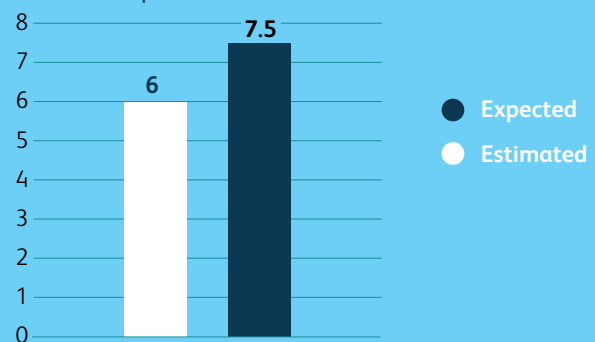
# Key performance indicators

## Turnover by business operation (%)

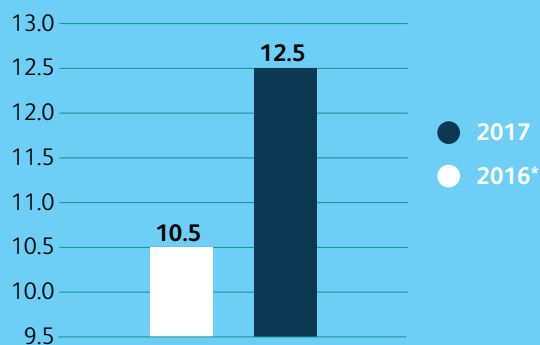


Further details can be found in Notes 5 to the financial statements on page 38.

## On-going reduction in investment fees in LPP I Global Equities Fund (£ million per annum)

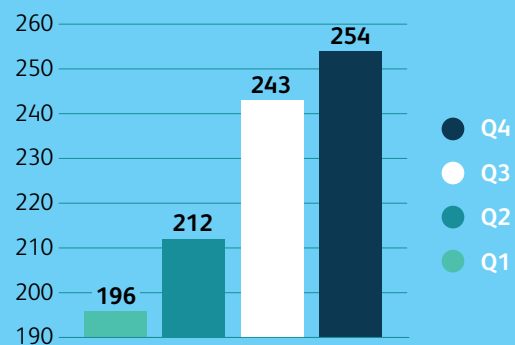


## Assets under management (£ billion)



\*Assets under management as at 8 April 2016 when LPP started operation.

## Quarterly average headcount during the period\*\*



\*\*Employees of LPFA and LCC who were members of the LCPF were TUPE transferred to LPP and LPP I on 8 April 2016. A subsequent transfer of employees into LPP from LPFA took place during the period.



# Looking forward to 2017–2018

Going into 2017-2018, our priorities for the business are as follows:



## Liability management

We will continue to enhance our asset and liability management tools and reporting capabilities to enable effective asset and liability management on behalf of our clients.

We will further promote our employer risk management services to clients.



## Pension administration

We will be moving our current operating model which services clients by geography, to a 'common delivery' operating model. This will create three main service hubs – member services, engagement and business development. We believe this new operating model will provide greater resilience and flexibility, reduce costs, and enable a more efficient management of data flow and customer queries. It will be underpinned by significant developments in our IT platform.

We are looking to expand our existing LGPS, Firefighters and Police client base, and develop new business opportunities in other public sector pension schemes. We will also be expanding our special projects, employer and member engagement services.



## Investment management

New funds will be launched to complete the transition to pooled investments enabling this process to be completed by April 2018. This includes pooled vehicles for infrastructure, credit, fixed income, total return and property. In doing so, we continue to seek innovative solutions for pooling assets that are scalable and cost-effective.

We continue to develop our internal management capacity and capabilities as we seek to maintain performance, manage risk and provide maximum flexibility in what we expect to be an increasingly challenging investment environment.

We are preparing the business for the implementation of the Markets in Financial Instruments Directive (MiFID) II.

Our collaborative efforts will also continue as we work with our partners to expand the GLIL Infrastructure vehicle, consider similar initiatives in other asset classes, and offer our expertise to other partners.

## Risk management

LPP has a strong risk management culture and as a business LPP is exposed to a variety of risks as a result of its business activities. As such, effective risk management is a core competence and we actively monitor the potential likelihood and impact of current and future risks. This section explains our approach to risk management and outlines the key categories of risk that may affect our business.

### Managing risk

The LPP Board is ultimately responsible for risk and oversight of the approach to managing risk. The Board is complemented by the LPP I Risk Committee which provides executive and non-executive oversight with particular focus on the standards and quality of risk management and internal controls. Additional non-executive oversight is also provided by the LPP Audit Committee. Further details on the role and scope of work undertaken by the LPP Audit Committee and the LPP I Risk Committee can be found on page 23 and page 24 respectively.

Our approach to risk management recognises that it is the responsibility of all employees to manage risks in their respective areas of business. LPP's Executive Committee is responsible for the monitoring and reporting of risks and controls and regularly reviews the key risks facing the business. Executive oversight of risk is delegated to the Chief Risk Officer who is responsible for the design and implementation of the risk and control framework and reporting of risk.

### Risk framework

LPP's Risk Management Framework can be described as *'a process which helps us prevent an unacceptable level of uncertainty in business objectives'*. The Framework sets out what the business will undertake in order to:

- Establish and operate an effective risk management and internal control environment including risk identification, assessment, reporting, monitoring and the development of actions arising;

- Establish, operate and report a regular programme of group-wide risk, analysis, reporting, stress testing, scenario development, thematic review and reverse stress testing; and
- Integrate risk management into the culture of the business.

Best practice methods are adopted in the identification, evaluation and control of risks to ensure that they are treated to an acceptable level. The Framework is used universally across the business and delivers both a 'bottom up' and 'top down' approach.

### Key risk categories

**Financial risk:** We recognise that poor investment performance could result in a reduction in AUM. Our investment management business charges income as a percentage of AUM. A fall in AUM could result in a fall in income. We closely monitor the risk and performance of the assets we manage and maintain financial resources in an amount sufficient to meet regulatory requirements and to cover a sustained fall in income.

**Business risk:** Pension administration service contracts with clients may not be renewed or may be terminated, or that the costs of our service increase to such an extent that contracts become unprofitable. We provide services to a broad range of clients to reduce the concentration risk. Service level performance is closely monitored and discussed with clients to assess the quality of service. Costs are controlled as part of the financial budgeting process.

**Strategic risk:** The Board has approved a strategic business plan which sets out LPP's key objectives. Failure to meet the objectives of the plan may undermine the success of the business resulting in increased uncertainty over future revenues and costs. The business environment in which we operate is highly exposed to changes to regulation and government policy, and volatility in the global financial markets.

These changes can be unexpected and create additional business uncertainty.

The key risks to our strategic business plan are:

- Recruitment and retention of key staff;
- Maintenance of performance across the business during a significant change programme;
- Regulatory change impacting delivery model;
- Governance failure resulting in regulatory fines and impact on reputation;
- Change of government policy;
- Market related risks and volatility in the financial markets;
- Managing a phased approach to business development;
- Meeting strategic growth targets; and
- Generation of capital to sustain investments, regulatory and loan repayment requirements.

Our mitigation strategy is that we maintain a proactive dialogue and engagement with government, regulators and industry bodies so to keep abreast of potential changes, which are factored into our planning and budgeting process.

**Credit and Concentration risk:** LPP has no significant concentration of credit risk. We do have a risk of client concentration, as a significant portion of our income comes from two large clients.

**Operational risk:** Operational risks may arise as a result of failures in our internal controls or operational processes. Such failures may lead to financial and reputational losses which can have a permanent and negative impact on clients' trust and confidence in LPP. We have implemented a three-year internal audit plan to review our business operation. The results of the reviews are reported to the Audit Committee.



