Lancashire County Council

Pension Fund Committee

Friday, 18th September, 2020 via Zoom, starting at 10.30am

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Appointment of the Chair and Deputy Chair of the Committee** The Committee is asked to note the decision by full Council on the 16th July 2020 to appoint County Councillor E Pope as the Chair and County Councillor A Schofield as Deputy Chair for 2020/21.	
2.	**Constitution, Membership and Terms of Reference.**	(Pages 1 - 2)
3.	**Apologies**	
4.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
5.	**Minutes of the Meeting held on 6th March 2020** The Committee is asked to confirm the Minutes from the last meeting as an accurate record.	(Pages 3 - 8)
6.	**Lancashire County Pension Fund - 2019/20 budget monitoring report**	(Pages 9 - 14)
7.	**Annual Governance Statement 2019/20**	(Pages 15 - 26)
8.	**Lancashire County Pension Fund Annual Report 2019/20**	(Pages 27 - 174)
9.	**McCloud Update**	(Pages 175 - 178)

10. Admission and Termination policy (Pages 179 - 204)

11. Feedback from members of the Committee on pension related training. (Pages 205 - 208)

12. Responsible Investment Report (Pages 209 - 248)

13. Revised Terms of Reference for the Lancashire Local Pension Board. (Pages 249 - 260)

14. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

15. Date of Next Meeting

The next scheduled meeting of the Committee will be held on Friday 27th November 2020 at 10.30am either remotely or at County Hall, Preston.

16. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the press and public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

17. Local Pensions Partnership update (Pages 261 - 308)

18. Investment Panel Report (Pages 309 - 326)

19. Investment Strategy Review (Pages 327 - 332)

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected:
None;

Constitution, Membership and Terms of Reference.

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

This report sets out the current Constitution, Membership and Terms of Reference of the Pension Fund Committee.

Recommendation

That the Constitution, Membership and Terms of Reference of the Pension Fund Committee, as set out in the report, be noted.

Background and Advice

Constitution and Membership

At the meeting on the 16th July 2020 the full County Council approved the membership of various Committees and related appointments for 2020/21. The constitution of the Pension Fund Committee was approved as 19 on the basis of 12 County Councillors with an additional 7 voting Co-opted members. The following County Councillors have subsequently been appointed to the Committee by the respective political groups.

Conservative – 7	T Ashton (replaces S Clarke) J Burrows C Edwards E Pope (Chair) A Riggott A Schofield (Deputy Chair) A Snowden
Labour 4	L Collinge K Ellard T Martin J Mein
Independent – 1	G Dowding

The current co-opted members of the Committee are as follows.

Councillor M Smith - representing Blackpool Council
Councillor R Whittle - representing Blackburn with Darwen Council
Councillor D Borrow - representing Borough and City Councils
Councillor P Foster - representing Borough and City Councils (replaces Councillor Moran)
Ms J Eastham - representing Further Education and Higher Education Institutions
Mr P Crewe - representing Trade Unions
Mr J Tattersall - representing Trade Unions

Terms of Reference

A copy of the Committee's current Terms of Reference is available to view at Article 7 (Other Committees of the County Council) of the Constitution.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Lancashire County Counci

Pension Fund Committee

Minutes of the Meeting held on Friday, 6th March, 2020 at 10.30 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

Present:

County Councillor Eddie Pope (Chair)

County Councillors

J Burrows	T Martin
S Clarke	J Mein
G Dowding	A Riggott
C Edwards	A Snowden
K Ellard	A Schofield

Co-opted members

Mr Paul Crewe, (Trade Union Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)
Councillor David Borrow, (Borough and City Councils Representative)
Jennifer Eastham, (Further Education/Higher Education Institutions)

Also in Attendance

Mrs A Leech, Head of Pension Fund, Lancashire County Council
Ms A Devitt, Independent Adviser.
Mr E Lambert, Independent Adviser.
Ms A Pieri, Senior Manager, Grant Thornton UK LLP.
Mr R Branagh, Managing Director, London Pension Fund Authority.
Mr W Bourne, Chairman, Lancashire Local Pension Board.
Mr M O'Higgins, Chairman of the Local Pension Partnership Board.
Mr C Rule, Chief Executive Officer, Local Pensions Partnership.
Mr A Taylor, Chief Finance Officer, Local Pensions Partnership
Ms F Deakin, Head of Responsible Investment, Local Pensions Partnership.

1. Welcome and Apologies

The Chair welcomed everyone to the meeting and informed the Committee that Mr C Rule had recently been appointed as Chief Executive and Mr R J Tomlinson as the Chief Investment Officer at the Local Pensions Partnership.

Apologies for absence were received from Councillor M Smith.

Resolved: That the Committee place on record their congratulation to Mr C Rule and Mr RJ Tomlinson on their appointment as Chief Executive and Chief Investment Officer respectively at the Local Pensions Partnership.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

No declarations of interest in relation to items on the agenda were made at this point in the meeting.

3. Minutes of the previous meeting.

The Chair informed the meeting that the capital restructure of the Local Pensions Partnership considered at the last meeting had been approved by the Full Council on the 27th February 2020.

Resolved: That the Minutes of the meeting held on the 7th February 2020 are confirmed as an accurate record and signed by the Chair.

4. Lancashire County Pension Fund - External Audit Plan 2019/20

Ms Pieri, the Senior Manager from Grant Thornton UK LLP presented a report on the proposed nature and scope of work to be covered by the 2019/20 Audit Plan. When considering the report the Committee noted the specific areas to be covered by the audit and discussed in detail the proposed auditor's fee and the associated additional fee in relation to the provision of IAS19 assurance to scheme employer auditors.

Resolved: That the scope of the Audit Plan for 2019/20, as set out in the report, is noted and the Head of the Fund have further discussions with the Senior Manager from Grant Thornton in relation to the total fees associated with the 2019/20 audit and report back to the next meeting.

5. Lancashire County Pension - Q3 budget monitoring

The Committee considered a report on the financial performance of the Fund for the 9 months up to the 31st December, 2019, together with a comparison to the budget for the same period and an updated forecast for the year ending 31st March 2020.

Resolved:

1. That the analysis of the variances between actual and budgeted results and the budgeted income/expenditure for the period up to 31st December 2019, as set out in the report presented, is noted.

2. That the forecast financial results for the year ending 31st March 2020, as set out in the report presented, is noted.

6. Lancashire County Pension Fund - Budget for year ending 31 March 2021

A report was presented on the one year budget for the Lancashire County Pension Fund for the year ending 31st March 2021 which forecast that the net income available for investment (before accounting for changes in the market value of investments during the year) would be £219m.

The Committee discussed the performance of investments, the potential impact on markets of the Covid-19 virus and the increase in the market value of the Fund's assets and associated investment management fees.

Resolved: That the Lancashire County Pension Fund budget for the year ending 31st March 2021, as set out in Appendix 'A' to the report presented, is noted.

7. Funding Strategy Statement

A report was presented on the revised Funding Strategy Statement for the Lancashire County Pension Fund which incorporated the requirements set out in the Investment Strategy Statement and took account of comments received during the recent consultation period.

In considering the report the Committee noted a typographical error under 'Actuarial Assumptions' where the text should read that the real return over CPI inflation for determining the past service liabilities is 1.4% per annum and for determining the future service ("Primary") contribution rates is *2.15%* per annum.

Resolved: That, subject to the amendment of the text under 'Actuarial Assumptions' to show that the real return over CPI inflation for determining future service contribution rates is 2.15%, the revised Funding Strategy Statement, as set out in the Appendix to the report presented, is approved.

8. Feedback from members of the Committee on pension related training

A report was presented on the attendance by members of the Committee at a workshop on the Local Pension Partnership budget on 7th February 2020.

County Councillor Dowding referred to her attendance at the LAPF Strategic Investment Forum on the 6th February 2020 (reported to the previous meeting) and the Chair asked that she share any reference material from the event with other members via the online Library

Resolved: That the report is noted.

9. Responsible Investment Report

The Committee considered a report on how the Fund was being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out in the Investment Strategy Statement and the Responsible Investment Policy.

Earlier Mr R Branagh, Managing Director from the London Pension Fund Authority, had reported that as the Authority was in the process of reviewing its responsible investment/climate change policies and filling a vacancy of its Board it was unlikely to be in a position to take part in any joint Working Group on responsible investment for at least 6 months.

Resolved:

1. That the updates on responsible investment activity associated with supporting the Fund to fulfil its duty to act in the best long term interests of Fund beneficiaries are noted.

2. That the Fund does not become a signatory to the new UK Stewardship Code (2020) and instead recognise that the regulatory and stewardship requirements are met through the Local Pensions Partnership Investments being a signatory.

10. Approval of 2020/21 Work Plan for the Lancashire Local Pension Board.

Mr Bourne, Chair of the Lancashire Local pension Board presented a report on the proposed 2020/21 work plan for the Board and highlighted that key areas of interest would be communications and to hold the Local Pensions Partnership to account.

Resolved: That the 2020/21 work plan for the Lancashire Local Pension Board, as set out in Appendix 'A' to the report presented, is approved.

11. Urgent Business

No items of urgent business were raised at the meeting under this heading.

