Appendix A

Lancashire County Pension Fund

Accounts
2013 / 2014

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 2014 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
29 September 2014

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of responsibilities for the statement of accounts, the Treasurer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only Foreword, Administration of Fund, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Lancashire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Karen Murray
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB

29 September 2014

Fund Account

	Note	2013/14 £m	2012/13 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	214.0	202.7
Transfers in	7	7.1	9.9
		221.1	212.6
Benefits	8	(221.1)	(210.2)
Payments to and on account of leavers	9	(15.3)	(12.6)
Administrative expenses	10	(4.5)	(5.0)
		(240.9)	(227.8)
Net withdrawals from dealings with members		**(19.8)**	**(15.2)**
Return on investments			
Investment income	11	105.3	120.8
Profit and loss on disposal of investments and change in market value of investments	15	102.9	532.6
Investment management expenses	21	(11.3)	(7.2)
Net return on investments		**196.9**	**646.2**
Net increase (decrease) in the net assets available for benefits during the year		**177.1**	**631.0**

Net Asset Statement

	Note	31/03/14 £m	31/03/13 £m
Investment assets	15	5,192.8	*5,107.4
Investment liabilities	15	(21.3)	*(118.4)
Current assets	22	28.3	31.7
Current liabilities	23	(11.7)	(9.7)
Net assets of the fund available to fund benefits at the period end		5,188.1	5,011.0

*The prior year has been restated to present net forward currency contracts in a comparable manner.

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 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Terry Brown

Chair of the Audit and Governance Committee

Notes to the Financial Statements

1. Pension Fund Operations and Membership

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

The published accounts show that in 2013/14 cash inflows during the year consisted of £326.4 million and cash outflows were £252.2 million, representing a net cash inflow of £74.2 million (compared with an inflow of £98.4 million in the previous year). Benefits payable amounted to £221.1 million and were partially offset by net investment income of £105.3 million (including £12.4 million accrued dividends); contributions of £214.0 million and transfers in of £7.1 million produced the positive cash inflow.

a) **General**

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

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

The investments of the Pension Fund are managed by eleven 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 Your Pension Service - Lancashire Fund Information

b) **Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

The 297 organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation.

- Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Participation in the Pension Fund

		Number at 31 March 2014	Number at 31 March 2013
(1)	Active Scheme Members		
	Scheduled Bodies	50,536	49,391
	Admitted Bodies	4,208	3,572
	Total	**54,744**	**52,963**
(2)	Pensioners		
	Pensions in Payment	42,278	40,885
	Preserved Pensions	53,895	49,837
	Total	**96,173**	**90,722**
	Total membership	**150,917**	**143,685**

c) **Funding**

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2014 was done at 31 March 2010. The latest valuation was carried out at 31st March 2013 and will be applicable for 3 financial years commencing 1st April 2014. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) **Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2013/14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 29 of these accounts.

3. **Accounting Policies**

Fund Account revenue recognition

- **Contribution income**

Normal contributions both from members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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

- **Transfers**

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

- **Investment Income**

i. Interest income

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

ii. Dividend income

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

iii. Distribution from pooled funds

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

iv. Rental income

Net rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are only recognised when contractually due.

v. Movement in the net market value of investments

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

Fund Account –expense items

- **Benefits payable**

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

- **Taxation**

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

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

- **Investment Management 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.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS
- Morgan Stanley

Performance related fees paid in 13/14 were £1.5m. No performance related fees were paid in 12/13 as these managers were only appointed in October 2012.

Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2013/14 £2.8m of fees is based on such estimates (2012/13 £2.2m).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net asset statement

- **Financial Instruments**

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

The values of investments as shown in the net asset statement have been determined as follows:

- Market-quoted investments

The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

- Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

- Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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 2014. 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.

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

- **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 2014. 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 2014 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.

- **Derivatives**

  The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes or for any of the internally managed funds.

  Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

  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.

- **Cash and cash equivalents**

  Cash comprises of cash in hand and on demand deposits.

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

- **Financial liabilities**

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

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

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

  As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 29).

- **Additional voluntary contributions**

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 section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). 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 in note 20.

- **Securities Lending**

Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.
Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

- **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Fund does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund. The Fund does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. **Critical judgements in applying accounting policies**

- Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

- Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Statement of Accounts contains 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 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent.	The market value of private equity and infrastructure investments in the financial statements totals £512.9m. There is a risk that these investments might be under or overstated in the accounts.
Local authority bond valuations.	The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.	The market value of local authority bonds totals £17.4m in the financial statements and there is a risk that this may be under or overstated.
Indirect overseas property valuations.	Overseas indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Overseas indirect property investments in the financial statements total £25.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £300 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £128m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £139m.