*LPP has a strong risk management culture*

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### **Lines of defence**

LPP's individual business areas are the first line of defence in the management of risk. Business heads continuously identify potential risks, assess their impact and implement appropriate controls. The second line of defence consists of the control functions including: Compliance, Finance, Governance, Legal, Human Resources and Corporate Risk. Internal Audit is the third line of defence providing independent assurance over the effectiveness of the risk and control environment.

### **Going Concern**

In assessing the basis of preparation of the financial statements for the period ended 31 March 2017, the Board has considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; namely assessing the applicability of the going concern basis, the review period and disclosures.

The Board has undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts for the period to 31 March 2018. The Board has reviewed the strength of LPP's balance sheet, the recoverability of assets and availability of funding through LPP's existing facilities. Based on the assessment, the Board is satisfied and confident with LPP's financial positions, and believe it is appropriate to prepare the financial statements on a going concern basis.

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# Corporate governance







The governance requirement has been significant

## Corporate governance framework and responsibilities

The governance requirements to oversee LPP's services and activities are significant. LPP is operating under the requirements of the FCA and has also inherited significant public sector legal requirements as the shareholders are public sector organisations. This has resulted in a group structure which adheres to:

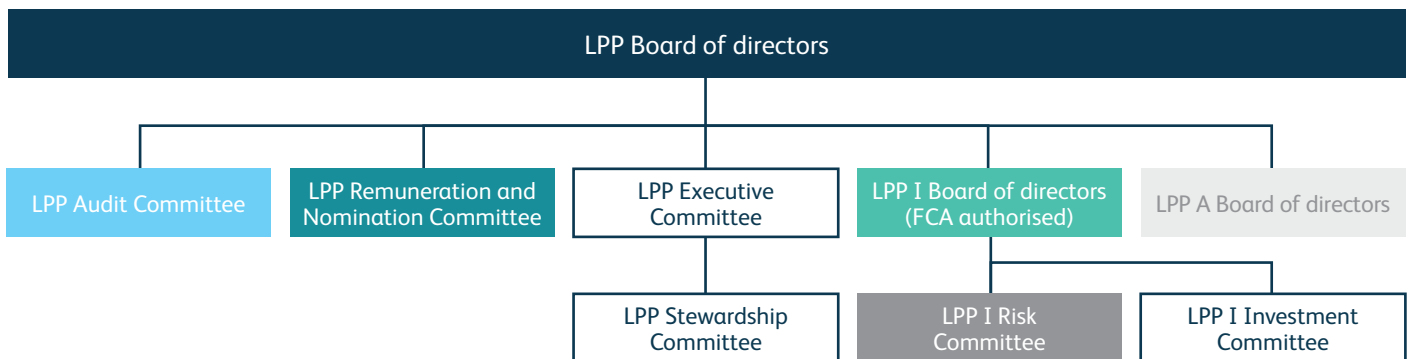
- Public law requirements
- Obligations under the Companies Acts
- FCA regulations, and
- Governance best practice.

The LPP Board is responsible for the group's strategy and leadership, performance, risk management and oversight, and financial reporting and investment. Additionally, the Board has oversight of LPP's two subsidiaries: LPP I and LPP A.

The day-to-day implementation of the strategic direction of the business is carried out by the Executive Committee. Investment decisions are taken by individuals who are authorised by the FCA to carry out investment activities.

The LPP website contains a section on Governance which outlines the responsibilities of each of the Boards and Committees in the group governance framework.

### LPP's group governance structure



## Board of directors

**The Board comprises an independent Chair, three Executive Directors, three independent non-Executive Directors and two shareholder non-Executive Directors.**

Each of LPP's shareholders appoint a shareholder non-Executive Director to the LPP Board.

All Directors are ratified by the shareholders at the next Annual General Meeting. Non-Executive Directors are appointed for initial terms of between three and four years. All Directors undergo a tailored induction programme on appointment.



**Michael O'Higgins**  
Chair of LPP Board  
Non-Executive Director on LPP I Board  
Member of LPP Remuneration and Nomination Committee

Michael O'Higgins is also Chairman of Calculus VCT, the Channel Islands Competition and Regulatory Authorities, as well as a non-executive director of Network Rail and of the pensions company Hedgehog. He became the 'Independent Person' for Tunbridge Wells Borough Council in October 2015.

He was Chairman of The Pensions Regulator from 2011 to 2014, Chairman of the Audit Commission from 2006 until 2012 and Chairman of the NHS Confederation from 2012 until 2015. He was also a non-executive director (NED) of HM Treasury and Chair of the Treasury Group Audit Committee from 2008 to 2014.

Michael was the Chair of the youth homelessness charity Centrepoin from 2004 to 2011. Previously, Michael was a Managing Partner with PA Consulting, leading its Government and IT Consulting Groups, latterly as a Director on its International Board. Prior to that he was a partner at Price Waterhouse, worked at the Organisation for Economic Co-Operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.



**David Borrow**  
Shareholder non-Executive Director  
Member of LPP Remuneration and Nomination Committee

Councillor Borrow was elected to Preston City Council in 2011 and two years later he was elected to Lancashire County Council where he was appointed Deputy Leader and Finance portfolio holder. His financial background made him a valuable addition to the LPP Board.

David Borrow was originally from Huddersfield and had an honours degree in Economics from Coventry University. After a short career in banking, he joined the Valuation Tribunal Service in Preston in 1975. From 1983 to 1997 he ran the Merseyside Valuation Tribunal. He was elected to Preston Borough Council and had two periods as Leader before leaving local government to serve as the MP for South Ribble until 2010.

He stepped down from the Board on 8 May 2017.

## Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPP I Board
- LPP I Risk Committee
- LPP A



### Dermot 'Skip' McMullan

Shareholder non-Executive Director  
Chair of LPP Remuneration and Nomination Committee

Dermot 'Skip' McMullan was a managing director at Bank of America in a career spanning 28 years, prior to becoming an Independent Chair of Trustees. During his career at Bank of America, he was involved with a number of major industries in the UK and globally, including construction, mining, real estate, shipping, and the oil and gas industries. Most recently he was responsible for all the relationships that the Bank had in Europe with other financial and non-financial institutions.

His earlier career included the creation of the first PFI company, structuring the financial package and concession for the Dartford Bridge, followed by the larger concession for the Second Severn Bridge and the smaller concession for the Skye Bridge. The latter also involved the buyout of the concession by the Scottish Executive. Currently, he chairs the trustee boards of the Bank of America UK Pension Plan and the SSVK Pension Plan. He is a director of the Bank of America Merrill Lynch UK Pension Plan and joined the LPFA board in April 2013. He is also a trustee of a number of charities.



### Sir Peter Rogers

Non-Executive Director  
Chair of LPP Audit Committee  
Member of LPP I Risk Committee

Sir Peter has more than 18 years' knowledge and experience of working within the public sector. Sir Peter is currently the Chairman of New West End Company and was previously an advisor to Boris Johnson, Mayor of London, on regeneration, growth and enterprise at the Greater London Authority.

He is a former chief executive officer of Westminster City Council, a former non-executive director to Liberata and also former chief executive officer of the London Development Agency. Prior to that Sir Peter worked in the private sector as a senior executive in one of the leading national transport operators.



### Robert Vandersluis

Non-Executive Director  
Non-Executive Director on LPP I Board  
Chair of LPP I Risk Committee

Robert Vandersluis is Director of Global Pension Investments at GlaxoSmithKline (GSK), where he manages over £10 billion of investments and a substantial derivative portfolio. At GSK, Robert sits on a number of pension boards, and he provides strategic advice to GSK's pension fund trustees in Europe, the United States, and Japan. Robert established GSK's London-based pension investment department, where he developed and implemented GSK's interest rate and inflation hedging strategies.