12. Date of Next Meeting

It was noted that the next scheduled meeting would be held on the 19th June 2020 at 10.30am (preceded by a 30 minute private briefing) in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

13. Exclusion of Press and Public

Resolved: That the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraphs of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading of each item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

14. Local Pensions Partnership Strategic Plan 2020-25 and Annual Budget

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Committee considered a report on the Local Pension Partnership Strategic Plan and 2020/21 Budget, which had been developed in consultation with stakeholders and noted that the Strategic Plan included the following goals for the Partnership.

- To achieve a self sustaining financial position
- That returns meet client objectives
- Provide a high quality cost effective pension administration service
- Reflect local and international excellence
- Be an exciting, forward thinking and collaborative place to work.

With regard to responsible investment it was noted that the Investment Panel was in the process of reviewing existing asset allocations and had requested an audit of Environmental, Social and Governance elements across the whole portfolio and would report back to the next meeting.

The Committee also discussed details in the budget, including the pension administration service and staff costs. It was noted that detailed pay proposals would be considered by the Employment Committee on the 9th March 2020.

Resolved:

1. That the 2020/25 Strategic Plan for the Local Pensions Partnership, as set out in Appendix 'B' to the report presented, is approved.

2. That the 2020/21 budget for the Local Pensions Partnership, as set out in Appendix 'D' to the report presented, is approved.

15. Local Pensions Partnership update

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Committee considered a report on the performance of the Local Pensions Partnership up to 31st December 2019 which included reference to the pension administration service and contact centre together with a financial summary for the Group up to 30th September 2019.

Resolved: That the updates on activity and performance by the Local Pensions Partnership, as set out in the report presented, are noted.

16. Investment Panel report

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Ms Devitt, Independent Adviser to the Committee, presented a report on the performance of global markets/economies and factors which influenced the investment market in which the Lancashire County Pension Fund operated.

With regard to the current Covid-19 outbreak it was noted that whilst some private businesses had been impacted the Fund continued to outperform benchmarks and maintained a robust position.

Resolved: That the report is noted.

17. Lancashire County Pension Fund Performance Overview

Exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

Mr Lambert, Independent Adviser to the Committee, presented a report on the performance of the Fund up to December 2019 and highlighted a number of key areas including the total portfolio return over different periods, the performance of individual asset classes and the current funding level. The Committee noted that performance of the Fund's investments continued to outperform both the internal and actuarial benchmarks.

Resolved: That the performance of the Fund, as set out in the report presented, is noted.

L Sales
Director of Corporate Services

County Hall
Preston

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected:
None;

Lancashire County Pension Fund - 2019/20 budget monitoring report
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, Head of Fund, 01772 538080
Abigail.leech@lancashire.gov.uk

Executive Summary

Details of the financial performance of the Fund for the year ended 31 March 2020, with a comparison to budget and prior year results, are set out at Appendix 'A'. The data included in the Appendix forms the basis of the year end statutory financial statements.

Recommendation

The Committee is asked to review the financial performance of the Fund for the year ended 31 March 2020 and make comments on the variances outlined in the report.

Background and Advice

The budget for the financial year ending 31 March 2020 was approved by the Pension Fund Committee on the 29 March 2019.

Budgeted net income to the Fund for the year was £13.3m, available for investment, before accounting for changes in the market value of investments during the year.

Appendix 'A' sets out a favourable variance of £13.0m against budget for the financial year – an additional £7.6m on the forecast reported to the committee on 6 March 2020. The key variances from budget are set out below. Please refer to Appendix 'A' for a more detailed breakdown of income and expenditure.

Contributions income

- **Actual £177.0m (Budget £170.1m, forecast at Q3 £175.7m)**

  Income from regular employer contributions increased by more than the inflationary rate applied in the budget and contributed to a £6.9m or 4% favourable budget variance.

Investment income

- **Actual £212.6m (Budget £193.2m, forecast at Q3 £204.3m)**

  The £19.4m surplus investment income, relative to budget, is attributable to income from pooled investments. This is dependent on the timing of distributions and is generally recognised on receipt. Income from pooled infrastructure funds contributed the most significant portion of the variance from budget.

  Pooled investment income for the year includes £7.7m received post year end but due from the real estate fund for the final quarter of the financial year. This wasn't included in the forecast as at end of quarter 3 and accounts for the majority of the variance between actual and forecast.

Total benefits payable

- **Actual £287.1m (Budget £277.7m, forecast at Q3 £282.5m)**

  Pensions paid exceeded budget by £5.4m (2.3%), this being £0.5m higher than the full year forecast reported at the end of quarter 3.

  The remaining £4.0m budget deficit on benefits payable relates to lump sums payable on death and retirement and is the result of membership movements differing from budgeted assumptions. The full year cost of lump sums was broadly in line with the prior year outcome and the budgeted reduction in cost was not achieved.

Investment management expenses

- **Actual £66.9m (Budget £62.7m, forecast at Q3 £70.4m)**

  Investment management fees incurred on pooled investments comprise 81.8% of total expenditure in this budget area and are predominantly fees embedded in the net asset value of investments. The majority are charged as a percentage of the value of investments held with individual managers but some mandates also have performance elements built in. Investment fees are expected to move in line with the value of the portfolio but some types of investment (those with higher risk or rates of return for example) are more expensive than others. The level of fees is therefore partially dependent on investment strategy.

  The increase in fees on pooled investments (£1.5m increase from budget) has been lower than the rise in the proportion of assets now held in pools. The Fund has benefited from savings in pooled investment fees through economies of scale.

  Expenditure on property investments is included within investment management expenses for budget monitoring purposes and is significantly overspent at £6.6m against a budget of £3m. The Fund's property and investment managers have confirmed that this is partly due to a delay in reporting expenditure following the change in property manager, leading to an under accrual in the prior year. Costs previously treated as 'other advisory' costs in the fund account were transferred to property expenditure during the final quarter of the year, which contributed £0.5m to the over spend on property expenses.

Withholding tax suffered on overseas investments was £0.7m less than budgeted and investment transition fees of £0.1m were budgeted but not charged. The combination of these cost reductions reduces the overall variance on investment management fees to £4.2m.

Net income before realised and unrealised profits and losses on investments

- **Actual £26.2m (Budget £13.3m, forecast at Q3 £18.7m)**

  Actual income for the year, from all sources including transfers in, amounted to £406.6m, a positive variance against budget of £34.2m which mitigates the £21.2m overspend on budgeted expenditure items. Since it is the Fund's policy to reinvest investment income the net income of £26.2m does not represent an available surplus of cash.

Consultations

Local Pensions Partnership Investments for investment management fee analysis.

Implications:

This item has the following implications, as indicated:

Risk management

The full year financial performance is included in the Fund's annual report and statement of accounts for the year ended 31 March 2020. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Lancashire County Pension Fund
Fund Account - Year ending 31 March 2020

	Actual year ended 31 March 2019 £'000	Budget year ended 31 March 2020 £'000	Actual for year to 31 March 2020 £'000	Full year budget variance £'000	Notes - see below
INCOME					
Contributions Receivable					
From Employers	(112,248)	(109,676)	(115,446)	(5,770)	
From Employees	(58,641)	(60,394)	(61,534)	(1,140)	
Total contributions receivable	**(170,890)**	**(170,070)**	**(176,981)**	**(6,910)**	1
Transfers in	(11,050)	(9,184)	(17,017)	(7,833)	
Total Investment Income	(198,210)	(193,220)	(212,631)	(19,410)	2
TOTAL INCOME	**(380,149)**	**(372,475)**	**(406,629)**	**(34,154)**	
EXPENDITURE					
Benefits Payable					
Pensions	226,522	233,918	239,299	5,381	
Lump Sum Benefits	48,783	43,767	47,803	4,036	3
Total benefits payable	275,304	277,686	287,102	9,417	
Transfers out	15,770	13,702	20,466	6,764	
Refund of Contributions	611	555	1,073	517	
Contributions Equivalent Premium	(4)	(4)	238	242	
Fund administrative expenses					
Administrative and processing expenses:					
LPP administrative expenses	3,647	3,386	3,421	35	
Write off of bad debts	1	10	1	(9)	
Total administrative expenses	**3,649**	**3,396**	**3,422**	**26**	
Investment management expenses					
Investment management fees:					
LPP directly invoiced investment management fees	1,767	1,895	1,922	27	
DIRECTLY INVOICED non LPP investment management fees - direct holdings	1,433	2,291	2,277	(14)	
Investment management fees on pooled investments	57,604	53,226	54,690	1,464	4
Transition costs	2	120	0	(120)	
Custody fees	29	64	100	36	
Commission, agents charges and withholding tax	0	2,000	1,323	(677)	
LCC recharge for treasury management costs	52	58	58	0	
Property expenses	4,674	3,000	6,574	3,574	5
Total investment management expenses	**65,561**	**62,654**	**66,945**	**4,291**	
Oversight and Governance expenses					
Performance measurement fees (including Panel)	94	78	74	(4)	
IAS19 advisory fees	87	55	(23)	(78)	
Other advisory fees	179	200	121	(79)	
Actuarial fees	9	100	221	121	
Audit fees	45	26	37	11	
Legal & professional fees	68	120	88	(32)	
LCC recharges	446	616	616	0	
Bank charges	7	5	7	2	
Total oversight and governance expenses	**935**	**1,200**	**1,142**	**(59)**	
TOTAL EXPENDITURE	**361,826**	**359,190**	**380,388**	**21,198**	
MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(18,323)**	**(13,285)**	**(26,240)**	**(12,956)**	

NOTES

1 - Regular employer contributions income has increased during the year by more than the inflationary rise applied in the budget. £6.9m additional total contribution income amounts to a 4% budget variance.

