

Lancashire County Pension Fund

Accounts
2010 - 2011

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

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

The Responsibilities of the Treasurer to the Pension Fund

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

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

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

In addition, the Treasurer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2011 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
16 September 2011

Fund Account

		2010/11	2009/10
	Note	£000	£000
Contributions and Benefits			
Contributions	6	227,220	208,419
Transfers in	7	15,619	26,697
		<u>242,839</u>	<u>235,116</u>
Benefits	8	214,497	182,808
Payments to and on account of leavers	9	12,752	21,794
Administrative expenses	10	3,658	3,471
		<u>230,907</u>	<u>208,073</u>
Net additions from dealings with members		<u>11,932</u>	<u>27,043</u>
Return on investments			
Investment income	11	89,327	71,431
Change in market value of investments	13	238,831	934,980
Investment management expenses	20	(8,004)	(5,807)
Net return on investments		<u>320,154</u>	<u>1,000,604</u>
Net increase (decrease) in the fund during the year		<u>332,086</u>	<u>1,027,647</u>
Net assets of the scheme			
At 1 April		<u>3,961,585</u>	<u>2,933,938</u>
At 31 March		<u>4,293,671</u>	<u>3,961,585</u>

Statement of Net Assets

Year Ended 31 March		2011	2010	1 st April 2009
	Note	£000	£000	£000
Investment assets	13	4,282,145	3,951,836	2,942,852
Investment liabilities	13	(890)	(1,506)	(3,312)
Current assets	21	21,627	13,277	13,379
Current liabilities	22	(9,211)	(2,022)	(981)
		4,293,671	3,961,585	2,933,938

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2011 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

**Treasurer to the Lancashire
County Pension Fund
16 September 2011**

County Councillor Sam Chapman

Chairman of the Audit Committee

26 September 2011

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is administered by Lancashire County Council. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2010/11 cash inflows during the year consisted of £332.166 million and cash outflows were £238.911 million, representing a net cash inflow of £93.255 million (compared with an inflow of £92.667 million in the previous year). Benefits payable amounted to £214.497 million and were partially offset by net investment income of £89.327 million (including £14.672 million accrued dividends); contributions of £227.220 million and transfers in of £15.619 million produced the positive cash inflow.

The investments of the Pension Fund are managed by eight external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at <http://www.yourpensionservice.org.uk>

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

	Number at 31 March 2011	Number at 31 March 2010
(1) Active Scheme Members		
Scheduled Bodies	47,912	49,707
Admitted Bodies	3,781	4,021
Total	51,693	53,728
(2) Pensioners		
Pensions in Payment	37,632	35,933
Preserved Pensions	44,928	41,330
Total	82,560	77,263

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
Barnoldswick Town Council
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Town Council
Hambleton Primary Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Myerscough College
Nelson & Colne College
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd
Ribble Valley Borough Council
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Mary's College, Blackburn
University of Central Lancs
West Lancs District Council
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)
Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit
Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Connaught Environmental Ltd (Blackpool BC)
Connaught Environmental Ltd (Blackpool Coastal)
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd

Admitted Bodies (cont'd)

Hyndburn Homes Ltd
I Care
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley)
Liberata UK Ltd (Pendle)
Lytham Schools Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawstorne)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd
NSL Ltd (Lancaster)
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd
Pendle Leisure Trust Ltd
Preston Care & Repair
Preston Council for Voluntary Services
Progress Care Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Rossendale Leisure Trust
Signposts MARC Ltd
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
South Ribble Community Leisure Ltd
Sungard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employers

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool & Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley & Pendle Joint Transport Committee
Burnley & Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancs Development Corporation
Clitheroe Town Council
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Developments Association
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport
Kirkham Grammar School (Boarding)
Lancashire County Enterprises Ltd
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning
Lancaster Royal Grammar School (Boarding)
Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samblesbury & Cuerdale Parish Council

Former Employers (cont'd)

Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawstorne)
Solar Facilities Management Ltd (Ripley)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other

Blackpool Transport Services Ltd
Rossendale Transport Ltd
(Membership restricted to employees "deemed" at deregulation in 1986)

2. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This is the Pension Fund's first year of adoption of IFRS. Due to previous convergence of UK GAAP with IFRS there are no material differences in the financial statements arising from the transition.