Robert's previous roles include senior treasury and corporate finance positions at Affinity Sutton Group and FCE Bank plc. He also served on the board of the Pensions Trust, where he was deputy chair of the investment committee.

Robert studied economics and public policy at the London School of Economics, the University of Michigan, Cambridge University, and Harvard University's Kennedy School of Government.

# Board of directors continued



**Sally Bridgeland**  
Non-Executive Director  
Chair of LPP I Board

Sally is well known in the UK pensions industry, for her thought-provoking views on risk, investment strategy and governance.

She combines investment governance consultancy for Avida International with a number of complementary roles, including as a Non-Executive Director and Investment Committee Chairman at mutual insurance company Royal London; and trustee at both NEST Corporation and the Lloyds Bank pension schemes and at the Nuclear Liabilities Fund. Sally also serves on the Trust Investment Committee of the innovation foundation, Nesta and was the first lady Master of the Worshipful Company of Actuaries from 2016-17.

Sally was previously the CEO of BP Pension Trustees Limited. Before joining BP, Sally spent twenty years with Aon Hewitt as a Pensions Actuary and in the investment practice, where she led a number of research initiatives.



**Susan Martin**  
Director  
LPP Chief Executive

Susan Martin is LPP's inaugural Chief Executive, having previously held the role of LPFA Chief Executive since December 2013. Prior to this she was Deputy Chief Executive (2011) and Acting Chief Executive (August 2013) having joined the LPFA in April 2007 as Director of Organisational Development. She has over 30 years of experience across all sectors in pensions, partnerships, mergers, acquisitions, organisational change and business development.

Susan sits on the Pensions and Lifetime Savings DB Council, the LGPS Forum and the Investors Committee of the 30% Club, which aims to increase Board diversity. She is a regular speaker, writer and contributor to discussions on pensions, partnership working, leadership and business change in the UK and internationally. Susan has been recognised for her innovative work on asset and liability management and for her successful partnerships with other administering authorities and pension funds by her industry peers securing the Industry Achievement Award at the Portfolio Institutional Awards 2015 as well as being cited in the top most influential people in pensions and/or in financial services.



**George Graham**  
Director  
LPP Managing Director (Administration)  
Director on LPP A Board

George joined LPP from Lancashire County Council where he has been the Director of the Lancashire County Pension Fund since 2015; an entirely new role where he was responsible for managing all aspects of the operation of the Fund. He originally joined Lancashire County Council in 2009 as Assistant Director of Finance, before becoming Deputy County Treasurer in 2011.

He began his local government career in 1986 as a Graduate Trainee with Oxfordshire County Council after gaining a degree in Modern History and Economics at the University of Manchester. After achieving his CIPFA qualification at Oxfordshire in 1990, he spent 11 years with Northamptonshire County Council, before being appointed Director of Finance at Chorley Borough Council in Lancashire, which included managing the large customer facing functions of revenues and benefits.

In 2005 he joined Rossendale Borough Council as Executive Director of Resources where, as part of a new management team, his work resulted in the Council achieving a jump from poor to good in its Audit Commission assessment.

George stepped down from the LPP Board on 13 April 2017.



## Key to Board and Committee memberships

- LPP Board
- LPP Audit Committee
- LPP Remuneration and Nomination Committee
- LPP I Board
- LPP I Risk Committee
- LPP A



### Tom Richardson

Director

LPP Chief Risk Officer

Executive Director on LPP I Board

Member of LPP I Risk Committee

Tom joined LPP in July 2016 from the Maple Financial Group, where he spent almost 20 years building his skills in different parts of the business. From 2008, he was the Chief Risk Officer (Market Risk), Global, a role that saw him driving the management and communication of the Group's business line policies within an economic capital framework totalling £400 million.

Tom's areas of responsibility included the measurement and reporting of financial risk where he led the design and implementation of risk methodologies, policies and procedures to meet both internal and regulatory objectives, including Value at Risk, Credit Capital at Risk, scenario analysis and stress testing.



### Alan Schofield

Shareholder non-Executive Director

Member of LPP Remuneration and Nomination Committee

Councillor Schofield was appointed to the Board on 25 May 2017.

Councillor Schofield was elected to Lancashire County Council in May 2013 and re-elected in 2017. Prior to becoming a county councillor, Alan held senior financial management posts in the Water Services industry at several locations before moving to a local government career in 1992. He served in a metropolitan borough in Greater Manchester and then progressed upward at three local authorities in Cumbria and Lancashire, retiring in 2011. Alan is a life member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

At Lancashire, he is a member of the Pension Fund Committee (now Deputy Chair); and participated from the outset in the high-level working party deliberating on, and overseeing, the preparations and approval stages toward achieving the April 2016 establishment of LPP.

Also at Lancashire County Council, Alan chairs the Audit and Governance Committee. Outside of the county council, Alan is a trustee director of a citizens advice bureau and a parish councillor.

## Corporate governance report

The period under review has been significant in governance terms. An initial governance review was carried out six months after the launch of LPP which resulted in the establishment of a separate Audit Committee. In addition, a greater allocation of assets to an internally managed portfolio has necessitated new processes, procedures and policies to be established. These activities will continue into 2017-2018.

### Governance highlights

- Established the LPP group structure including a FCA-authorized subsidiary;
- Approved new committees including the Audit Committee;
- Appointed Deloitte as LPP's internal auditor;
- Implemented the governance requirements for pooled investment entities;
- The Chairman completed the Non-Executive Director appraisals;
- Developed and implemented a range of new policies in addition to a full suite of governance policies which were implemented prior to LPP launch in April 2016. These new policies include the Responsible Investment Policy, the Freedom of Information Policy and the Policy on the management of legal entities; and
- Carried out an initial governance review in September 2016.

### Board attendance

The table below shows the number of Board and Committee meetings and the attendance record of each Director and the independent advisor of the Audit Committee during the period.

Director	Date of appointment	Number of meetings	Meetings attended
<b>LPP Board</b>			
<b>Michael O'Higgins (Chair)</b>	19 October 2015	5	5
<b>Dermot 'Skip' McMullan</b>	19 October 2015	5	5
<b>Sir Peter Rogers</b>	2 November 2015	5	4
<b>Robert Vandersluis</b>	2 November 2015	5	5
<b>Susan Martin</b>	11 November 2015	5	5
<b>Sally Bridgeland</b>	1 July 2016	4	4
<b>Tom Richardson</b>	11 July 2016	4	3
<b>David Borrow</b>	19 October 2015 Resigned on 8 May 2017	5	5
<b>George Graham</b>	11 November 2015 Resigned on 13 April 2017	5	5
<b>Angela Smith</b>	11 November 2015 Resigned on 10 August 2016	1	1
<b>LPP Audit Committee</b>			
<b>Sir Peter Rogers (Chair)</b>	17 October 2016	2	2
<b>Bharat Shah (independent advisor)</b>	1 December 2016	2	2
<b>LPP Remuneration and Nomination Committee</b>			
<b>Dermot 'Skip' McMullan (Chair)</b>	14 December 2015	4	4
<b>Michael O'Higgins</b>	14 December 2015	4	4
<b>David Borrow</b>	14 December 2015 Resigned on 8 May 2017	4	4
<b>LPP I Board</b>			
<b>Sally Bridgeland (Chair)</b>	14 December 2015	5	5
<b>Robert Vandersluis</b>	14 December 2015	5	5
<b>Michael O'Higgins</b>	21 October 2015	5	5
<b>Chris Rule</b>	21 October 2015	5	5
<b>Mike Jensen</b>	21 October 2015	5	4
<b>Tom Richardson</b>	11 July 2016	4	4
<b>Angela Smith</b>	21 October 2015 Resigned on 10 August 2016	1	1
<b>LPP I Risk Committee</b>			
<b>Robert Vandersluis (Chair)</b>	17 October 2016	4	4
<b>Sir Peter Rogers</b>	17 October 2016	2	2
<b>Tom Richardson</b>	11 July 2016	3	3
<b>Sally Bridgeland</b>	14 December 2015 Resigned on 17 October 2016	2	2
<b>Angela Smith</b>	14 December 2015 Resigned on 10 August 2016	1	1
<b>LPP A</b>			
<b>George Graham</b>	11 February 2016	2	2
<b>Jacqui Self</b>	11 February 2016	2	2
<b>Michael O'Higgins</b>	3 February 2016 Resigned on 17 October 2016	2	2
<b>Sir Peter Rogers</b>	11 February 2016 Resigned on 17 October 2016	2	2