2 - Investment income achieved is significantly higher than both the budget and the prior year and is the result of higher than anticipated income on pooled investments - most notably infrastructure. Income from pooled investments, other than pooled property, is recognised on receipt - the income from the pooled property portfolio can be forecast with more accuracy due to the majority being an allocation of rent due on previously directly held properties.

3 - Lump sum benefits are in excess of budgeted levels by £4m but in line with the prior year. It is difficult to forecast for lumpsums which are paid out on retirement and death of members

4 - Investment management fees on pooled investments - Most of the Fund's investment management fees are on pooled investments and are not invoiced but are instead offset against the net asset value of those investments. They include performance fees but the main component is based on the market value of assets under management. Individual managers advise the Fund of embedded fees on a regular basis in arrears and as a result the final figure for the year includes an estimate for fees not yet advised. Fees should be expected to move in line with investment values but will also vary dependent on the investment strategy as some asset categories are more expensive than others.

5 - Property expenses include reimbursement to BNP Paribas of cash float. Expenditure against this budget is not smooth through the year. Property managers forecast a budget overspend due to the timing of expenditure reporting around the transition from Knight Frank to BNP Paribas. 18/19 costs were underaccrued as a result and are charged to the 2019/20 fund account. During Q4 a reclassification of costs from 'other advisory' fees of £461k increased the overspend on this budget line.

Agenda Item 7

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected: None

Annual Governance Statement 2019/20
Appendix 'A' refers

Contact for further information:
Abigail Leech, Head of Fund, Lancashire County Pension Fund (01772) 530808
abigail.leech@lancashire.gov.uk,

Executive Summary

This report presents the draft Annual Governance Statement for the Lancashire County Pension Fund for approval.

The Annual Governance Statement is a review of the governance arrangements for 2019/2020 and, once approved, will be incorporated into the statement of accounts which are presented elsewhere on the agenda for approval.

Recommendation

The Committee is asked to

1. Approve the draft Annual Governance Statement for the Lancashire County Pension Fund as set out at Appendix 'A' to this report.

2. Delegate authority to the Head of the Pension Fund, in consultation with the Chair of the Pension Fund Committee, to make any necessary additional changes to the Annual Governance Statement before it is included in the final statement of accounts for the Fund.

Background and Advice

The purpose of Annual Governance Statement is to enable those charged with the governance of the Fund to review the governance arrangements for the year. Once approved the Annual Governance Statement is incorporated into the statement of accounts. Although the Fund is covered by the County Council's governance arrangements a separate statement in relation to the Fund is required as the overall statement prepared by the County Council will not cover the activities of the Fund in sufficient detail to provide the necessary assurance.

The draft statement set out at Appendix 'A' has been produced to ensure that members of the Committee in their role as "those charged with governance" in relation to the Fund are able to review and consider the adequacy of the Fund's

Lancashire County Council

governance arrangements and to provide assurance on governance as part of the process of preparing the Fund's report and accounts.

In compiling the Statement reliance has been placed on the Pension Fund Governance Policy and the contractual arrangements with the Local Pensions Partnership. In addition the statement reflects the conclusions drawn by the Chief Internal Auditor from her work in relation to the Fund during the year and her review of the internal audit of Local Pensions Partnership.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

A sound Annual Governance Statement which reflects the reality of the operation of the Fund represents a key assurance for members that the control framework is operating appropriately to manage risk

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate
N/A

Lancashire County Pension Fund

Draft Annual Governance Statement 2019/20

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31 March 2020 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 178,150 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse, is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS and has regard to relevant standards such as the Myners' principles. A copy of the Governance Policy Statement is available to view through the following link
https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition) which defines the seven core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The statement also sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both Fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2020.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Lancashire Local Pension Board.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and how such risks are to be mitigated, together with any legal or other considerations that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund. Many of these functions are now performed under contract by the Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on performance in relation to the Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and are subject to review by the Investment Panel.

The administration service is undertaken by Local Pensions Partnership Administration (LPPA) which is now a separate entity. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPPA. The Lancashire Pension Board also review the administration service and met with the Director and Deputy Director of Administration during the year.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely in the county council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following county council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define

how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities. The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk.

Towards the end of the financial year a global pandemic of the Coronavirus known as Covid-19 has taken place. As this represents a significant risk to the Fund a specific risk register has been developed dedicated to Covid-19 which covers the main functions of the Fund namely:

- Administration;
- Funding;
- Investment;
- Governance;
- Member Communications.

Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced. The risk register is regularly reported to the Pension Fund Committee and the Pension Board.

Fulfilling the core functions of an Audit Committee

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The various LGPS Regulations, covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS.
The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP Investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

Assurance provided by internal audit

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by LPP's own internal audit service and a programme of work has been completed in respect of the county council's responsibilities which covered:

- The council's oversight of Local Pensions Partnership Limited;
- Collection of employee and employer contributions;
- Accounting for the Pension Fund through the council's general ledger.

All audits gave substantial assurance that the relevant controls are adequately designed and effectively operated.

In addition the Head of Internal Audit seeks to obtain and understand the assurance provided by LPP's own internal auditors Deloitte. During 2019/20 Deloitte has completed and reported four audits under its three-year risk-based audit plan, two of which relate to LPP's own operation rather than its work in administering the Fund or investing on its behalf. Because the scope of audit work on LPP's activities and the information available about it are both restricted, the council can take only limited assurance over LPP's work. The relevant internal audit work undertaken related to covenant reporting and the 'senior manager and certification regime' (relating to compliance with FSA regulation, on both of which Deloitte provided assurance that the controls were effective with scope for improvement.

Whistle blowing and receiving and investigating complaints from the public

The Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process. The results of this work are reported to the county council's Audit, Risk and Governance Committee.

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake continuing professional development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains transactional capability.

- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the Pension Fund is LPP. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement 'The Role of the Chief Finance Officer in Local Government', and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2019/20 were:

- The triennial valuation of the Fund;
- To monitor the administration service as changes continue to be made within LPP;
- To review the cost of LPP and estimated savings made;
- To revise the Funding Strategy Statement as necessary.

Actions Planned for 2020/21

The following specific actions are proposed for during 2020/21:

- Monitoring the impact of Covid-19 with the continued development and monitoring of a separate risk register;
- Review the governance arrangements of the Fund in light of the expected Good Governance Report from the Scheme Advisory Board;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPP including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken on employer risk and implement any identified changes.

Conclusion

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the Lancashire County Pension Fund.

Signed

……………………………………	………………………………………..
County Councillor Eddie Pope Chair of the Pension Fund Committee	Abigail Leech Head of Fund Lancashire County Pension Fund

Date: …………………………………

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected:
None;

Lancashire County Pension Fund Annual Report 2019/20
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, Head of Fund, Lancashire County Pension Fund, 01772 530808
Abigail.leech@lancashire.gov.uk

Executive Summary

This report sets out the draft Lancashire County Pension Fund Annual Report for the year ended 31 March 2020 for approval by Committee. The publication deadline is 1 December 2020.

The annual report includes the statement of accounts which are included within the Lancashire County Council Statement of Accounts for the year ended 31 March 2020 and have a statutory approval date of 30 November 2020. This deadline is later than prior years due to the changes brought about by the Covid-19 pandemic.

Recommendation

The Committee is asked to:

1. Review the accounts of the Fund (section 'H' of Appendix 'A' to this report) and, subject to any audit adjustment agreed by the Head of Fund, recommend that Lancashire County Council Audit, Risk and Governance Committee approve those accounts at their meeting on 19 October 2020.

2. Consider and approve the 2019/20 Annual Report of the Lancashire Local Pension Board, included as section 'I' of Appendix 'A' to this report.

3. Review the annual report at Appendix 'A' and, subject to any agreed audit adjustments or other minor amendments, approve the document for publication on or before 1 December 2020.

Background and Advice

Regulations require each administering authority to prepare an annual report for the pension fund and publish it before the 1st December following the year end.

The external auditors of the Fund, Grant Thornton, will provide their opinion on the accounts and the annual report of the Fund at, or shortly after, the Lancashire County Council Audit, Risk & Governance Committee meeting scheduled for 19th October 2020. The external audit opinion will focus on whether the information within the annual report is consistent with the audited financial statements included within the Lancashire County Council Statement of Accounts.

Normally the annual report of the Lancashire Local Pension Board would have been presented to the committee in June for approval prior to its inclusion in the Fund's annual report. As the committee in June was cancelled due to the Covid-19 pandemic the annual report approved by the board has been included within the Fund's annual report attached at Appendix 'A' and the Committee is asked to approve the contents.

The terms of reference of the Pension Fund Committee require it to approve the annual report for submission to Full Council. A copy of the Lancashire County Pension Fund Annual Report for the year ended 31 March 2020 is attached at Appendix ‘A’.