The financial statements summarise the transactions and net assets of the Pension Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial position of the Pension Fund does take account of such obligations.

3. Actuarial Position

The Actuarial position of the Pension Fund is dealt with in detail in the Actuarial Report section of the Pension Fund Annual Report.

In summary, the last actuarial valuation was undertaken by Mercer Consulting as at 31 March 2010.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £3,962 million represented 80% of the Funding Target of £4,955 million at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £4,942 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2011

4. Accounting Policies

- General

The financial statements have been prepared on an accruals basis except for transfers to and from the Pension Fund and contributions refunded, which are treated on a cash basis. Investment Management expenses are generally linked to the value of Funds under management.

- Financial Instruments

On initial recognition the Fund is required to classify financial assets and liabilities into held to maturity investments, available for sale financial assets, held for trading, designated at fair value through profit and loss or loans and receivables.

The assets and liabilities held by Lancashire County Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and liabilities at amortised cost.

Financial instruments at fair value through profit or loss

Financial assets may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the fund manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Loans and receivables

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

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

- Valuation of Investments

Investments are shown at their fair value as at 31 March 2011. The fair value is the current bid price for quoted securities and unitised securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Futures are exchange traded and fair value is determined using exchange prices at their reporting date.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date

Investments in Private Equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

The methodologies adopted in valuing financial instruments are explained in greater detail in note 16.

- Currency Translation

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2011. Any gains or losses are treated as part of a change in market value of investments.

- Acquisition costs of Investments

The Acquisition costs of investments are included within the purchase price.

- Property

The fund's freehold and leasehold properties were valued on 31 March 2011 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Investment Manager expenses**

Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

- **Employers' Contributions**

Employers' contributions are based on rates determined, at their triennial valuation, by the Actuary of the Pension Fund. (The rates used for the year ending 31 March 2011 came into effect 1 April 2008, following the Actuary's Valuation of the Pension Fund at 31 March 2007).

- **Contributions and Benefits**

Contributions are accounted for on an accruals basis. Benefits payable represent benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Augmentation payments due from employers in future years are accrued for, which represents a change in accounting policy.

- **Transfers**

Transfer values represent amounts received and paid during the period for individual bulk transfers that came into, or out of the fund.

5. **Assumptions made about the future and other major sources of estimated uncertainty**

The financial Statements contain estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £201.8m. There is a risk that this investment may be under or overstated in the accounts.
Hedge Fund of Funds	The Fund of Funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the Fund of Funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Hedge Fund of Funds value in the financial statements is £70m. There is a risk that this investment may be under or overstated in the accounts.

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 (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in an increase in the pension liability of £435 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £65m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £100m.
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6. **Contributions receivable**

	2010/11	2009/10
	£000	£000
Employers' contributions		
County Council	70,845	64,580
Scheduled Bodies	85,610	73,591
Admitted	14,314	13,524
	<u>170,769</u>	<u>151,695</u>
Employees' contributions		
County Council	22,491	22,421
Scheduled Bodies	28,818	28,860
Admitted	5,142	5,443
	<u>56,451</u>	<u>56,724</u>
Total contributions	<u>227,220</u>	<u>208,419</u>

Within the employee contributions figure for 2010/11, £280,938 is voluntary and additional regular contributions. All employee contributions are normal contributions.

7. **Transfers in**

	2010/11	2009/10
	£000	£000
Individual transfers in from other schemes	15,619	24,900
Bulk transfers in from other schemes	0	1,797
	<u>15,619</u>	<u>26,697</u>

8. **Benefits**

2010/11	2009/10
£000	£000

Pensions	149,206	141,347
Lump Sum retirement benefits	60,932	36,835
Lump Sum death benefits	4,359	4,626
	<u>214,497</u>	<u>182,808</u>

9. **Payments to and on account of leavers**

	2010/11	2009/10
	£000	£000
Refunds to members leaving service	19	14
Contributions equivalent premium	(1)	(7)
Individual transfers to other schemes	12,734	21,787
	<u>12,752</u>	<u>21,794</u>

10. **Administrative expenses**

	2010/11	2009/10
	£000	£000
Administration and processing	3,314	3,117
Audit fee	94	95
Legal and other professional fees	250	259
	<u>3,658</u>	<u>3,471</u>

All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

11. **Investment income**

	2010/11	2009/10
	£000	£000
Income from fixed interest securities	23,906	21,440
Dividends from equities	29,591	27,638
Income from index linked securities	4,664	3,169
Income from pooled investment vehicles	851	313
Net rents from properties	23,357	16,980
Interest on cash deposits	1,464	2,447
Other	5,494	(556)
Total Investment Income	<u>89,327</u>	<u>71,431</u>

The above investment Income is shown net of irrecoverable withholding tax, which amounted to £642,111 in 2010/11 (2009/10: £583,533). Income received in respect of Legal and General pooled funds are automatically reinvested within the relevant sector fund and are therefore excluded from the above analysis.