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# Board and committee reports

## LPP Board

The Board was established prior to LPP starting operation in April 2016. During 2016-2017, it considered reports on strategy, budget, risk management, business growth and performance of all areas of the business, governance and reputation management.

The Chairman, in conjunction with the Chief Executive and Group Company Secretary, maintains an annual rolling agenda which sets the framework for Board meetings so that the Board covers an appropriate range of topics from matters of strategy and business development to reviews of the group's operations. At each Board meeting, members received a report from the Chief Executive on the performance of the business, an update from the Chief Investment Officer on investment performance and a report from the Managing Director (Administration) on pension administration activities.

A 'Strategy Awayday' was held in February 2017 where LPP's dual strategy of delivering benefits to clients plus seeking growth opportunities was confirmed. This strategy has been communicated to shareholders via a shareholder forum in March 2017.

The Board has undertaken an initial governance review and much of 2016-2017 was characterised by shareholders and LPP adjusting to their respective roles. A further governance and structural review is anticipated during 2017-2018.

LPP anticipates meeting the original strategic objectives set out in the business plan by April 2018. It envisages that part of 2017-2018 will be dedicated to moving from a set-up phase to growing the businesses.

Since 1 November 2016, LPP has also had responsibility for overseeing the pension administration business. These responsibilities were transferred from LPP A.

## LPP Audit Committee

The Audit Committee is a group-wide committee responsible for ensuring the financial integrity of the group. The establishment of this Committee is a key development of LPP's governance framework.

Sir Peter Rogers was appointed Chair of the Audit Committee, supported by an independent advisor Bharat Shah, who has a wealth of financial, business and pension experience.

The Committee was established in October 2016 and convened twice during the period. The initial meeting approved the terms of reference of the Committee and the appointment of Deloitte as LPP's internal auditor. The second meeting focused on the internal audit plan for 2017-2020.

In 2017-2018, the Committee will focus on working closely with LPP I's Risk Committee, overseeing the work of the internal and external auditors, and the roll out of LPP's Transformation Programme. This is a key initiative for the development of the business. It should ensure LPP delivers the benefits outlined in the original strategic business case.

The Committee's forward planner includes receiving regular reports from the Executive Committee on the financial position of the business.

## LPP Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a group-wide committee responsible for remuneration, nomination and succession planning of the group. The establishment of this Committee is a key development of LPP's governance framework. Remuneration above a certain level and the approval of the LPP's Remuneration Policy is a shareholder reserved matter.

Dermot 'Skip' McMullan was appointed Chair of the Remuneration and Nomination Committee. Other Committee members include Michael O'Higgins, David Borrow, who stepped down from the Board on 8 May 2017, and Alan Schofield, who joined the Board on 25 May 2017.

The Committee was established in 2015 and convened four times during the period. The initial priority for the Committee was to establish the terms and conditions on which staff from our two shareholder organisations were transitioned to and the appointment of a Chief Risk Officer. In addition, the Committee also established a Remuneration Policy for the group which underpins our mission to be a leader in pension services delivering sustainable pensions and long-term shareholder and client satisfaction in a competitive market. Furthermore, the Committee takes into consideration that remuneration must remain competitive with the financial services market so that we continue to attract and retain talent, and adhere to the FCA standards and policies on remuneration. However, the Committee must respect the fact that LPP's shareholders are public sector organisations, ensuring value for money in terms of both the overall remuneration and the quality of service provided to our clients.

Looking ahead, the Committee will focus on nomination and succession planning while ensuring LPP's reward framework achieves the aim of attracting and retaining talent.

## Board and committee reports continued

### Directors' emoluments

As part of the desire for transparency, the table below summarises the remuneration paid to group statutory directors in the period to 31 March 2017.

Paid by LPP (unless stated)		Basic salary (£)	Bonuses (£)	Pensions (£)	2017 Total (£)
<b>Executive:</b>					
George Graham	2	119,441	–	14,210	<b>133,651</b>
Mike Jensen	1	141,568	56,000	23,248	<b>220,816</b>
Susan Martin		196,139	52,000	29,777	<b>277,916</b>
Tom Richardson		109,365	24,750	17,150	<b>151,265</b>
Chris Rule	1	235,594	120,000	42,671	<b>398,265</b>
Jacqui Self		98,133	20,000	14,176	<b>132,309</b>
<b>Non-executive:</b>					
Sally Bridgeland		32,019	–	–	<b>32,019</b>
Dermot 'Skip' McMullan		23,000	–	–	<b>23,000</b>
Michael O'Higgins		68,708	–	–	<b>68,708</b>
Sir Peter Rogers		34,327	–	–	<b>34,327</b>
Robert Vandersluis		34,412	–	–	<b>34,412</b>
		1,092,706	272,750	141,232	<b>1,506,688</b>
Employers' NI					<b>175,403</b>
<b>At 31 March 2017</b>					<b>1,682,091</b>

1 Paid by LPP I 2 George Graham declined his entitlement to a bonus for the period

### LPP I Board

A key factor in the early success of LPP has been the establishment of LPP I as a FCA-authorized entity to manage client assets, enabling a full investment management delegation to be put in place from its clients from the day of LPP's launch.

The day-to-day investment decisions are delegated to the Investment Committee which is executive in nature comprising the Managing Director (Investments), the Co-Chief Investment Officer, the Chief Risk Officer, the Head of Compliance and senior investment professionals within LPP I. The LPP I Board is responsible for ensuring that appropriate policies, procedures and governance are in place in managing client assets. Quarterly reports on the performance of assets are provided to the Board. The Board comprises a Chair who is an independent non-Executive Director (Sally Bridgeland), two non-Executive Directors (Michael O'Higgins and Robert Vandersluis) and three Executive members. The Head of Compliance attends all Board meetings.

In order to fulfil its responsibilities, the LPP I Board has approved the following activities:

- Establishment of the Investment Committee including the approval of

the terms of reference and the review of processes;

- Establishment of a Valuation Policy and Fair Value Pricing Committee;
- Creation and implementation of a Responsible Investment Policy;
- Implementation of a Compliance Monitoring Programme;
- Development and agreement of LPP's approach on key regulatory events such as MiFID II;
- Authorising any directly managed internal mandates;
- Pooling strategies; and
- Establishment of a Fund Launch Committee to meet when products are launched.

### LPP I Risk Committee

Robert Vandersluis is the Chair of LPP I Risk Committee. Other Committee members include Sir Peter Rogers, and Tom Richardson.

The Committee was established in December 2015 and convened four times during the period. The Committee serves two roles. Firstly, it is the risk committee of a FCA regulated entity responsible for full compliance to regulatory requirements by

LPP I. Secondly, it is a group-wide committee responsible for reviewing all aspects of corporate and operational risks of the group.