The Scheme Advisory Board recommends that the accounts and annual report are also reviewed under the remit of the Local Pensions Board prior to completion and it is intended to present a copy of the annual report to the Board on 13 October 2020.

The content of the annual report is prescribed by Regulation 57 of the Local Government Pension Scheme Regulations 2013 (as amended). CIPFA have also published guidance on the production of the annual report which is available in the Pension Fund Library.

The Fund has complied with the mandatory elements of this statutory guidance and each year looks to improve the transparency of reporting within the annual report.

Key areas to note within the draft accounts are outlined below:

- **Contributions income £177.0m (2018/19 £170.9m)**

Total contribution income from employers and members at £177.0m is consistent with the prior year (£170.9m) and excludes amounts from those employers who exercised the option to pay up-front following the 2016 actuarial valuation.

- **Management expenses £65.0m (2018/19 £76.3m)**

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

<u>Administration expenses £3.4m (2018/19 £3.7m)</u>

Fund administrative expenses are paid to the Local Pensions Partnership and include core pension administration services on a cost-per-member basis together with additional work done on behalf of the Fund around employer risk.

<u>Investment management expenses £60.4m (2018/19 £71.7m)</u>

The movement in investment management expenses is in line with expectations following market movements and the economies of scale associated with the pooling of assets.

Oversight and governance expenses £1.2m (2018/19 £0.9m)

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

- **Investment income £206.1m (2018/19 £193.5m)**

Income from pooled investments increased by £22.3m compared to the prior year, most notably within the infrastructure portfolio. This was offset in part by a £9.6m reduction in income from properties (direct and non-direct) due to a reduction in rental income receivable combined with an increase in property related expenditure.

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

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

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

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

Consultations

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

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

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Council Statement of Accounts for the year ended 31 March 2020, which includes the accounts of the Fund, are to be presented to the Audit, Risk & Governance Committee on 19 October 2020 for approval and will be published in line with the statutory deadline of 30 November 2020.

The annual report of the Fund will be published on or before the statutory deadline of 1 December 2020. Availability of the report will be highlighted in the next newsletter to members.

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

Paper	Date	Contact/Tel

Not applicable.

Reason for inclusion in Part II, if appropriate

Not applicable.

Contents

Appendices

A Foreword by County Councillor Eddie Pope, Chair of the Pension Fund Committee

Welcome to the 2019/20 Annual Report of the Lancashire County Pension Fund.

Towards the end of the financial year the world underwent an unrecognisable change with the impact of Covid-19. The market volatility and economic uncertainty we have seen is unprecedented and will continue to impact on the economy and investments for a significant period of time. I am however pleased to report that the funding level for the Lancashire County Pension Fund has stabilised to the reported valuation level of 100% and we are well placed to meet our obligations to members. The staff within the administration service responded professionally and effectively to the crisis and quickly adapted to working from home. We are still meeting our performance targets and servicing our calls from employers and members in a timely manner.

Some of the highlights of the year are as follows:

Funding

An important function undertaken during the year was the triennial actuarial funding valuation. This assesses the liabilities and assets of the Fund and is used to determine the employer contribution rates with effect from 1 April 2020 to 31 March 2023. Based on the assumptions used by the actuary the Fund was 100% funded which is an improvement from the previous valuation when the funding level was at 90%.

Investment

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

Lancashire County Pension Fund is committed to the long-term responsible investment of retirement savings on behalf of Fund members. The Fund prioritises working in partnership with like-minded investors, and favours collaborative partnerships that collectively gain the attention of companies. As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund is placed alongside 79 other UK local government pension funds. The forum represents and promotes the investment interests held in common and helps maximise joint influence as shareholders. Both I and the Head of Fund are members of the executive of LAPFF.

Further details on investment performance is in section F of this report

Administration

The administration service performed to a high standard in the year with it achieving an overall performance of 98% with all statutory requirements being met and service level agreement targets being exceeded. Membership has continued to increase with numbers now at 178,150, an increase of 1,674 on the year covering over 400 organisations.

Pooling arrangements

Close collaboration continues with our partner LPFA to provide appropriate oversight of our joint ownership of LPP and we would like to thank LPP for successfully mitigating the impact that COVID19 has had on the fund and for ensuring that the needs of members continued to be met. The restructuring of LPP into the Administration unit (LPPA) and the Investments unit (LPPI) in 2020 will create a more efficient operation and provide an enhanced service for their clients.

County Councillor Eddie Pope
Chair of the Pension Fund Committee

B Management and financial performance

Administering authority
Lancashire County Council

Pension Fund Committee
Lancashire County Council committee members
County Councillor J Burrows
County Councillor S Clarke*
County Councillor L Collinge
County Councillor G Dowding
County Councillor C Edwards
County Councillor K Ellard
County Councillor T Martin
County Councillor J Mein
County Councillor E Pope (Chair)
County Councillor A Riggott
County Councillor A Schofield (Deputy Chair)
County Councillor K Snape
County Councillor A Snowden
County Councillor T Ashton**
*Until 20th July 2020
**Appointed w.e.f. 20th July 2020

Co-opted representatives
P Crewe – Trade union
J Tattersall – Trade union
Councillor D Borrow – City and Borough councils
Councillor I Moran – City and Borough councils*
Councillor M Smith – Blackpool Council
Councillor R Whittle – Blackburn with Darwen Council
J Eastham – Further / Higher education
Councillor P Foster - City and Borough councils**
*Until 20th July
**Appointed w.e.f 20th July 2020

Scheme administrators
Local Pensions Partnership Limited

Head of Fund
A Leech

Chief Executive and Director of Resources
A Ridgwell

External auditor to the Fund
Grant Thornton LLP

Pooled investments manager
Local Pensions Partnership Investments Ltd

Non-pooled investment managers
Local Pensions Partnership Investments Ltd
Knight Frank LLP
BNP Paribas

Actuary
Mercer

Lancashire Local Pension Board
W Bourne (Chair)
C Gibson
K Haigh
Y Moult
T Pounder
S Thompson
C Wakeford (County Councillor)*
P Britcliffe (County Councillor)**
K Wallbank
M Salter (County Councillor)***
D Parker****
*Until 12th July 2019
**Appointed w.e.f.12th July 2019 until 8th June 2020
***Appointed w.e.f 8th June 2020
****Appointed w.e.f. 2nd July 2019

Custodian to the Fund
Northern Trust

Independent investment advisors
A Devitt
E Lambert

AVC providers
Equitable Life
Prudential
Utmost Life and Pensions

Legal advisors
Addleshaw Goddard
Allen and Overy
Clifford Chance
DWF
Eversheds
Lancashire County Council
MacFarlanes
Taylor Wessing
Pinsent Masons

Independent property valuer
Avison Young Partnership

Performance measurement
Northern Trust

Governance and research consultants
Pension and Investment Research Consultants

Bankers
Lloyds Bank plc
Natwest Bank plc
Svenska Handelsbanken

Financial performance of the Fund

The Fund asset value increased by £27.6m from £8,410.1m at 31 March 2019 to £8,437.7m as at 31 March 2020 and delivered a 1.8% return on investment assets over the twelve months, outperforming the Lancashire benchmark of 0.34 % and placing the Fund at the top of the 2019/20 Local Authority Fund league table for total fund performance, from a population of 63 local government pension funds.

Net cash flow, income and expenditure

Benefits payable and transfers out of the Fund exceed the value of contribution income and transfers in to the Fund on a regular basis, resulting in a net cash outflow which is funded from investment income.

The Fund collects contributions by direct debit on a monthly basis and does not have a significant issue in respect of timeliness of receipt of contribution income. No interest on overdue contributions has been levied during the year.

A comparison of the key components of income and expenditure of the Fund over time is set out in the table below.

Fund account	2019/20	2018/19	2017/18
	£m	£m	£m
Members contributions	61.4	58.7	56.5
Employers contributions	115.6	112.2	318.4
Contributions income	**177.0**	**170.9**	**374.9**
Transfers in	17.0	11.0	11.5
Benefits payable	(287.1)	(275.3)	(254.8)
Transfers out and other payments to leavers	(21.8)	(16.4)	(17.9)
Net additions/(withdrawals) from dealing with members	**(114.9)**	**(109.8)**	**113.7**
Fund administrative costs	(3.4)	(3.7)	**(3.8)**
Investment management expenses	(60.4)	(71.7)	(57.3)
Oversight & governance costs	(1.2)	(0.9)	**(1.3)**
Net (outflow)/inflow before investment returns	**(179.9)**	**(186.1)**	**51.3**
Investment income	206.1	193.5	138.7
Change in market value of investments	1.4	781.5	221.9
Net increase/(decrease) in the Fund	**27.6**	**788.9**	**411.9**

Following the actuarial valuation in 2016, the Fund gave some employers the option to pay their 3 year future service rate and deficit contributions up-front. A number of employers opted to do this and as a result the employer contributions from the County Council and scheduled bodies for the year ending 31 March 2018 include contributions for the 3 years to 31 March 2020, amounting to £218.0m. This had a significant impact on cash flow and reported income in that year. A similar option was offered and exercised following the 2019 valuation, the result of which will be evident in the income to be reported for the year ending 31 March 2021 as the Fund policy is to recognise contribution income in the period of receipt.