12. Stock Lending

EsecLending is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2010/11 was £178,513 (Due to economic circumstances there was no stock lending income in 2009/10).

Securities on loan at the 31st March 2011 were £96.1m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £11.1m of equities and £85m of bonds.

Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £100.9 million comprising bonds (£9.5m) and government bonds (£91.4m).

13. Investments

	Value at 1 April 2010 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2011 £000
Investment assets					
Fixed interest securities	448,115	406,366	(295,504)	122	559,099
Equities	1,011,699	1,090,374	(442,198)	75,195	1,735,070
Index linked securities	103,240	50,946	(15,957)	2,819	141,048
Pooled investment vehicles	1,962,203	154,919	(872,607)	151,043	1,395,558
Derivative contracts	23	4,116	(2,367)	(919)	853
Property	306,115	89,889	(9,070)	10,571	397,505
	3,831,395	1,796,610	(1,637,703)	238,831	4,229,133
Derivative contracts (forward currency positions)	1,573				1,779
Cash deposits	106,180				36,561
	12,688				14,672
Other investment balances					
	3,951,836				4,282,145
Investment liabilities					
Derivative contracts (forward currency positions)	1,506				890

Net investments

3,950,330

4,281,255

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2010/11 amounted to £2,316,511 (2009/10: £2,381,789).

The investment assets at 31 March 2011 are managed by eight external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Manager	2010/11 £000	%
Legal & General Investment Management	1,046,129	24
Newton Investment Management	638,819	15
J P Morgan Asset Management	500,826	12
UBS Global Asset Management	602,907	14
Knight Frank	397,505	9
Capital Dynamics	201,872	5
Gottex Fund Management	69,589	2
Mellon Transition Management	701,481	16
In-House	122,127	3
	4,281,255	100

	2010/11 £000	2009/10 £000
Fixed Interest Securities		
UK public sector quoted	179,848	193,424
UK corporate bonds quoted	352,300	239,967
Overseas public sector	0	240

Overseas corporate bonds	26,951	14,484
	<u>559,099</u>	<u>448,115</u>

	2010/11	2009/10
	£000	£000
Equities		
UK quoted	832,599	456,182
Overseas quoted	902,471	555,517
	<u>1,735,070</u>	<u>1,011,699</u>

	2010/11	2009/10
	£000	£000
Index Linked Securities		
UK quoted	141,048	103,240
	<u>141,048</u>	<u>103,240</u>

	2010/11	2009/10
	£000	£000
Pooled Investment Vehicles		
Managed/Unitised funds - UK Equities	448,871	757,116
- Overseas Equities	423,247	711,962
- Public Sector Bonds	0	94,864
- Corporate Bonds	141,833	134,664
- Index Linked	32,178	30,176
Unit trusts		
- UK Equities	22,351	16,082
- Overseas Equities	4,807	6,192
Other pooled investment vehicles - UK	5,943	0
- Overseas	44,870	0
Private Equity investments		
- UK	32,026	28,689
- Overseas	169,843	116,400
Hedge Fund of Funds	69,589	66,058
	<u>1,395,558</u>	<u>1,962,203</u>

Properties	2010/11 £000	2009/10 £000
UK – Freehold	318,925	238,750
UK – Long Leasehold	78,580	67,365
	<u>397,505</u>	<u>306,115</u>

The valuation of each property is on the basis of market value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms.