During the period, the Committee received regular reports on:

- Pooling strategies and running of the internal mandates;
- Regulatory change impacting LPP I;
- Corporate Risk Management – the framework and identification of key corporate risks;
- Compliance monitoring reports including incident identification;
- Data protection and information security audits;
- LPP's information communications and technology environment and business continuity;
- LPP's Transformation Programme and the associated risks;
- Liability and risk profile of the two clients; and
- Internal controls.

# Directors' report

The directors present their first report and financial statements for the period from 19 October 2015 to 31 March 2017.

## Incorporation

The company was incorporated on 19 October 2015 under the name of Lancashire and London Pensions Partnership Ltd and began trading on 8 April 2016.

On 12 February 2016 a special resolution was passed to change the company name to Local Pensions Partnership Ltd.

## Directors

The directors in office during the period and at the date of signing this report were as follows:

David Borrow  
(appointed 19 October 2015; resigned 8 May 2017)

Sally Bridgeland  
(appointed 1 July 2016)

George Graham  
(appointed 11 November 2015; resigned 13 April 2017)

Susan Martin  
(appointed 11 November 2015)

Dermot 'Skip' McMullan  
(appointed 19 October 2015)

Michael O'Higgins  
(appointed 19 October 2015)

Tom Richardson  
(appointed 11 July 2016)

Sir Peter Rogers  
(appointed 2 November 2015)

Alan Schofield  
(appointed 25 May 2017)

Angela Smith  
(appointed 11 November 2015; resigned 10 August 2016)

Robert Vandersluis  
(appointed 2 November 2015)

## Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom applicable law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 (FRS 102) 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the group keeps adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Results and dividends

The result for the LPP group for the period is a profit after tax of £3,443,000. LPP itself made a profit after tax of £1,388,000. Where the group makes such profits that are not required to be reinvested in the business their refunds will be passed back to clients through an annual rebate mechanism.

No dividends were paid during the period.

As part of the review at the group's period end, the directors have not included in the financial statements, as a provision, any unspent part of the Transformation Programme which began during the period ended 31 March 2017. Over the two year period to March 2019 it is expected that the group will spend in the region of £8.4m as part of the Transformation Programme.

## Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

1. So far as the directors are aware there is no relevant audit information of which the group's auditor is unaware; and
2. The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant information and to establish that the group's auditor is aware of that information..



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## Directors' report continued

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

On 29 February 2016, Grant Thornton UK LLP were appointed as auditors of Local Pensions Partnership Ltd and its subsidiaries. Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting in accordance with s487 of the Companies Act 2006.

Approved by the Board of directors and signed on behalf of the Board:



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**Susan Martin**

Director

24 July 2017

# Independent auditor's report

We have audited the financial statements of Local Pensions Partnership Ltd for the period ended 31 March 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statement of financial position, the consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Paul Flatley Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP,  
Statutory Auditor, Chartered Accountants  
30 Finsbury Square

25 July 2017

# Financial statements

FINANCIAL ACCOUNTING

INCOME & EXPENSES



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# Consolidated income statement

For the period ended 31 March 2017

	Notes	From 19 Oct 2015 to 31 Mar 2017 £'000
Turnover	5	23,306
Administrative expenses		(18,243)
Operating profit	6	5,063
Interest receivable and similar income		25
Interest payable and similar charges		(729)
Profit on ordinary activities before taxation		4,359
Tax on profit on ordinary activities	8	(916)
<b>Profit for the financial period</b>		<b>3,443</b>

# Consolidated statement of comprehensive income

For the period ended 31 March 2017

	Notes	From 19 Oct 2015 to 31 Mar 2017 £'000
Profit for the financial period		3,443
Net actuarial loss on defined benefit schemes	16	(5,570)
Deferred tax asset as actuarial loss		947
<b>Total comprehensive loss for the financial period</b>		<b>(1,180)</b>



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# Consolidated statement of financial position

As at 31 March 2017

	Notes	2017 £'000
<b>Fixed assets</b>		
Intangible fixed assets	9	55
Tangible fixed assets	10	80
		135
<b>Current assets</b>		
Debtors	12	9,853
Cash at bank and in hand	13	17,561
		27,414
<b>Current Liabilities</b>		
Creditors: amounts falling due within one year	14	(4,247)
<b>Net Current Assets</b>		23,167
<b>Total assets less current liabilities</b>		<b>23,302</b>
Creditors: amounts falling due after one year	15	(17,500)
Post employment benefits	16	(15,039)
<b>Net liabilities</b>		(9,237)
<b>Capital and Reserves</b>		
Called up share capital	17	–
Retirement benefit obligations reserve		(8,057)
Profit and loss account		(1,180)
<b>Total Shareholders' Deficit</b>		<b>(9,237)</b>

The financial statements on pages 29 to 50 were approved by the board of directors on and authorised for issue on 24 July 2017 and were signed on their behalf by:



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**Tom Richardson**  
Director

Company Registration Number: 09830002

## Company statement of financial position

As at 31 March 2017

	Notes	2017 £'000
<b>Fixed assets</b>		
Intangible fixed assets	9	55
Tangible fixed assets	10	80
Investments	11	10,000
		10,135
<b>Current assets</b>		
Debtors	12	8,196
Cash at bank and in hand	13	5,925
		14,121
<b>Current Liabilities</b>		
Creditors: amounts falling due within one year	14	(3,294)
<b>Net Current Assets</b>		10,827
<b>Total assets less current liabilities</b>		20,962
Creditors: amounts falling due after one year	15	(17,500)
Post employment benefits		(13,210)
<b>Net liabilities</b>		(9,748)
<b>Capital and Reserves</b>		
Called up share capital	17	–
Retirement benefit obligations reserve		(7,496)
Profit and loss account		(2,252)
<b>Total Shareholders' Deficit</b>		(9,748)

The financial statements on pages 29 to 50 were approved by the board of directors on and authorised for issue on 24 July 2017 and were signed on their behalf by:



**Tom Richardson**

Director

Company Registration Number: 09830002

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# Consolidated statement of cash flows

As at 31 March 2017

	Notes	2017 £'000
<b>Cash flows from operating activities</b>		
Consolidated operating profit for the financial period		5,063
Adjustments for:		
Depreciation of tangible assets	10	7
Amortisation of intangible assets	9	4
Interest expense		(729)
Interest income		25
Taxation		(1,091)
Deferred tax assets		2,534
Increase in trade & other debtors	12	(9,853)
Increase in trade creditors	14	4,247
<b>Net cash generated from operating activities</b>		<b>207</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	10	(87)
Purchase of intangible assets	9	(59)
<b>Net cash from investing activities</b>		<b>(146)</b>
<b>Cash flows from financing activities</b>		
Issue of ordinary share capital	17	–
Long-term Loan	15	17,500
<b>Net cash used in financing activities</b>		<b>17,500</b>
<b>Net increase in cash and cash equivalents</b>		<b>17,561</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>–</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>17,561</b>

## Consolidated statement of changes in equity

For the period ended 31 March 2017

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	Total £'000
<b>At 19 October 2015</b>	–	–	–	–
Loss and total comprehensive income for the period	–	–	(1,180)	<b>(1,180)</b>
Issue of shares	–	–	–	–
Pension deficit for the period	–	(9,469)	–	<b>(9,469)</b>
Deferred tax asset on retirement benefit obligation deficit	–	1,412	–	<b>1,412</b>
<b>At 31 March 2017</b>	–	(8,057)	(1,180)	<b>(9,237)</b>

## Company statement of changes in equity

For the period ended 31 March 2017

	Called-up share capital £'000	Retirement benefit obligations reserve £'000	Profit and loss account £'000	Total £'000
<b>At 19 October 2015</b>	–	–	–	–
Loss and total comprehensive income for the period	–	–	(2,252)	<b>(2,252)</b>
Issue of shares	–	–	–	–
Pension deficit for the period	–	(8,824)	–	<b>(8,824)</b>
Deferred tax asset on retirement benefit obligation deficit	–	1,328	–	<b>1,328</b>
<b>At 31 March 2017</b>	–	(7,496)	(2,252)	<b>(9,748)</b>

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# Notes to the financial statements

For the period ended 31 March 2017

## 1. Company information

Local Pensions Partnership Ltd (the 'company') is a private company limited by shares and incorporated in England. Its registered office is County Hall, Fishergate, Preston, United Kingdom, PR1 8XJ.