Fund administrative costs are paid to the Local Pensions Partnership and include core pension administration services on a cost-per-member basis together with additional work done on behalf of the Fund around employer risk.

The most significant element of investment management expenses is based upon the value of the investment portfolio, with charges calculated as a percentage of investment value. An increase in these costs would therefore be expected to follow an increased portfolio value.

The allocation of funds to different types of asset class can also impact on the fees chargeable by investment managers since expected returns and risks differ across asset classes. Some of the Fund's mandates also include payment of a performance fee.

The movement in investment management expenses is in line with expectations following the pooling of assets and the associated economies of scale. More information on investment management expenses and the impact of pooling can be found within section 'G' of this annual report.

The change in market value of investments as reported above includes market movements but also profits and losses on disposals and the impact of investment manager fees embedded within the market value of the investments under their management.

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Budgeting

A one year budget is prepared for the Fund on an annual basis and both officers and the Pension Fund Committee closely monitor investment performance, contribution income and expenditure against the budget, with committee reporting on a quarterly basis. The most significant budget variance for the year to 31 March 2020 is a favourable investment income variance of £13m.

Actuarial valuation – 100% funding level

The last triennial valuation was carried out as at 31 March 2019 by the Fund's actuary, Mercer, resulting in a 100% funding level, an improvement on 90% reported following the previous valuation as at 31 March 2016. The 2019 valuation has set the contribution rates for employers within the Fund for three years commencing 1 April 2020 and a copy of the actuarial valuation report is included as section 'J' of this annual report.

C Governance of the Fund

Lancashire County Pension Fund Governance Policy Statement

While the Pension Fund is not technically a separate legal entity, it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework.

Under regulation 55 of the LGPS Regulations 2013, all Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy Statement setting out whether the authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority.

Comprehensive terms of reference have been established for all areas of governance of pension fund activities including the Pension Fund Committee, the Investment Panel, the Lancashire Local Pension Board and issues delegated to the Head of the Lancashire County Pension Fund.

The Pension Fund Committee has considered the governance arrangements relating to the administration and strategic management of Fund assets and liabilities in the light of guidance issued by the Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government, DCLG) and the requirement to complete a Governance Compliance Statement for all areas of governance of pension fund activities.

The Fund’s Governance Compliance Statement is shown on the following page, and the Governance Policy Statement is included as Appendix 2 to this annual report.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT - JANUARY 2018

A. Structure	(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council (b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1) (c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. (d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√ Partial (see Note 1) √ Partial (see Note 3)
B. Representation	(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) independent professional observers (2) (iv) expert advisers (on an ad hoc basis)	Partial (see Notes 1 and 2)
C. Selection and Role of Lay Members	(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times).	√

D. Voting	(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	√
E. Training/Facility time/Expenses	(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	√ √
F. Meetings - Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sit. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	√ √ √
G. Access	(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	√
H. Scope	(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
I. Publicity	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

Notes - Reasons for partial compliance

1) Unitary councils, district councils and further and higher education employers, are represented. Other admitted bodies only represent 9% of contributors to the Fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. trade unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

2) Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by the Fund's independent advisers and officers and it is not apparent what added value such an appointment would bring.

3) The members of the investment panel are not voting members on the committee. However, all the panel members attend the committee meetings and are able to contribute to any discussions.

D Administration of the Fund

Background to Lancashire County Pension Fund and the Local Government Pension Scheme
The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis".

Lancashire County Council as "Administering Authority" is required by law to administer the scheme within the geographical area of Lancashire.

Pension administration services are provided to Lancashire County Pension Fund by the Local Pensions Partnership (LPP). Due to an internal reorganisation, in June 2020, LPP is now LPPA (Local Pensions Partnership Administration) and operates as a standalone administration business separate to the investment side of the business.

Response to Covid 19 coronavirus pandemic

The administration service has essentially maintained 'business as usual' throughout the pandemic with all employees working from home since late March 2020. With the emergence of local lockdowns in Lancashire, LPPA staff are unlikely to return to offices until at least January 2021.

Performance against service level agreements has remained consistent with productivity unaffected by working remotely and pension increases, P60's and annual benefit statements have been applied and issued ahead of statutory deadlines.

In response to the transition to home working, a planned improvement to the help desk system was implemented early, providing enhanced call and e-mail functionality. Despite a temporary increase in call-waiting times, customer satisfaction scores increased in April and May and have normalised in June and July.

Face to face member engagement has been suspended with 'virtual' employer visits being introduced on a limited basis.

Guidance produced by the Local Government Association regarding the pandemic has been distributed to employer organisations and members where appropriate and a link to the Local Government Association employer coronavirus webinars is available on the Your Pensions Service website.

Other changes made in response to the pandemic have included the updating of forms on the administration service website to enable electronic completion, the issuing of reminders to employers and members that scanned and photocopied versions of key documents and certificates are acceptable and the development of a guide on the treatment of furloughed members.

Review of the Year

The operating model for the administration service has three main elements:

- Member services
- Engagement and communications
- Helpdesk (formerly Contact Centre)

For the year 19/20, casework service performance metrics have been consistently achieved.

	Q1	Q2	Q3	Q4	Annual
Performance against SLA	95%	98%	99%	99%	98%
Complaints	64	43	27	38	172

During the year to 31 March 2020, 39,406 individual calculations and enquiries were completed, of which 34,783 met the performance standard; an overall performance of 98%.

Satisfaction surveys have been introduced during the year to measure member satisfaction at key points in the member journey. A summary of the results is detailed below:

	Q1	Q2	Q3	Q4	Annual
Calls into the helpdesk	96%	93%	84%	85%	90%
Emails into the helpdesk	62%	69%	67%	77%	69%
Retirement cases	61%	72%	69%	75%	71%

The calls into the helpdesk and email scores are across multiple schemes administered by LPPA. The question for the call survey was changed between Q2 and Q3 which accounts for the falling score.

The retirement survey is specific to Lancashire County Pension Fund.

The next phase of the service improvement programme will include enhancements to the member and employer experience through new technologies and digital solutions. Notably a full review of the workflow and calculations system will take place in the next financial year (20/21) alongside investment in the engagement and communications team.

Membership and employers

The Scheme is administered on behalf of over 400 organisations including local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector. The Local Government Pension Scheme is open to 2 main types of employers, 'Scheduled Bodies' and 'Admitted Bodies'.

Scheduled bodies listed in Part 1 of Schedule 2 of the LGPS regulations must participate in the scheme. Those scheduled bodies listed in Part 2 of Schedule 2 are eligible to participate.

Admitted bodies participate through a written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership. Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Fund membership	**31 March 2019**	**31 March 2020**
Active scheme members		
Lancashire County Council	25,721	25,614
Other employers	27,422	28,340
Total*	**53,143**	**53,954**
Pensioners		
Lancashire County Council	24,692	25,497
Other employers	24,651	25,674
Total**	**49,343**	**51,171**
Deferred members		
Lancashire County Council	37,691	36,753
Other employers	36,299	36,272
Total*	**73,990**	**73,025**
Total membership	**176,476**	**178,150**

*The number of active scheme members at 31 March 2020 includes 2,985 pending leavers who are accounted for as a deferred member for the purpose of this report.

** The number of pensioner members of the Fund has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.

New pensioners during the year to 31 March 2020 are analysed in the following table.

Pensioners at 1 April 2019	**49,343**
Normal retirements	1718
Early retirements	549
Dependants	535
Late or flexible retirements	268
Ill health retirements	139
Retirements through redundancy	182
Trivial Commutation	(266)
Deaths	(1410)
Pensioners at 31 March 2020	**51,058**

Performance

The Pension Fund Committee receives quarterly reports on the administration of the Fund ensuring that best practice standards are satisfied and met and to satisfy itself and justify to all stakeholders, including employers that the Fund is being run on an efficient and effective basis.

Specific service level standards and corresponding service level targets have been agreed between the Fund and the Local Pensions Partnership and an Annual Administration Report is presented to the Pension Fund Committee. A copy of the report for the year to 31 March 2020 is included as Appendix 3 to this annual report.

Customer Service

Each year the service's dedicated engagement and communications team undertakes a variety of events, courses and presentations. In addition the team visits scheme employers to maintain and improve working relationships. The engagement team also undertakes annual pension surgeries and pension drop-in sessions as well as facilitating an annual employer conference.

The annual employer conference was held on 15 November 2019 at the Hallmark Hotel in Leyland, with over 100 employers in attendance. The service also hosted an employer forum in April 2019 on behalf of the Fund with over 40 finance professionals in attendance. These events included an update on the administration service and regulatory developments alongside focuses sessions on the retirement process.

A dedicated helpdesk provides the first point of contact for members and employers. The contact centre has a target to answer 90% of calls received. Between 1 April 2019 and 31 March 2020, 35,502 LCPF calls were received and 95% of them were answered.

During the year to 31 March 2020, 172 complaints were received (208 in the previous year). The complaints in general related to delays in processing benefits. It is worth noting that this was at times due to pending information from the employer or previous scheme provider. In the next year, LPPA have introduced targets to reduce the time taken (elapsed time) for key retirement and bereavement cases.