6. Contributions receivable

	2013/14 £m	2012/13 £m
Employers' contributions		
County Council	67.5	61.3
Scheduled Bodies	74.0	71.2
Admitted Bodies	13.1	12.6
	154.6	145.1

	2013/14 £m	2012/13 £m
Pension Strain		
County Council	1.6	2.1
Scheduled Bodies	3.6	3.5
Admitted Bodies	0.2	0.3
	5.4	5.9
	160.0	151.0
Employee contributions		
County Council	22.2	20.6
Scheduled Bodies	26.8	26.3
Admitted Bodies	5.0	4.8
	54.0	51.7
Total contributions	214.0	202.7

Within the employee contributions figure for 2013/14, £0.4m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2013/14 £m	2012/13 £m
Individual transfers in from other schemes	7.1	9.9
	7.1	9.9

8. Benefits

	2013/14 £m	2012/13 £m
Pensions	183.9	176.5
Lump sum retirement benefits	33.2	28.3
Lump Sum death benefits	4.0	5.4
	221.1	210.2
Relating to:		
County Council	93.4	91.4
Scheduled Bodies	112.9	105.7
Admitted Bodies	14.8	13.1
	221.1	210.2

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

	2013/14 £m	2012/13 £m
Individual transfers to other schemes	12.9	12.6
Bulk transfers to other schemes	2.4	0
	15.3	12.6

10. **Administrative expenses**

	2013/14 £m	2012/13 £m
Administration and processing	4.2	3.8
Audit fee*	0.1	0.1
Legal and other professional fees	0.2	1.1
	4.5	5.0

*The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £38k (£41k in 2012/13).

11. **Investment income**

	2013/14 £m	2012/13 £m
Fixed interest securities	31.5	21.5
Equity dividends	36.8	59.5
Index linked securities	1.6	1.2
Pooled investment vehicles	6.4	6.3
Net rents from properties	23.5	25.0
Interest on cash deposits	3.2	2.8
Other	2.3	4.5
	105.3	120.8

12. **Net rents from Properties**

	2013/14 £m	2012/13 £m
Rental Income	27.4	28.1
Direct operating expenses	(3.9)	(3.1)
Net income	23.5	25.0

13. **Operating Leases**

The pension Fund leases out property under operating leases.

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

	2013/14 £m	2012/13 £m
Leases expiring in the following year	2.0	2.9
Leases expiring in two to five years	11.9	13.2
Leases expiring after five years	12.4	13.6
Total	26.3	29.7

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

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

14. Stock Lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2013/14 was £1.2m (2012/13 £0.6m)

Securities on loan at the 31st March 2014 were £131.7m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £129.9m of equities and £1.8m of bonds.

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £139.8m of government bonds.

15. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investments	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
Portfolio value	4,989.0				5,171.5

	Market Value at 1 April 2012 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2013 £m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	4,211.9	2,695.7	(2,646.4)	532.7	4,793.9
Derivative contracts:					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency contracts asset value	3.1				121.4
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
Investment assets	4,361.4				5,107.4
Forward currency contracts liability value	(1.5)				(118.4)
Portfolio value	4,359.9				4,989.0

Within the £102.9m increase in market value of investments during the 2013/14 financial year, a reduction in market value of £33.9m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 18.

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 2013/14 amounted to £1.4m (2012/13: £2.2m).

The investment assets at 31 March 2014 were managed by eleven external investment managers, with the remaining managed in-house. The following table shows the split of the investment assets by investment manager.

Summary of Manager's Portfolio Values

	31/03/14 £m	%	31/03/13 £m	%
Externally Managed				
Equities				
Baillie Gifford	793.0	15%	703.1	14%
Robeco	366.7	7%	354.5	7%
NGAM	285.8	6%	245.7	5%
MFS	269.6	5%	245.0	5%
AGF	239.9	5%	0.0	0%
Morgan Stanley	239.4	5%	234.1	5%
Magellan	197.5	4%	0.0	0%
Nomura Transition	1.9	0%	1.7	0%
Private equity				
Capital Dynamics	221.5	4%	229.1	4%
Infrastructure				
Capital Dynamics	118.6	2%	77.5	1%
Credit and fixed income transition				
BNYM Transition	82.5	2%	929.4	19%
Property				
Knight Frank	450.5	9%	434.9	9%
Index tracking – multi asset				
Legal & General	0.0	0%	582.1	12%
Externally Managed Portfolios	**3,266.9**	**64%**	**4,037.1**	**81%**
Internally Managed				
Credit Strategies	784.1	15%	424.0	9%
Bonds and cash	715.7	14%	224.4	5%
Equity Funds	206.6	4%	0.0	0%
Infrastructure Funds	172.8	3%	76.9	1%
Indirect Property Funds	25.4	0%	7.5	0%
Emerging Markets ETF	0.0	0%	219.1	4%
Internally Managed Portfolios	**1,904.6**	**36%**	**951.9**	**19%**
Total Portfolio Values	**5,171.5**	**100%**	**4,989.0**	**100%**