Derivatives Contracts	2010/11 £000	2009/10 £000
Futures Contracts	853	23
	<u>853</u>	<u>23</u>

Type of Future	Expiration	Economic Exposure £000	Asset £000	Liability £000
UK gilt exchange traded	3 months	(18,747)	112	
Hang Seng (HKG)	1 month	3,961	59	
MSCI Singapore Index	1 month	4,939	102	
SPI 200 Index	3 months	13,810	<u>580</u>	
Total			853	

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought	Sold	
	£'000 EQV	£'000 EQV	£'000
Investment assets			
6 months and under	41,753	43,532	<u>1,779</u>
Investment liabilities			
6 months and under	27,221	28,111	<u>890</u>

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	2010/11	2009/10
Cash Deposits	£000	£000
Sterling	33,514	105,970
Foreign currency	3,047	210
	<u>36,561</u>	<u>106,180</u>

	2010/11	2009/10
Other investment balances	£000	£000
Outstanding dividend entitlements and recoverable withholding tax	14,672	12,688
	<u>14,672</u>	<u>12,688</u>

14. Financial Instruments classification

Accounting policy describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2011

	Designated at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000
Financial assets			
Fixed interest securities	559,099	-	-
Equities	1,735,070	-	-
Index linked securities	141,048	-	-
Pooled investment vehicles	1,395,558	-	-
Derivative contracts	2,632	-	-
Cash deposits	-	36,561	-
Other investment balances	14,672	-	-
Debtors	-	21,627	-
Total Financial Assets	3,848,079	58,188	-
Financial liabilities			
Derivative contracts	890	-	-
Creditors	-	-	9,211
Total Financial Liabilities	890	-	9,211

31 March 2010

	Designated at fair value through profit or loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest securities	448,115	-	-
Equities	1,011,699	-	-
Index linked securities	103,240	-	-
Pooled investment vehicles	1,962,203	-	-
Derivative contracts	1,596	-	-
Cash deposits	-	106,180	-
Other investment balances	12,688	-	-
Debtors	-	13,277	-
Total Financial Assets	3,539,541	119,457	-
Financial liabilities			
Derivative contracts	1,506	-	-
Creditors	-	-	2,022
Total Financial Liabilities	1,506	-	2,022

15. Financial Instruments – Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date.

	Carrying Value 2011 £000	Carrying Value 2010 £000	Fair Value 2011 £000	Fair Value 2010 £000
Financial assets				
Trading and other financial assets at fair value through profit and loss	3,284,194	2,960,667	3,848,079	3,539,541
Loans and Receivables	58,188	119,457	58,188	119,457
Total Financial Assets	3,342,382	3,080,124	3,906,267	3,658,998
Financial Liabilities				
Trading and other financial assets at fair value through profit and loss	890	1,506	890	1,506
Financial liabilities at amortised cost	9,211	2,022	9,211	2,022
Total Financial Liabilities	10,101	3,528	10,101	3,528

16. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation

techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

The values of the investment in Hedge Funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

2011	Level1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
financial assets at fair value through profit and loss	3,576,620	-	271,459	3,848,079
Loans and Receivables	58,188	-	-	58,188
Total Financial assets	3,634,808	-	271,459	3,906,267
Financial Liabilities				
financial liabilities at fair value through profit and loss	890	-	-	890
financial liabilities at amortised cost	9,211	-	-	9,211
Total Financial Liabilities	10,101	-	-	10,101

2010	Level1 £000	Level2 £000	Level3 £000	Total £000
Financial assets				
financial assets at fair value through profit and loss	3,328,393	-	211,148	3,539,541
Loans and Receivables	119,457	-	-	119,457
Total Financial assets	3,447,850	-	211,148	3,658,998
Financial Liabilities				
financial liabilities at fair value through profit and loss	1,506	-	-	1,506
financial liabilities at amortised cost	2,022	-	-	2,022
Total Financial Liabilities	3,528	-	-	3,528

17. Nature and extent of risks arising from Financial Instruments

Credit Risk

The Pension Fund's credit risk is managed through the Fund's Treasury Management policy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid out by the Fitch and Moody's rating services. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria are detailed below:

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
Government Bonds and Treasury Bills	AA+	1,000	50 yrs
Supranational Bonds G10 Sovereign Bonds	AA+	1,000	50 yrs
Investment Grade Corporate Bonds	AAA	250	25yrs
	AA	150	10yrs
	A	75	5yrs