Legislative Changes

During the year there were 2 sets of legislation coming into force which directly affected the LGPS.

The first of these was The Local Government Pension Scheme (Amendment) Regulations 2019 which were laid in December 2019 in response to The Civil Partnership (Opposite sex couples) Regulations 2019 which allowed opposite-sex couples to apply for civil partnerships in England and Wales. As such from 31 December 2019, following the death of an LGPS member in an opposite-sex civil partnership, death benefits are now provided to surviving partners.

The second of these was the laying of The LGPS (Amendment) Regulations 2020. These regulations give effect to the proposal contained in the local valuation cycle and the management of employer risk consultation, to allow administering authorities to take account of an employer's exposure to risk when calculating an exit credit. More recently the laying of The LGPS (Amendment) (No.2) Regulations 2020 on 27 August 2020 allows Funds greater flexibility on employer exit payments and the ability to review employer contributions between valuations.

Additionally a number of consultations were on-going through the year. Most notably was the McCloud consultation. A consultation on draft Regulations introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales was released on 16 July 2020. The proposals look to remedy the unlawful discrimination, identified by the court judgement on the McCloud case, which ruled the protection of older members was discriminatory when this was introduced following the reforms of the LGPS in April 2014. Effectively active members within ten years of their 2008 Scheme normal pension age on 31 March 2012 were granted transitional protection by means of a final salary underpin, i.e. a comparison of the benefits that could have been accrued under the previous final salary scheme. As a consequence the draft regulations set out in the consultation will essentially remove the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.

Legislation requires HM Treasury and the Scheme Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Earlier calculations for the 2016 process found that the cost "floor" had been breached, which meant that improvements to benefits or changes to member contributions would be required (with effect from 1 April 2019) to bring the cost of the LGPS back to the target level. However, the processes were paused pending the outcome of McCloud. On 16 July 2020 the government announced that the cost cap process would now be restarted to take account of the changes brought in by McCloud in the cost assessment. As a result once the costs of the McCloud rectification are allowed for this may reduce or eliminate the need for any further cost/benefit changes.

Draft regulations for capping public sector exit payments were also published on 21 July 2020, effectively legislating for the implementation of the proposed £95,000 cap on public sector exit payments.

Service Developments

The Fund's administration service processed 39,406 items of work in the twelve months to 31 March 2020.

Working closely with employers helps to enhance the quality and timeliness of data meaning that Annual Benefit Statements for the year ended 31 March 2020 were published in line with the statutory deadline of 31 August 2020.

Pension surgeries are hosted throughout the county on an annual basis from October through to March. The sessions help members to understand their annual benefit statements and members can also be helped through the process of registering to use the online self-service portal.

Additionally, 20 pre-retirement presentations and 10 scheme basic presentations have been delivered during the year. These events are being migrated to online webinar sessions in line with Covid-19 imposed working restrictions.

Online Services

My Pension Online is an online facility allowing members to view their details and also securely update any changes in contact details.

Members who are registered can run various pension estimates assisting with planning for retirement. Members can also view their P60 and annual benefit statement via My Pension Online. Payslips are also published monthly.

Other benefits of the system include: allowing members to view their nominated beneficiaries; access to a host of forms and guides and also allows the administration service to communicate with registered members via email.

Currently around 35% of Lancashire County Pension Fund members are registered online.

Appeals

Fund members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the Local Government Pension Scheme rules.

The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer appointed by the administering authority to review the disagreement.

Charges and value for money

The administration business charges the Fund on a per member basis. The Head of Fund is advised of the proposed charges for the upcoming financial year in writing and these charges are reviewed for value for money and consistency with market rates by the Pension Fund Committee and Head of Fund on an ongoing quarterly basis.

The shareholder agreement principles include a requirement for any decision made by the Local Pensions Partnership to ensure long term value for money, evidenced by savings, efficiencies or service improvements when compared to the arrangements and costs of the combined predecessor organisations. Where a new service is carried out by the partnership then comparison should be to wider market benchmarks.

Other information

For further information relating to the administration of the scheme please refer to the Communication Policy Statement and the Pensions Administration Strategy Statement included as Appendix 4 and Appendix 5 to this annual report respectively.

E Knowledge & skills framework

There is a requirement for all those involved in the management and oversight of public sector pension funds (whether members or officers) to ensure they achieve the level of knowledge and skill necessary for performing their duties and responsibilities effectively.

CIPFA pensions finance knowledge and skills framework
The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a code of practice on public sector pensions finance knowledge and skills in October 2011 which was revised in 2013 to reflect the provisions of the Public Service Pensions Act 2013 and remains a definitive guide to expected standards.

The Code of Practice works in conjunction with detailed knowledge and skills frameworks (KSF) also published by CIPFA which support knowledge and skills development by all those involved in the management and oversight of public sector pension funds.

In 2015 a new KSF focussed on the knowledge requirements of Local Pension Board members was introduced to reflect the Pensions Regulator Code of Practice No 14 which came into force in April 2015. CIPFA has identified a syllabus of 8 core areas of knowledge across the KSFs it has published to date:

1. pensions legislation;
2. public sector pensions governance;
3. pensions administration;
4. pensions accounting and auditing standards;
5. financial services procurement and relationship management;
6. investment performance and risk management;
7. financial markets and product knowledge;
8. actuarial methods, standards and practices.

Training approach
Since its adoption of the CIPFA Code of Practice in February 2012 the Pension Fund Committee has reviewed the Fund's training approach at regular intervals. The current training policy for the Fund is aimed at ensuring the Fund is overseen by individuals who:

- have appropriate levels of knowledge and skill;
- understand and comply with legislative and other requirements;
- act with integrity and;
- are accountable to the Fund's stakeholders for their decisions.

The competency and performance of senior officers charged with managing and directing the Lancashire County Pension Fund fall under the auspices of Lancashire County Council's Performance Management process and wider continuing professional development (CPD) frameworks. For this reason, officers are outside the scope of this training policy which focusses specifically on the training needs of members of the Pension Fund Committee and Lancashire Local Pension Board.

The policy provides a framework for ensuring members receive appropriate support (both collectively and individually) for gaining the knowledge and understanding they need. Training is responsive to the learning needs of individuals in their different roles and members have regular opportunities to build skills and knowledge through a range of methods and approaches including:

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via a secure online library

Committee and Board members are personally responsible for identifying gaps in their knowledge which could prevent them performing their duties effectively. They are expected to undertake self-directed learning to complement the training provided and to seek additional support and advice from fund officers as required.

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) during the year ended 31 March 2020 are detailed below.

Date	**Subject**	**Venue**	**Attendees**	
			PFC	**LLPB**
2 April 2019	Workshop on the Service Improvement Plan for LPP pension admin service	County Hall, Preston	2	3
9 May 2019	ESG & Sustainable Investments For Pension Funds Conference	London.	1	0
13 May 2019	Local Authority Conference 2019	Gloucestershire.	1	0
15 May 2019	Workshop on Employer Covenant Risk and Emerging Issues	County Hall, Preston.	6	3
7 June 2019	Responsible Investment update (from 23rd January 2019) - viewed online	County Hall, Preston	0	1
21 June 2019	Pre Committee briefing on the 2018/19 Annual Report and accounts	County Hall, Preston	11	0
July 2019	Investment and LGPS issues Conference	Watford	0	1
11 Sept 2019	Workshop on LCPF Risk Framework	County Hall, Preston	7	4
22/23 Sept 2019	Pension Trustees Circle Seminar	York	1	0
25 Sept 2019	Introduction to the LGPS	London	1	0
Oct 2019	Briefing on LGPS valuations	London	0	1
15 Oct 2019	Pre Board briefing – data recording and reporting breaches of the Law	County Hall, Preston	0	9
16/18 Oct 2019	Annual Conference and Exhibition 2019	Manchester	3	0
17 Oct 2019	'Fundamental' training programme	Leeds	0	1
Nov 2019	Room 151 LGPS Investment issued Conference	London	0	1
5 Nov 2019	Workshop on the role of LAPFF – Climate Change and lobbying	County Hall, Preston	9	2
14 Nov 2019	ESG & Topical Investment Issues for Local Authority Pension Investors.	London	2	0
14 Nov 2019	'Fundamental' training programme	Leeds	0	1
15 Nov 2019	YPS Practitioners Conference	Leyland	0	1
27 Nov 2019	2019 LGPS Indaba	London	0	1
4/6 Dec 2019	LAPFF Annual Conference	Bournemouth	1	0
5 Dec 2019	'Fundamental' training programme	Leeds	0	1
15 Jan 2020	Local Authority Responsible Investment Seminar	London	1	0
22 Jan 2020	Workshop on the role of The Pensions Regulator	County Hall, Preston	7	3
23 Jan 2020	Annual LGPS Governance Conference	York	1	2

Feb 2020	Local Pension Board Spring Seminar	London	0	1
6 Feb 2020	Strategic Investment Forum	London	1	0
7 Feb 2020	Pre Committee briefing on the 2019 Actuarial Valuation	County Hall, Preston	7	0
7 Feb 2020	Workshop on Local Pension Partnership Budget	County Hall, Preston	6	2
17 Feb 2020	LGPS Local Pension Board Members Spring Seminar	Leeds	0	2
6 Mar 2020	Pre Committee briefing on Responsible Investment	County Hall, Preston	14	0
11 Mar 2020	Workshop on the Local Pension Partnership Governance Charter 2020	County Hall, Preston	4	4
18 Mar 2020*****	UCEA Annual Higher Education Pensions Conference	London	1	1
19 Mar 2020*****	Local Authority Pension Fund Issues Conference	London	0	1

***** Two Conferences in March 2020 were cancelled following the introduction of the Lockdown by the UK Government in response to the outbreak of the Covid-19 pandemic. Officers are monitoring the situation with regard to the Conferences being rescheduled to a later date in 2020.