31/03/14 **31/03/13**

	£m	£m
Fixed Interest Securities		
UK public sector quoted	0.0	294.9
UK corporate bonds quoted	76.0	225.0
Overseas corporate bonds quoted	157.0	323.7
	233.0	843.6

	31/03/14 £m	31/03/13 £m
Equities		
UK quoted	231.3	218.3
Overseas quoted	1,689.8	1,531.0
	1,921.1	1,749.3

	31/03/14 £m	31/03/13 £m
Index Linked Securities		
UK quoted	0.0	164.9
	0.0	164.9

	31/03/14 £m	*31/03/13 £m
Pooled Investment Vehicles		
UK Managed Funds:		
Equity funds	0.0	166.0
Fixed Income funds	47.0	0
Venture Capital	264.8	*218.8
Overseas Managed Funds:		
Equity Funds	644.1	632.2
Fixed Income funds	970.3	*412.0
Property funds	25.1	7.5
Venture Capital	287.6	164.7
	2,238.9	1,601.2

*The custodian has provided the statutory notes for the accounts, this change has led to a review of the prior year disclosure categories and some assets being reclassified and restated.

	31/03/14 £m	31/03/13 £m
Properties		
UK – Freehold	389.8	346.4
UK – Long Leasehold	60.7	88.5
	450.5	434.9

	31/03/14	31/03/13

	£m	£m
Balance at start of the year	434.9	383.9
Additions	15.0	72.1
Disposals	(43.3)	(5.3)
Net gain/loss on fair value	43.9	(15.8)
Balance at the end of the year	450.5	434.9

Derivative contracts (forward currency positions)

one to six months	USD	3.7	AUD	(4.2)	2.2	(2.3)
one to six months	USD	30.5	CHF	(26.6)	18.3	(18.1)
up to one month	GBP	0.1	USD	(0.1)	0.1	(0.1)
up to one month	JPY	17.0	GBP	(0.1)	0.1	(0.1)
up to one moth	USD	0.4	EUR	(0.3)	0.3	(0.3)
up to one month	USD	0.7	JPY	(70.1)	0.4	(0.4)
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1
Prior year comparative						
Open forward currency contracts at 31 March 2013					121.3	(118.4)
Net forward currency contracts at 31 March 2013						2.9

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

	31/03/14 £m	31/03/13 £m
Cash Deposits		
Sterling	148.0	116.6
Foreign currency	167.5	53.9
	315.5	170.5

16. Financial Instruments classification

The accounting policy on financial instruments 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 by category and net asset statement heading.

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	1,661.4	-	-
Pooled property investments	25.1	-	-
Venture Capital	552.4	-	-
Derivative Contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total Financial Assets	**4,426.8**	**343.8**	**-**
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total Financial Liabilities	**21.3**	**-**	**11.7**

31/03/13	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total Financial Assets	**4,385.5**	**202.2**	**-**
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total Financial Liabilities	**1.9**	**-**	**9.7**

17. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £59.0m (2012/13 £548.4m)

18. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value 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. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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. The technique for valuing these assets is independently verified.

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

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

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

The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.

The following table 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.

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total Financial assets	**3,314.6**	**179.9**	**929.9**	**4,424.4**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total Financial Liabilities	**21.3**	**-**	**-**	**21.3**

31/03/13	*Level 1 £m	*Level 2 £m	*Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	*2,881.5	*977.1	*648.3	4,506.9
Total Financial assets	**2,881.5**	**977.1**	**648.3**	**4,506.9**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	*118.4	-	-	118.4
Total Financial Liabilities	**118.4**	**-**	**-**	**118.4**

* Financial instruments at 31st March 2014 have been categorised into levels 1, 2 and 3 based upon a review of individual investments rather than on the basis of investment manager portfolios as was the policy at 31st March 2013. Comparatives have been restated accordingly.

