

**Meeting of the Full Council
Meeting to be held on Thursday, 15 October 2020**

Report submitted by: Head of Fund, Lancashire County Pension Fund

Part A

Electoral Division affected:
None;

Lancashire County Pension Fund Annual Report for the Year Ending 31 March 2020

Contact for further information:

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Executive Summary

The Constitution of the County Council requires the Full Council to receive a report from the Pension Fund Committee on the state of the Lancashire County Pension Fund and on investment activities during the preceding year.

This report summarises key elements of the Fund, as detailed in the Annual Report approved by the Pension Fund Committee on 18 September 2020.

Recommendation

That the state of the Lancashire County Pension Fund and investment activities for the year ended 31 March 2020, as set out in the report and detailed in the Lancashire County Pension Fund Annual Report 2019/20, are noted.

Background and Advice

The Constitution of the County Council states that the Full Council should receive an annual report from the Pension Fund Committee on the state of the Lancashire County Pension Fund and on investment activities during the preceding year.

On 18 September 2020 the Pension Fund Committee considered the draft 2019/20 Annual Report of the Lancashire County Pension Fund and resolved:

1. The accounts of the Fund are approved subject to any audit adjustment agreed by the Head of Fund and are recommended for approval to the Audit, Risk and Governance Committee on 19 October 2020.

2. Subject to any agreed audit adjustments or other minor amendments, the Lancashire County Pension Fund 2019/20 Annual Report is approved for publication on or before 1 December 2020.

The Fund Annual Report includes the statement of accounts which are included within the Lancashire County Council Statement of Accounts for the year ended 31 March 2020 and have a statutory approval date of 30 November 2020. This year the deadline is later than in previous years due to changes brought about by the Covid-19 pandemic. The external auditors of the Fund, Grant Thornton, will provide their opinion on the accounts and the Annual Report of the Fund at, or shortly after, the next meeting of the Audit, Risk & Governance Committee on 19 October 2020.

The external audit opinion will focus on whether the information within the Annual Report is consistent with the audited financial statements included within the Lancashire County Council Statement of Accounts. Grant Thornton have advised that they plan to issue a 'consistent opinion'.

Set out below is an outline of the Fund's performance and investment activity for the year in the context of significant events and scheme developments, together with a summary of the key financials from the accounts.

Covid-19

The final quarter of the financial year saw unprecedented market volatility and economic uncertainty as a result of the Covid-19 pandemic which will continue to have an impact on the general economy and investments of the Fund for a significant period of time. Following an initial impact the funding level for the Fund stabilized relatively quickly and is currently at over 100% meaning the Fund is well placed to meet its obligations to members.

Scheme funding level

The latest triennial actuarial funding valuation took place during the year to 31 March 2020. This assesses the liabilities and assets of the Fund and is used to determine the employer contribution rates effective from 1 April 2020 to 31 March 2023. Based on the assumptions used by the Actuary the Fund was 100% funded which is an improvement from the previous valuation in 2016 when the funding level was at 90%.

Investment performance

The Fund has seen a positive investment performance with a return of 1.78% over the last 12 months which was higher than the planned benchmark rate of 0.34%. This is a positive outcome of the investment strategy developed by the Pension Fund Committee in addition to the performance of individual investment managers and places the Fund at the top of the 2019/20 Local Authority Fund league table for total fund 12 month performance, from a population of 63 UK local government pension funds.

Investment pooling arrangements

The county council continues to collaborate with the London Pension Fund Authority providing appropriate oversight of the joint ownership of the Local Pensions Partnership. The recent restructuring of the Partnership into separate administration and investment focused entities will create a more efficient operation. The Fund has

also benefitted from a reduction in investment management expenses as a result of the economies of scale associated with the pooling of investment assets. These savings continue to be closely monitored.

Administration

The administration service performed to a high standard in the year and achieved an overall performance of 98% with all statutory requirements being met and service level agreement targets being exceeded. Membership of the Fund has continued to increase and now totals 178,150 members from over 400 organisations, an increase of 1,674 members since the previous year.

Statement of Accounts extracts and key financial results

• Contributions income £177.0m (2018/19 £170.9m)

Total contribution income from employers and members is consistent with the prior year and excludes amounts from those employers who exercised the option to pay up-front following the 2016 actuarial valuation.

• Management expenses £65.0m (2018/19 £76.3m)

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

Fund administrative expenses are paid to the Local Pensions Partnership and include core pension administration services on a cost-per-member basis together with additional work done on behalf of the Fund around employer risk. The movement in investment management expenses is in line with expectations following market movements and the economies of scale associated with the pooling of assets.

The cost of the 2019 actuarial valuation is included within oversight and governance expenses and accounts for the majority of the increase in costs compared to the previous year.

• Investment income £206.1m (2018/19 £193.5m)

Income from pooled investments increased compared to the prior year, most notably within the infrastructure portfolio. This was offset in part by a reduction in income from investment properties due to a reduction in rental income receivable combined with an increase in property related expenditure.

• Change in market value of investments £1.4m (2018/19 £781.5m)

The significant reduction in the change in market value of investments compared to the prior year is due to market conditions – most notably the impact on the global economy of the Covid-19 pandemic in the final quarter of the financial year.

• Closing net assets of the Fund £8,437.7m (2018/19 £8,410.1m)

The fund account deficit, before accounting for investing activities, was £6.2m lower than the prior year, however, the £767.5m reduction in the return on investments (including investment income) compared to the year ended March 2019 resulted in an overall increase in the net assets of the Fund of £27.6m, maintaining the year end valuation at £8.4bn.

Consultations

The Local Pensions Partnership was consulted on the reporting of administration and investment information.

Grant Thornton will review the accounts of the Fund until the date of signing and will provide an opinion on both the accounts, and the consistency of the annual report with the accounts.

Implications:

This item has the following implications, as indicated:

Risk management

As Administering Authority it is important that the county council receives regular updates from the Pension Fund Committee regarding the activity and performance of the Fund. The Annual Report of the Fund is to be published in line with the statutory deadline of 1 December 2020 and will be made available to view via the Lancashire County Council website and the Your Pension Service website.

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

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		