In addition a total of 16 of the modules listed below from The Pension Regulators Public Service Toolkit have been completed by 3 members of the Lancashire Local Pension Board during the specified period:

1. Conflict of interest.
2. Managing risk and internal controls;
3. Maintaining accurate member data;
4. Maintaining member contributions;
5. Providing information to members and others;
6. Resolving internal disputes;
7. Reporting breaches of the law.

F Investment Policy and Performance

Performance

As a pension fund, the Lancashire County Pension Fund's ("the Fund") investment horizon is long-term. The investment strategy is based on the Fund's objectives of balancing capital growth with capital preservation, maintaining adequate cash flows to cover all liabilities as they fall due. Correspondingly, the Fund invests its assets to meet its liabilities over the long-term, and performance should be assessed against these objectives and over a commensurate period.

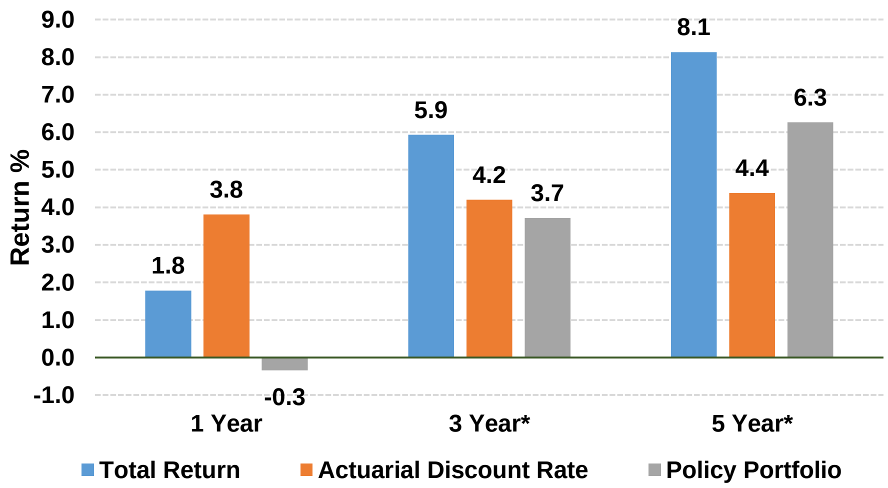
All the performance figures presented here are as at 31 March 2020. Over the year, the Fund's assets delivered a total return of +1.8%, outperforming its "policy portfolio" (an aggregate benchmark return comprised of each asset classes' target return) by over 2%. However, the portfolio's total return lagged the "actuarial benchmark / discount rate" (the rate that The Fund's liabilities are assumed to grow at) by a similar margin.

The value of the Fund's investment assets at 31 March 2020 was £8,321 million, (2019: £8,327 million). 2019/20 was a challenging year for asset returns, due to the market volatility and unprecedented levels of economic uncertainty caused by Covid-19 during the final quarter of the financial year, and into 2020/21. The impact of the pandemic on the worldwide economy and on the Fund's investment portfolio is expected to continue for a significant period of time. Despite these conditions, private equity was by the far the standout contributor with returns in excess of 25%, while the Fund's public equity allocation demonstrated its defensive and quality characteristics by outperforming relative to its benchmark. Longer-term (over a 3-year or 5-year horizon) the Fund's returns have been strong, comfortably outpacing both its actuarial benchmark and its policy portfolio.

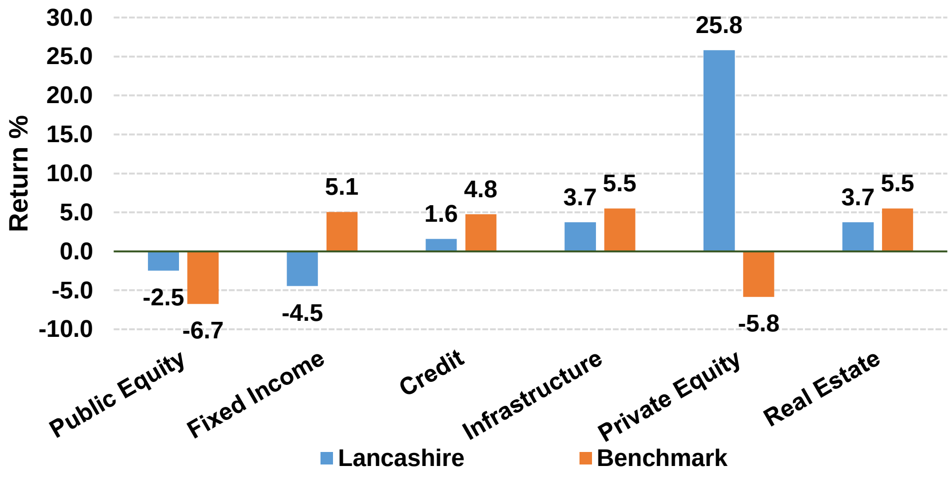
Return Metric	1 Year	3 Year*	5 Year*
Investment Assets Return	1.8%	5.9%	8.1%
Actuarial Benchmark	3.8%	4.2%	4.4%
Policy Portfolio	-0.3%	3.7%	6.3%

Asset returns are shown net of fees
* Annualised Returns

Total Fund performance at 31 March 2020



One-year Fund performance by asset class at 31 March 2020



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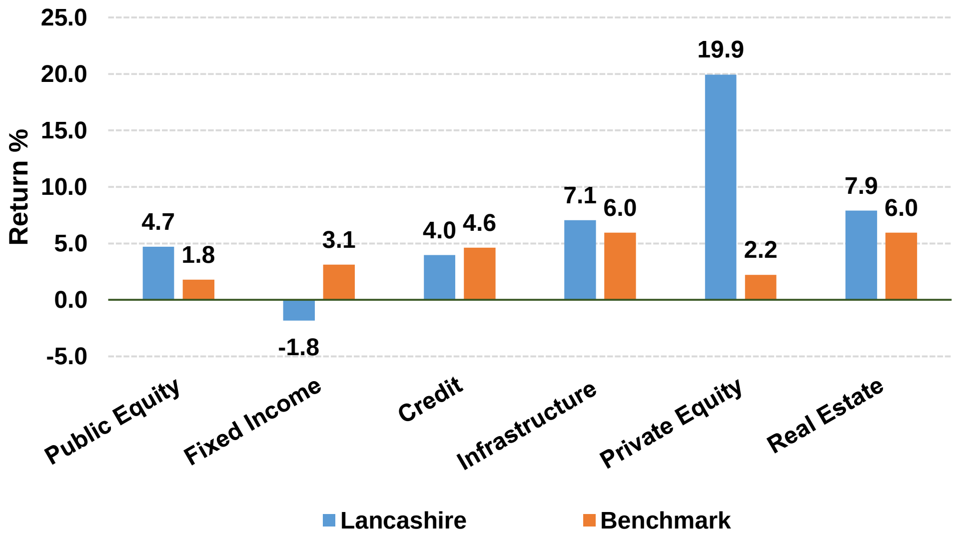
Three-year Fund performance by asset class at 31 March 2020



Investment pooling

In 2016, the Fund appointed Local Pensions Partnership Investments Limited ("LPPI") to manage its assets. LPPI is a Financial Conduct Authority ("FCA") regulated Investment Company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA has also appointed LPPI to manage its assets, in addition to The Royal County of Berkshire Pension Fund ("RCBPF") which joined the pooling initiative in May 2018. LPPI's in-house investments teams, which began as a blend of personnel from each of the three Fund' internal resources, have bloomed with the addition of external hires – including the current Chief Investment Officer. LPPI has created seven asset "pools" vehicles to manage clients' assets across public equities, fixed income, diversifying strategies, credit, infrastructure, private equity and real estate. The real estate pool was created in Q4 2019.

Further information regarding the Local Pensions Partnership pools in which the Fund participates, including set-up, investment transition and ongoing investment management costs is available in section G, 'Asset Pooling' of this annual report.

Note 13 to the financial accounts, section H, provides an analysis of investments between those held within the LPPI pools and those assets within the Fund's portfolio that are not.

Current and Strategic Asset allocation

In recent years, the Fund has focused on reducing its equity risk, increasing allocations to other asset classes such as infrastructure, real estate and credit with the intention to better diversify its exposure and to increase its allocation to greater income generating assets. Over the course of 2019, public equity markets rallied strongly and led to an overweight position for the Fund. Steps were taken to mitigate the Fund taking excessive public equity risks by rebalancing back towards the strategic benchmark with excess reallocated into fixed income and establishing a position in diversifying strategies. Both proved to be beneficial for the Fund, protecting from the significant market drawdown in Q1 2020.