The company's principal activities and nature of operations is included in the Strategic report on page 6.

## 2. Basis of preparation

These group financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The group financial statements have been prepared on the historical cost basis.

The group financial statements are presented in Sterling (£).

The group financial statements consolidate the financial statements of Local Pensions Partnership Ltd and all its subsidiary undertakings drawn up to 31 March each year.

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements.

The individual accounts of Local Pensions Partnership Ltd have also adopted the following disclosure exemptions as they are included in the group financial statements:

- the requirement to present a statement of cash flows and related notes (s7 FRS 102)
- financial instrument disclosures (s11 and s12 FRS 102) including:
  - categories of financial instruments;
  - items of income, expenses, gains or losses relating to financial instruments; and
  - exposure to and management of financial risks;
- the exemption has been claimed not to disclose related party transactions (s33 FRS 102).

## Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

## 3. Significant judgements and estimates

In the process of applying the group's accounting policies, which are described in note 4, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

### Deferred taxation

The financial statements include judgements and estimates that have been made regarding deferred taxation, as described in note 4.9.

### Pensions liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries are engaged to provide the group with expert advice about the assumptions to be applied. However, because these judgements cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.



## Notes to the financial statements continued

For the period ended 31 March 2017

### 4. Principal accounting policies

#### 4.1 Investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the group (its subsidiaries). Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

#### 4.2 Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

- Software costs, over the life of the licence

#### 4.3 Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives, using the straight-line method. The rates applicable are:

- Computer hardware 5 years

#### 4.4 Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carry amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### 4.5 Debtors

Loans receivable are measured initially at fair value, net of transaction costs.

#### 4.6 Cash at bank and in hand

Cash at bank and in hand include deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

#### 4.7 Creditors

Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs.

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# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 4. Principal accounting policies (continued)

#### 4.8 Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

#### 4.9 Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 4.10 Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes. Turnover includes revenue earned from the rendering of administration, investment and risk management services.

#### 4.11 Employee and pension costs

Participation by group employees in four administered defined benefit scheme funds began on 8 April 2016. Contributions from the employer were payable to the schemes and are charged to the profit and loss account in the period to which they relate.

## Notes to the financial statements continued

For the period ended 31 March 2017

### 5. Turnover

	From 19 Oct 2015 to 31 Mar 2017 £'000
Pension administration	9,608
Investment management fees	12,184
Risk management services	1,514
	<b>23,306</b>

### 6. Profit on ordinary activities before taxation

	From 19 Oct 2015 to 31 Mar 2017 £'000
The profit is stated after charging:	
Staff costs (note 7)	1,072
Auditor's remuneration – audit of these financial statements	60
Non-audit service fees – accounting and tax	19
Operating lease rentals:	
– Land and buildings	1,019

The auditors remuneration includes £40,000 for the audit of subsidiaries and £20,000 for the group.

### 7. Directors and employees

	From 19 Oct 2015 to 31 Mar 2017 £'000
Wages and salaries	8,764
Social security costs	961
Other pension costs	995
	<b>10,720</b>

The group operates defined benefit pension schemes for the benefit of the employees and directors. The assets of the scheme are administered in house. Pension payments recognised as an expense during the period amount to £995,000.

The average monthly number of employees during the period was 226, of which 9 were directors, and 217 were staff.

Remuneration in respect of directors was as follows:

	From 19 Oct 2015 to 31 Mar 2017 £'000
Emoluments	1,366
Social security costs	175
Pension contributions to defined benefit schemes	141
	<b>1,682</b>

Not included in emoluments above are LTIP payments of £93,303 made to directors by a shareholder.

# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 7. Directors and employees

The amounts set out above include remuneration in respect of the highest paid director and are as follows:

	From 19 Oct 2015 to 31 Mar 2017 £'000
Emoluments	355
Social security costs	48
Pension contributions to defined benefit schemes	43
	<b>446</b>

### 8. Taxation

	From 19 Oct 2015 to 31 Mar 2017 £'000
The tax charge is based on the profit for the period and represents:	
UK Corporation Tax	1,091
Deferred tax:	
Current period	(206)
Effect of changes in tax rates	31
<b>Tax on results on ordinary activities</b>	<b>916</b>
The tax charge for the year can be reconciled to the profit per the income statement as follows:	
Profit on ordinary activities before tax	4,359
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	872
Expenses not deductible for tax purposes	13
Tax rate changes	31
<b>Tax on results on ordinary activities</b>	<b>916</b>
<b>Deferred taxation</b>	
Deferred tax credit to income statement for the period	(175)
Deferred tax credit in equity for the period	(1,412)
Deferred tax credit in OCI for the period	(947)
	<b>(2,534)</b>

### 9. Intangible fixed assets

	Software £'000
<b>The group &amp; the company</b>	
<b>Cost</b>	
Balance 19 October 2015	–
Additions	59
<b>At 31 March 2017</b>	<b>59</b>

## Notes to the financial statements continued

For the period ended 31 March 2017

### 9. Intangible fixed assets (continued)

	Software £'000
<b>Amortisation</b>	
Balance 19 October 2015	–
Charge for the period	4
<b>At 31 March 2017</b>	<b>4</b>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<b>55</b>

### 10. Tangible fixed assets

The group & the company	IT equipment £'000
<b>Cost</b>	
Balance 19 October 2015	–
Additions	87
<b>At 31 March 2017</b>	<b>87</b>
<b>Depreciation</b>	
Balance	–
Charge for the period	7
<b>At 31 March 2017</b>	<b>7</b>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<b>80</b>

### 11. Investments

#### The company

	Investment in subsidiaries £'000
<b>Cost</b>	
Additions in the period	10,000
<b>At 31 March 2017</b>	<b>10,000</b>

On the incorporation of its subsidiary Local Pensions Partnership Investments Ltd, the company paid £1 for one ordinary £1 share and £9,999,999 as share premium. The two Scottish companies were acquired in the period for £2 each and LPP A and Daventry GP Limited were acquired for £1 each.