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
General collateral reverse repurchase agreements	AA+ or better	1,000	1yr
Term Deposits with UK and Overseas Banks (domiciled in UK) and Building Societies	Purple (Highest quality, greatest certainty of support)	200	1 yr
	Orange (Highest quality, slightly less certainty of support)	100	1yr
	Red (Highest quality but lower than orange)	50	3 months
	Green (Quality, but lower than Red and lower certainty of support)	25	1 months
Public Works Loan Board – Debt Management Office Deposit Facility	Government Institution	500	Less than 6mths
Other UK Local Authorities and Pension Funds	AAA (implied currently)	500	50yrs
Money Market Funds	AAA Rated, weighted average maturity 6 months	250	These investments do not have a defined maturity date.
Bond Funds	AAA Rated Weighted average maturity less than 5yrs	200	These investments do not have a defined maturity date.
Certificates of Deposit. Collateralised lending agreements backed by higher quality government or local government and supranational securities.	AA, with AAA for any collateral used	500	5yrs
Non credit rated “nationalised” banks	Blue	250	1yr

The placing of residual overnight deposits will be with either the Pension Fund's custodian bank or Lancashire County Council.

Liquidity Risk

The Pension Fund has no plans to borrow money, but under the Fund's regulatory regime, it may do so in certain limited circumstances, to:

pay benefits due under the scheme; or

meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment

The Pension Fund may only borrow money if, at the time of borrowing, the Treasurer reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of the Pension Fund within 90 days of the date of the borrowing.

If borrowing were necessary, the Treasurer, with the Treasury Management Team, would seek the most cost effective and prudent source of funds appropriate for the purpose. Borrowings would be structured in such a way as to be most suitable for the specific need.

Investment and Market Risk

In order to achieve its statutory obligations to pay pensions, the Pension Fund invests its assets, including employer and employee contributions in a way that allows it to meet its liabilities as they fall due for payment.

The fund is not wholly dependent on its investment income to fund payments to pensioners as income from current members is sufficient to cover these payments.

The main income streams to the fund are contributions (43%), income from change in market value of investments (48%), dividends (5%) and rental income (4%).

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. If the overall market value of the fund decreased by 1% this would reduce the net assets by £30m and would also increase the liabilities by £10m.

Any investment transaction carries a degree of risk including credit risk, market risk, interest rate risk and foreign exchange risk. The Pension Fund mitigates against these risks by diversification across asset classes, markets and sectors.

The Pension Fund also ensures that all the managers invest in accordance with the Local Government Pension Scheme Regulations 1998 and its Statement of Investment Principles.

The Pension Fund also stipulates the following investment restrictions on manager contracts:-

Global Equities Manager

The managers shall not invest more than 5% of the value of the portfolio or the FT all share weighting of stock plus 2%, whichever is greater, in any one issue.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

The Manager may only enter into derivatives as a protective measure subject to the following limits:

- No more than 5% of the portfolio may be invested in gilt and equity index futures.
- Currency futures must be limited to 1/3 of overseas currency exposure by individual markets.
- The Manager must give prior notification of entry into derivative markets.
- No more than 30% of the total value of the Pension Fund portfolio shall be invested in overseas markets with subsidiary limits of 25% for overseas equities and 15% for overseas bonds.

No more than 10% of global fixed income investments, including index linked investments, may be invested in securities issued by issuers who are not government guaranteed or supranational issuers. Corporate bonds must have a minimum credit rate of Aa3/AA as measured by Moody's or Standard & Poor's.

UK Equities Manager

The managers shall not invest more than 5% of the value of the portfolio in any one issue.

Derivatives are used for efficient portfolio management only with a maximum exposure of 10% of the assets held.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

Bonds Manager

Maximum exposure to currencies other than sterling is 10% of the market value of the fund.

The manager may use derivatives for hedging and efficient portfolio management, the maximum derivative exposure, excluding hedging is 30% of the Fund.

The maximum exposure to option premium exclusive of any in-the money portion of the premium is 5% of the Fund.

Stock lending

The contract with the third party lending agent states that stock can only be lent to a list of approved borrowers.

The contract also states that the third party lending agent can only accept collateral in the form of government debt or supranational bonds from a limited range of countries and organisations, with a minimum issuer credit rating of Aaa by Moody's or AAA by Standard & Poor's.

In addition to the specific restrictions above, the managers comply with relevant regulatory framework, which requires that specific risk warnings should be given to clients to highlight the nature of such transactions.