19. **Nature and extent of risks arising from Financial Instruments**

Risk and risk management

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

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

Market risk

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	4.8%
Overseas bonds	4.8%
UK equities	11.9%
Overseas equities	11.9%
Index linked Gilts	4.8%
Cash	0%
Alternatives	3.8%
Property	2.7%

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

Asset Type	**31/03/14 £m**	**Percentage Change %**	**Value on Increase £m**	**Value on Decrease £m**
Investment portfolio assets:				
UK bonds	76.0	4.8%	79.6	72.3
Overseas bonds	157.0	4.8%	164.5	149.5
Total equities	1,921.1	11.9%	2,149.7	1,692.5
Alternatives	2,238.9	3.8%	2,324.0	2,153.8
Property	450.5	2.7%	462.7	438.3
Total asset available to pay benefits	**4,843.5**		**5,180.5**	**4,506.4**

Asset Type	**31/03/13 £m**	**Percentage Change %**	**Value on Increase £m**	**Value on Decrease £m**
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.8	496.0
Overseas bonds	323.7	8.7%	351.8	295.5
Total equities	1,749.3	12.8%	1,973.2	1,525.5
Index linked gilts	164.9	8.1%	178.2	151.5
Alternatives	1,601.2	3.6%	1,658.8	1,543.6
Property	434.9	1.8%	442.7	427.1
Total asset available to pay benefits	**4,793.9**		**5,148.5**	**4,439.2**

Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31/03/14 £m**	**31/03/13 £m**
Cash and cash equivalents	315.5	170.5
Fixed interest securities	1,250.3	1,255.5
Total	**1,565.8**	**1,426.0**

Interest rate risk sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the

Fund's risk management strategy. The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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

Asset Type		**Change in year in net assets available to pay benefits**	
	31/03/14	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in asset available	**1,565.8**	**15.6**	**(15.6)**

Asset Type		**Change in year in net assets available to pay benefits**	
	31/03/13	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in asset available	**1,426.0**	**14.2**	**(14.2)**

Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous year end:

Currency exposure – asset type

	31/03/14	**31/03/13***
	£m	**£m**
Overseas quoted securities	1,689.8	1,531.0
Overseas corporate bonds (quoted)	157.0	323.7
Overseas fixed income	970.3	*412.0
Overseas pooled investments	956.8	*804.4
Total overseas assets	**3,773.9**	**3,071.1**

*Classification by asset type has been reviewed at an individual asset level at 31st March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6% (as measured by one standard deviation).

A 6% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type		**Change to net assets available to pay benefits**	
	31/03/14	**+6.0%**	**-6.0%**
	£m	**£m**	**£m**
Overseas quoted securities	1,689.8	1,791.1	1,588.4
Overseas corporate bonds (quoted)	157.0	166.4	147.6
Overseas fixed income	970.3	1,028.5	912.1
Overseas pooled investments	956.8	1,014.2	899.4
Total change in assets available	**3,773.9**	**4,000.2**	**3,547.5**

Currency exposure – asset type		***Change to net assets available to pay benefits**	
	31/03/13*	**+6.1%**	**-6.1%**
	£m	**£m**	**£m**
Overseas quoted securities	1,531.0	1,624.4	1,437.6
Overseas corporate bonds (quoted)	323.7	343.5	303.9
Overseas fixed income	*412.0	*437.1	*386.8
Overseas pooled investments	*804.4	*853.5	*755.3
Total change in assets available	**3,071.1**	**3,258.5**	**2883.6**

*Classification by asset type has been reviewed at an individual asset level at 31st March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2014 was £315.5m (31 March 2013: £170.5m.) This was held with the following institutions:

Summary	**Rating**	**31/03/14**	**31/03/13**
Bank deposit accounts		**£m**	**£m**
Ulster Bank	Baa3	5.0	5.0
Northern Trust	A1	248.0	75.0
Svenska Handelsbanken	Aa3	61.4	0.0
Bank of Scotland	A2	0.0	50.0
Bank Current Accounts			
NatWest Account	Baa1	1.1	40.5
Total		**315.5**	**170.5**

Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2014 are due within the one year.

20. **Additional Voluntary Contributions (AVC's)**

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 2013 to 31 March 2014 for Prudential and 1 September 2012 to 31 August 2013 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.1	15.9	17.0
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	5.3	5.4
Expenditure (incl. Benefits, transfers out, change in market value)	(0.1)	(1.4)	(1.5)
Value at the end of the year	1.1	19.8	20.9

21. **Investment management expenses**

	2013/14 £m	2012/13 £m
Administration, management and custody	11.0	6.9
Performance measurement service	0.1	0.2
Other advisory fees	0.2	0.1
	11.3	7.2

22. **Current assets**

	31/03/14 £m	31/03/13 £m
Contributions due from: Employers	14.4	12.5
: Members	4.4	4.4
Debtors: Bodies external to general government	9.5	14.8
	28.3	31.7

	31/03/14 £m	31/03/13 £m
Other local authorities	15.5	18.9
NHS bodies	0.1	0.1
Public corporations and trading funds	0.1	0.1
Other entities and individuals	12.6	12.6
	28.3	31.7

23. **Current liabilities**

	31/03/14 £m	31/03/13 £m
Unpaid benefits	0.6	2.3
Accrued expenses	11.1	7.4
	11.7	9.7

	31/03/14 £m	31/03/13 £m

Other local authorities	4.0	4.2
NHS bodies	0.0	0.4
Other entities and individuals	7.7	5.1
	11.7	9.7

24. Contingent Assets

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 litigation, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

The Pension Fund has entered into a number of other claims that are not financially material which may result in additional income for the Fund.

25. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £594.5m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

The Fund entered into a new venture capital commitment in November 2013. This will be internally managed and as at 31st March 2014 there had been no drawdowns on the commitment of £17.9m.

In April 2013, the Fund approved the direct investment into a property development in St Albans. The Fund is the sole investor in this town centre hotel and retail development The Fund has a commitment to pay monthly staged payments to fund the development plus a balancing payment at completion. The outstanding commitment at 31st March 2014 amounts to £7.1m.

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 2014, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 99 scheduled and 198 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 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 2013/14. 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.

Lancashire County Council

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

The council incurred costs of £4.2 million (2012/13: £3.8 million) in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to Pension and Investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

27. Icelandic Investment

The Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2013; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 51.8% of the total claim has now been repaid and the outstanding balance at 31st March 2014 is £1.2m. The exact timing and amount of future distributions is not known at this stage. The deposit is treated as an asset on the net asset statement and the carrying value is written down as distributions are received.

28. Funding Arrangements

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

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

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement. [Your Pension Service - Lancashire Fund Information]

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.

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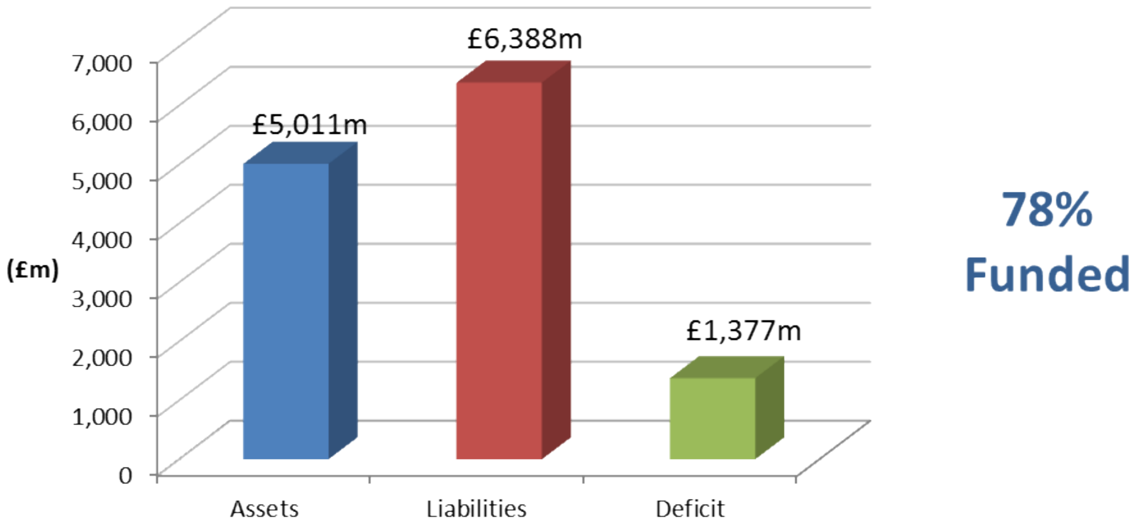

The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.
Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

29. Actuarial Present Value of Promised Retirement Benefits

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation alongside a reduction in the long-term rate of real pay growth (1.5% p.a. versus 2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £7,373 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by *c*£614 million. Adding interest over the year increases the liabilities by c£310million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c*£33 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£185 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £6,917 million.

30. **Events after the net asset statement date**

Greater Manchester Pension Fund has been chosen by the Ministry of Justice to administer the Local Government Pension Scheme in respect of the National Probation Service and Community Rehabilitation Companies with effect from 1st June 2014. Active and deferred members of Lancashire County Pension Fund who are affected by this change transferred to the Greater Manchester Pension Fund on 1st June 2014. Probation Service pensioners who are currently members of the Lancashire County Pension Fund are scheduled to transfer out to Greater Manchester Pension Fund at the end of September 2014. The transfer share of assets is expected to be in the region of £85m and the share of liabilities of the order of £109m.