#### Subsidiaries – direct

	Type of shares held	Proportion held	Country of incorporation	Nature of business
Local Pensions Partnership Administration Ltd	Ordinary	100 %	UK	Non-trading
Local Pensions Partnership Investments Ltd	Ordinary	100 %	UK	Investment

#### Subsidiaries – indirect

	Type of shares held	Proportion held	Country of incorporation	Nature of business
LPP I Scotland (No.1) Limited	Ordinary	100 %	UK	Investment
LPP I Scotland (No.2) Limited	Ordinary	100 %	UK	Non-trading
Daventry GP Limited	Ordinary	100 %	UK	Property



# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 12. Debtors

	The group 2017 £'000	The company 2017 £'000
Amounts falling due within one year:		
Trade debtors	4,981	1,427
Amounts owed by group undertakings	0	2,500
Deferred tax	2,534	2,223
Prepayments and accrued income	2,338	2,046
	<b>9,853</b>	<b>8,196</b>

### 13. Cash at bank and in-hand

	The group 2017 £'000	The company 2017 £'000
Cash at bank	<b>17,561</b>	<b>5,925</b>

### 14. Creditors: amounts falling due within a year

	The group 2017 £'000	The company 2017 £'000
Trade creditors	236	725
Taxation and social security costs	836	538
Corporation tax	1,090	528
Other creditors	186	129
Accruals	1,899	1,374
	<b>4,247</b>	<b>3,294</b>

### 15. Creditors: amounts falling due after one year

	The group 2017 £'000	The company 2017 £'000
Loans	<b>17,500</b>	<b>17,500</b>

Loans are repayable as follows:

	The group 2017 £'000	The company 2017 £'000
More than five years	<b>17,500</b>	<b>17,500</b>

On 8 April 2016, the company entered into a term loan facility agreement with Lancashire County Council, one of its shareholders. The term is for ten years and with no schedule of fixed repayments. The loan facility bears interest at 4.25% per annum. No repayments have been made as at 31 March 2017.

The company also has a loan facility with its other shareholder, LPFA, but is not drawn down as at 31 March 2017. The facility is for £17.5m, to be repaid within ten years of the withdrawal date, at a rate initially of 1.3% before draw down and at 4.25% thereafter.

## Notes to the financial statements continued

For the period ended 31 March 2017

### 16. Pension schemes

#### Defined benefit pension schemes

On 8 April 2016 current employees of the London Pensions Fund Authority (LPFA) and Lancashire County Council (LCC) who were members of the Lancashire County Pension Fund (LCPF) were TUPE transferred to the Local Pensions Partnership Ltd (LPP) and Local Pensions Partnership Investments Ltd (LPP I). A subsequent transfer of employees into LPP from LPFA took place during the period.

The transferring employees are all members of the Local Government Pension Scheme (LGPS). LPP and LPP I were allocated notional shares of the LPFA and LCPF Fund assets equal to 100% of the value of the transferring pension liabilities. The liabilities were calculated on the ongoing basis appropriate for funding, either the LPFA or LCPF 2016 Triennial valuation assumptions depending on the Fund from which employees' liabilities were transferred. As such LPP and LPP I's pension liabilities were 100% funded on the relevant ongoing basis at the dates of transfer.

Notwithstanding differences between the LPFA and LCPF ongoing 2016 Triennial valuation basis, when the pension liabilities are valued for the purposes of IAS19 disclosures, the discount rate is prescribed by the IAS19 standards to be set with reference to corporate bond yields. The assessment of pension liabilities on this accounting basis at the date of transfer results in pension liabilities greater than those assessed on the LPFA and LCPF ongoing valuation basis. Therefore at the date of transfer LPP and LPP I's pension liabilities on the IAS19 accounting basis were not fully funded.

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972. The benefits under the scheme are based on the length of membership and the average salary. Each member contributes a proportion of their salary, within a 5.5% to 12.5% range depending on their rate of pay. LPP and LPP I, as the employing bodies, also contributes in to the scheme on the employee's behalf at 12.0% of the employee's salary.

LGPS is accounted for as a defined benefits scheme. The liabilities of the LGPS attributable to the LPP group are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

In accounting for the defined benefit schemes, the group has applied the following principles:

- No pension assets are invested in the group's own financial instruments or property.

The schemes in the UK typically expose the group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk, as follows:

- Investment risk – the present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on plan assets is below this rate, a deficit will be created;
- Interest risk – a decrease in the bond interest rate will increase the scheme liability but this will be partially offset by an increase in the return of the plan's debt investments;
- Longevity risk – the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability; and
- Salary risk – the present value of the defined benefit scheme liability is calculated by reference to the future salaries of plan participants, as such, an increase in the salary of the plan participants will increase the plan's liability.

# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

#### London Pensions Fund Authority

The actuaries for LPFA are Barnett Waddingham.

The normal contributions expected to be paid during the financial year ending 31 March 2018 are £589,000 (31 March 2017: £342,000) for LPP and for LPP I are £187,000 (2017: £120,000).

A summary of the defined benefit pension schemes on the group balance sheet is as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Retirement benefit assets	9,521	403
Retirement benefit obligations	(18,671)	(974)
<b>Net retirement benefit deficit</b>	<b>(9,150)</b>	<b>(571)</b>

**Scheme assets** – Changes in the fair value of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of assets	5,131	154
Interest income on scheme assets – employer	232	9
Return on scheme assets less interest income	1,230	41
Administrative expenses and taxes	(7)	–
Employer contributions	342	120
Contributions by employees	276	93
Benefits paid	(36)	(14)
Plan settlements	2,353	–
<b>At 31 March 2017</b>	<b>9,521</b>	<b>403</b>

**Analysis of assets** – The major categories of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Equity instruments	5,642	239
Target return portfolio	2,012	85
Infrastructure	501	21
Property	485	21
Cash and other	881	37
<b>At 31 March 2017</b>	<b>9,521</b>	<b>403</b>

The pension scheme has not invested in any of the group's own financial instruments or in properties or other assets used by the group. Virtually all equity and debt instruments have quoted prices in an active market.

## Notes to the financial statements continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

**Scheme liabilities** – Changes in the fair value of scheme liabilities are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in liabilities	8,392	353
Current service cost – employer	980	205
Effect of changes in financial assumptions	3,271	322
Interest cost – employer	385	15
Benefits paid	(36)	(14)
Contributions by scheme participants	276	93
Plan settlements	5,403	–
<b>At 31 March 2017</b>	<b>18,671</b>	<b>974</b>

#### Amounts recognised in the profit and loss account

	LPP 2017 £'000	LPP I 2017 £'000
<b>Amounts recognised in operating profit</b>		
Current service cost	4,030	205
Settlement gain	(3,050)	–
Administrative expenses and taxes	7	–
Recognised in arriving at operating profit	987	205
<b>Amounts recognised in interest receivable and similar income</b>		
Interest cost on scheme liabilities – employer	153	6
Recognised in interest receivable and similar income	153	6
<b>Total recognised in the profit and loss account</b>	<b>1,140</b>	<b>211</b>

#### Amounts recognised in the statement of comprehensive income

	LPP 2017 £'000	LPP I 2017 £'000
<b>Remeasurements recognised in the statement of comprehensive income</b>		
Return on scheme assets less interest income	1,230	41
Effect of changes in financial assumptions	(3,271)	(322)
	<b>(2,041)</b>	<b>(281)</b>
<b>Total pension cost recognised in the statement of comprehensive income</b>	<b>(2,041)</b>	<b>(281)</b>

# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

#### Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 2017 %	LPP I 2017 %
Discount rate	2.8	2.8
Future salary increases	4.2	4.2
Future pension increases (CPI)	2.7	2.7
Future pension increases (RPI)	3.6	3.6
Inflation assumption (CPI)	2.7	2.7
Inflation assumption (RPI)	3.6	3.6

#### Post retirement mortality assumptions

	LPP 2017 Years	LPP I 2017 Years
Current UK pensioners at retirement age – male	21.7	21.7
Current UK pensioners at retirement age – female	24.5	24.5
Future UK pensioners at retirement age – male	24.0	24.0
Future UK pensioners at retirement age – female	26.7	26.7

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

## Notes to the financial statements continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

Assumption	Change in assumption 2017 %	Change of +0.1% in present value of scheme liabilities 2017 £'000	Change of (0.1%) in present value of scheme liabilities 2017 £'000
<b>LPP</b>			
Discount rate: 2.8%	0.1	18,169	(19,188)
Inflation: 2.1% CPI	0.1	19,044	(18,310)
Rate of salary increase: 4.2%	0.1	18,815	(18,529)
<b>LPP I</b>			
Discount rate: 2.8%	0.1	1,008	(1,008)
Inflation: 2.1% CPI	0.1	941	(941)
Rate of salary increase: 4.2%	0.1	974	(974)

If the mortality rate was increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.7 – 26.7 years, post retirement age, the change in present value of scheme liabilities would increase 0.3%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

### Lancashire County Pension Fund

The actuaries for LCPF are Mercer.