Nature and extent of risks arising from Property Investment

There is a potential credit risk on the default of rental income. The property managers categorise the current tenants based on their assessment of the risk of delinquency. They have arrived at this classification by using a combination of published accounts, press coverage, share price indicators, and credit rating agencies as well as their knowledge of tenants' rent payment histories. They have concluded from this work that there are relatively few "problem tenants" in the portfolio despite continuing tough economic conditions.

The average unexpired lease term of the property portfolio is 8 years and the void rate is only 3.5% (£817k) of the total rental income. This void rate is considerable lower than the IPD average of 10%. The property manager does not anticipate the void rate increasing over the coming year due to the quality of the tenants and the average length of the leases.

18. Additional Voluntary Contributions (AVC's)

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2010 to 31 March 2011 for Prudential and 1 September 2009 to 31 August 2010 for Equitable Life.

	Equitable Life	Prudential	Total
	£000	£000	£000
Value at the start of the year	1,445	13,798	15,243
Income (incl. contributions, bonuses, interest, transfers in)	74	4,656	4,730

Expenditure (incl. benefits, transfers out, change in market value)	258	3,322	3,580
Value at the end of the year	1,261	15,132	16,393

19. Custody of Investments

The Pension Fund's current custodian, Bank of New York Mellon is responsible for the safekeeping of assets, collection of income due, and settlement of trades and provides an independent confirmation and valuation of assets held by the Pension Fund. The custodian contract has recently been tendered and the contract has been awarded to Northern Trust, who will take over the custody of the Pension Fund from 1 August 2011.

The Pension Fund's index tracking manager, Legal and General Investment Management, invests funds with Legal and General Assurance (Pensions Management) Ltd in a unitised policy of assurance, which is reported on by the custodian.

Lancashire County Council is the custodian of the Pension Fund's private equity and property portfolios.

Citco Fund Services Europe B.V. is the custodian of the Hedge Fund of Funds portfolio.

20. Investment management expenses

	2010/11 £000	2009/10 £000
Administration, management and custody	6,214	5,270
Performance measurement service	59	73
Other advisory fees	1,731	464
	<u>8,004</u>	<u>5,807</u>

21. Current assets

	2010/11 £000	2009/10 £000
Contributions due from: Employers	13,390	5,985
Members	2,589	2,545
Debtors: bodies external to general government	5,648	4,747
	<u>21,627</u>	<u>13,277</u>

Included within the contributions due from employers figure is £2.7 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

22. Current liabilities

	2010/11 £000	2009/10 £000
Unpaid benefits	7,739	0
Accrued expenses	1,472	2,022
	9,211	2,022

23. Taxation

The Pension Fund has been approved by HMRC as an exempt approved scheme and is, therefore, exempt from UK income tax and capital gains tax on the profits resulting from the sale of investments. The Pension Fund is also exempt from United States withholding tax on dividends and recovers withholding taxes on other foreign dividends where authorised by the relevant tax treaty or foreign legislation. As Lancashire County Council is the administering authority of the Pension Fund, VAT input tax is recoverable on all the Pension Fund's activities, including expenditure on investment and property expenses.

24. Contingent Asset and Liability

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

25. Contractual Commitments

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2011 being £201.8m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2011 are £152.2m.

26. Related Party Transactions

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

- At 31 March 2011, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 50 scheduled and 148 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.
- The Pension Fund Committee comprises 13 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire Leaders Group, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2010/11. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

The Pension Fund invests cash with Lancashire County Council, the administering authority for the Pension Fund. At 31 March 2011 the balance invested with the County Council is £7,229,854. Cash invested with Lancashire County Council has generated interest of £1,336,923 during 2010/11.

27. Impairment of Icelandic Investment

At the time the Icelandic banks collapsed in October 2008, Lancashire County Pension Fund had an investment of £2.487m with Landsbanki.

At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the Pension Fund can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that the Authority will recover 94.85% of the value of the claim (CIPFA May 2011).

The Pension Fund has taken a prudent approach and has not adjusted its recovery to reflect the 94.85%, as this figure is wholly dependant on realisations made from the assets of the bank and may change. In its accounts, the Pension Fund has assumed that it will receive back 83p in the pound, without interest payable over a number of years and has left the impairment at £518,280 (the same as 31 March 2010).

28. **Statement of Investment Principles**

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at <http://www.yourpensionservice.org.uk>.