The normal contributions expected to be paid during the financial period ending 31 March 2018 are £279,000 (31 March 2017: £283,000) for LPP and for LPP I are £88,000 (2017: £89,000).

A summary of the defined benefit pension schemes on the group balance sheet is as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Retirement benefit assets	8,487	1,724
Retirement benefit obligations	(12,547)	(2,982)
<b>Net retirement benefit deficit</b>	<b>(4,060)</b>	<b>(1,258)</b>

# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

**Scheme assets** – Changes in the fair value of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of assets	6,743	1,305
Interest income on scheme assets – employer	257	51
Return on scheme assets less interest income	1,092	217
Administrative expenses and taxes	(11)	(4)
Employer contributions	283	89
Contributions by employees	148	66
Benefits paid	(25)	–
<b>At 31 March 2017</b>	<b>8,487</b>	<b>1,724</b>

**Analysis of assets** – The major categories of scheme assets are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
Equity instruments	7,341	1,491
Bonds	306	62
Property	747	152
Cash and other	93	19
<b>At 31 March 2017</b>	<b>8,487</b>	<b>1,724</b>

The pension scheme has not invested in any of the group's own financial instruments or in properties or other assets used by the group. Virtually all equity and debt instruments have quoted prices in an active market.

**Scheme liabilities** – Changes in the present value of scheme liabilities are as follows:

	LPP 2017 £'000	LPP I 2017 £'000
At 8 April 2016 – transfer in of liabilities	8,243	1,599
Current service cost – employer	437	137
Effect of changes in financial assumptions	3,437	706
Effect of experience adjustments	–	414
Interest cost – employer	307	60
Benefits paid	(25)	–
Contributions by scheme participants	148	66
<b>At 31 March 2017</b>	<b>12,547</b>	<b>2,982</b>



## Notes to the financial statements continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

#### Amounts recognised in the profit and loss account

	LPP 2017 £'000	LPP I 2017 £'000
<b>Amounts recognised in operating profit</b>		
Current service cost	437	137
Administrative expenses and taxes	11	4
Recognised in arriving at operating profit	448	141
<b>Amounts recognised in interest receivable and similar income</b>		
Interest cost on scheme liabilities – employer	307	60
Interest cost on scheme assets – employer	(257)	(51)
Recognised in interest receivable and similar income	50	9
<b>Total recognised in the profit and loss account</b>	<b>498</b>	<b>150</b>

#### Amounts recognised in the statement of comprehensive income

	LPP 2017 £'000	LPP I 2017 £'000
<b>Remeasurements recognised in the statement of comprehensive income</b>		
Return on scheme assets less interest income	1,092	217
Effect of changes in financial assumptions	(3,437)	(706)
Effect of experience adjustments	–	(414)
	(2,345)	(903)
<b>Total pension cost recognised in the statement of comprehensive income</b>	<b>(2,345)</b>	<b>(903)</b>

#### Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	LPP 2017 %	LPP I 2017 %
Discount rate	2.6	2.6
Future salary increases	3.7	3.7
Future pension increases (CPI)	2.2	2.2
Inflation assumption (CPI)	2.2	2.2

# Notes to the financial statements

## continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

#### Post retirement mortality assumptions

	LPP 2017 Years	LPP I 2017 Years
Current UK pensioners at retirement age – male	22.6	22.6
Current UK pensioners at retirement age – female	25.2	25.2
Future UK pensioners at retirement age – male	24.9	24.9
Future UK pensioners at retirement age – female	27.9	27.9

Management considers the significant actuarial assumptions with regards to the determination of the defined benefit obligation to be the discount rate, inflation, the rate of salary increases and mortality.

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant.

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2017 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2017 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Assumption	Change in assumption %	Change of +0.1% in present value of scheme liabilities 2017 £'000	Change of (0.1%) in present value of scheme liabilities 2017 £'000
<b>LPP</b>			
Discount rate: 2.6%	0.1	12,217	(12,217)
Inflation: 2.2% CPI	0.1	12,887	(12,887)
Rate of salary increase: 3.7%	0.1	12,701	(12,701)
<b>LPP I</b>			
Discount rate: 3.8%	0.1	2,903	(2,903)
Inflation: 2.1% CPI	0.1	3,063	(3,063)
Rate of salary increase: 2.6%	0.1	3,019	(3,019)

If the mortality rate was increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 22.6 – 27.9 years, post retirement age, the change in present value of scheme liabilities would increase 2%.

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

## Notes to the financial statements continued

For the period ended 31 March 2017

### 16. Pension schemes (continued)

#### Post employment benefits summary

	LPFA	LCPF	Total
Net assets	9,924	10,211	20,135
Net liabilities	(19,645)	(15,529)	(35,174)
	(9,721)	(5,318)	(15,039)
Consolidated statement of comprehensive income	2,322	3,248	5,570
<b>Pension deficit for the period</b>	<b>(7,399)</b>	<b>(2,070)</b>	<b>(9,469)</b>

### 17. Share Capital

	2017 £
<b>Authorised, allotted and fully paid:</b>	
2 ordinary shares of £1 each	2
<b>Ordinary shares</b>	
Share issue – on incorporation	2
<b>As at 31 March 2017</b>	<b>2</b>

The shares issued in the period have full rights in the company with respect to voting, dividends and distributions.

### 18. Leasing commitments

At the period end the company was committed to make the following payments during the next year in respect of operating leases with expiry dates as follows:

	Land and buildings £'000	Other £'000	Total £'000
Expiry date:			
Within one year	76	–	76
Between one and five years	1,787	–	1,787
	<b>1,863</b>	<b>–</b>	<b>1,863</b>

### 19. Contingent liabilities and capital commitments

The group and the company have no contingent liabilities at the period end.

The group and company have no capital commitments at the period end.

### 20. Related party transactions and ultimate controlling party

The Key Management Personnel emoluments paid by the group total £796,204 for the period.

The directors of Local Pensions Partnership Ltd had no material transactions with the company or its subsidiaries during the period other than service contracts and directors' liability insurance. A summary of the directors' remuneration is disclosed in the notes to the accounts also in detail on page 24.

The company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned by Local Pensions Partnership Ltd.

The company is a joint venture and its ultimate parents and controlling parties are London Pensions Fund Authority and Lancashire County Council.

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# Offices and contact information

<b>Directors</b>	Sally Bridgeland Susan Martin Dermot 'Skip' McMullan Michael O'Higgins Tom Richardson Sir Peter Rogers Alan Schofield Robert Vandersluis
<b>Company Secretary</b>	Greg Smith
<b>Company registration number</b>	09830002
<b>Registered office</b>	County Hall Fishergate Preston United Kingdom PR1 8XJ
<b>Business Address</b>	2nd Floor 169 Union Street London SE1 0LL
<b>Auditor</b>	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2P 2YU
<b>Bankers</b>	National Westminster Bank PO Box 35 10 Southwark Street London SE1 1TJ  Handelsbanken Winckley Chambers 30 Winkley Square Preston Lancashire PR1 3JJ

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# LPP

Local Pensions Partnership

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