The performance of the Fund's assets is assessed on a "total return" basis (i.e. income and capital return combined). Having adequate cash inflows to pay liabilities as they fall due reduces both the need for investment trading (and its impact on fees) and the risk of having to liquidate assets during adverse market periods (which can have a negative effect on assets that are marked-to-market). Ultimately, the aim is to improve risk-adjusted returns over the long term, whilst ensuring the Fund's objectives are met.

The following table presents the Fund's current asset allocation versus strategic target at the end of March 2020

Asset Class	March 2020		March 2019		Strategic Allocation (%)	Range
	Assets (GBP Million)	Allocation (%)	Assets (GBP Million)	Allocation (%)		
Public equities	3,455	41.0%	3,730	44.4%	42.5%	40% - 50%
Fixed income	333	4.0%	315	3.8%	2.5%	0% - 5%
Diversifying strategies	90	1.1%	-	-	0.0%	0% - 5%
Credit	1,098	13.0%	1,486	17.7%	15.0%	10% - 25%
Infrastructure	1,181	14.0%	1,146	13.7%	15.0%	10% - 20%
Private equity	778	9.2%	650	7.7%	5.0%	0% - 10%
Real estate	910	10.8%	886	10.6%	15.0%	10% - 20%
Legacy shared ownership*	331	3.9%	-	-	4.0%	0% - 5%
Cash	253	3.0%	182	2.1%	1.0%	0% - 5%
Total	**8,429**	**100%**	**8,395**	**100%**	**100%**	

*As reported in the Fund's 2019 Accounts, the Legacy shared ownership (Heylo Housing) resided within the Credit allocation. It has since been separated out into its own allocation grouped within Real Estate.

The allocation of the Fund's assets for the previous financial year has been added for comparison purposes. LPPI provides input to the Fund on its long-term strategic asset allocation (SAA), but the Fund retains autonomy in deciding how this is set. LPPI has discretion to manage the Fund's assets within the asset class ranges set as part of the SAA decision.

The Fund's SAA targets and ranges have been adjusted slightly following the restructure of the legacy shared ownership investment – Heylo Housing. Consequently, the investment has been moved out of the Fund's credit allocation and now has its own SAA target and range, albeit grouped under the Fund's wider real estate allocation. All other SAA targets and ranges have remained unchanged since December 2017. The next SAA review is in progress (at the time of writing) and is to be discussed with the Fund's representatives later in 2020.

Macro outlook – the last 12 months

This fiscal year saw a period of slowing global economic activity, although there is a stark contrast between growth levels exhibited in the first three quarters and the last quarter (through March 2020) amid the COVID-19 outbreak. Gross domestic product ('GDP'), inflation and real rates are key macroeconomic variables for our "top-down" asset class analysis.

Between April and December 2019, the global deceleration in GDP growth was not as uniform as was seen in 2018. The U.S. and China fared better among major economies, whilst countries including the U.K., Germany, France, Italy, Japan and India were key contributors to the drag on global activity. Amid this macroeconomic backdrop, price pressures (i.e. inflation) held mostly stable from a global standpoint, as decreasing growth was balanced by tighter labour markets (i.e. increasing employment), higher wage growth and ongoing accommodative policies.

Regarding policy, the Federal Reserve decreased its target rate by 0.75% in the first three quarters to a range of 1.50% to 1.75%, reversing all monetary tightening implemented in the previous fiscal year. Despite this, the dollar strengthened moderately against major currencies during this period, as uncertainties abroad (related to an escalation of trade tensions with China, as well as the U.K.'s exit from the European Union) unfolded.

During the last three quarters of 2019 broader investment performance has been strong across most asset classes and strategies due to a particularly strong finish at the year end. Global equities returned approximately 13% during this period, with various credit assets as well as government bonds, also performing well. As 2019 drew to a close optimism for the year ahead swelled due to strengthening asset performance, improved investor sentiment, looser monetary and in some cases fiscal policies, the U.K.'s withdrawal from the E.U. in an orderly way, as well as the trade agreement between the U.S. and China.

However, the COVID-19 outbreak swiftly changed all of this during the first quarter of 2020. In mid-February as the virus continued to spread within China and make its first appearances internationally no one could foresee the full toll it would have on the global economy. At that time the IMF was still forecasting growth to rebound to 3.3% globally in 2020 from 2.9% the prior year.

However, as COVID-19 transformed into a pandemic and governments started to impose lockdowns and unprecedented restrictions on social life, work and travel, the dreadful impact became clearer by the day.

The first quarter of 2020 saw some of the worst economic results in decades. When compared to consensus estimates, the majority of realised results were unsurprisingly mostly on the downside. This occurred even whilst most lockdown measures were only in place for a limited period in the first quarter, such was the speed of the reaction to the crisis. It is widely expected that Q2 GDP and other economic results will be worse still. It is anticipated that a reversal of social restriction measures will start lifting activity from Q3 on a quarter-by-quarter basis, although on a year-by-year basis the result will be lower. For many regions, GDP is not expected to reach 2019 levels until the end of 2021 or even 2022.

For the U.K., this fiscal year has been a tough one with the economy failing to grow in three of the past four quarters. Brexit, political uncertainty and headwinds from a weakening global economy meant the U.K. entered the COVID-19 crisis on a weak footing. Despite not being evident in official results, unemployment started to rise in March as businesses closed down, temporarily or permanently laying off employees.

In an economy where consumption is a key driver of growth, maintaining a strong labour market and consumer purchasing strength is key to recovery. The U.K. was among the first countries to push for a coordinated response to the pandemic (between its central bank and government) and both have implemented a variety of measures since March. These included a 0.65% reduction to the Bank of England (BOE) base rate to 0.1%, additional central bank asset purchases of government and corporate bonds, low cost business loans, various tax cuts, deferrals and grants, as well as a government commitment to support furloughed and self-employed workers. Although these will not deter the expected economic strain in Q2, they are significant levers for future economic recovery.

In Q1 2020 asset volatility spiked with strong performance in January giving way to a significant drawdown in February and March. In these latter months, daily price swings in equity markets reached extreme levels and government bond yields plunged as investors reversed their positions into “safe heaven” assets; Gold prices rose strongly too. A second hit came from the steepest decline in decades for oil prices at the beginning of March, which affected oil producers heavily, whilst benefiting consumers little amid lockdown restrictions.

The Fund entered this crisis positioned conservatively without significant overweight positions (versus target strategic weighting) in risk assets, including public equities, which saw the most pronounced drawdowns. Prior to the equity market drawdown, the Fund reduced its overweight position built up in public equities. Furthermore, overweight positioning in cash, fixed income and diversifying strategies proved helpful, as their performance was better in relative terms than equities during this period. The latter two were funded as a result of trimming down the public equities allocation which grew as bearish sentiment transformed into significant declines for public equities. LPPI transitioned a moderate allocation from the client's excess cash balance back into equities, which have since risen strongly.

Although there is still uncertainty around the pace of economic recovery, COVID-19 itself and other medium-term risks, the Fund's portfolio continues to be well diversified across different asset classes, regions and sectors. LPPI will continue to invest in line with the Fund's long-term investment horizon and objectives of balancing capital growth with capital preservation, whilst maintaining adequate liquidity to cover all liabilities as they fall due.

Global public equities

Public equities are commonly viewed as one of the highest-returning liquid asset classes and represents the largest asset class exposure for the Fund. The entirety of the Fund's allocation to public equities is invested in the LPPI Global Equity Fund ("GEF"); a combination of an internally managed portfolio with a variety of external equity managers, which operate with differing and complementary styles of investment selection. During the year LPPI has not changed the composition of external managers within its GEF. The GEF maintains a quality (factor investing style) bias, however other styles are included to provide diversification.

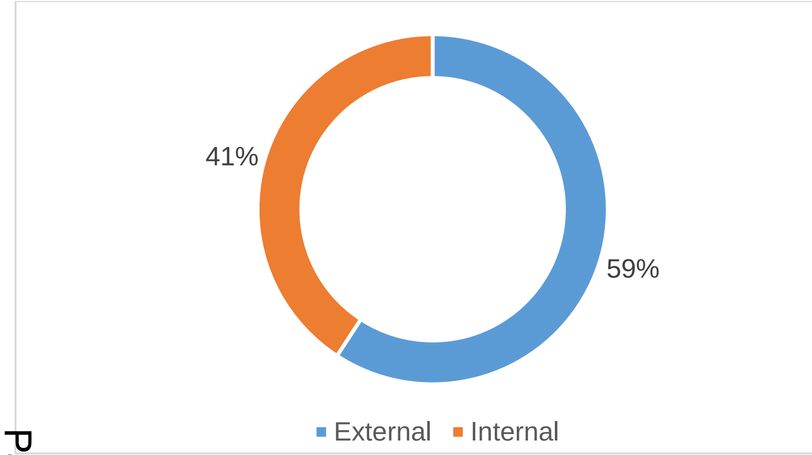
Supported by thawing trade concerns and central bank easing, global equity markets rebounded strongly over 2019 following a turbulent end to 2018. Markets however dropped in unison over Quarter 1 2020 as the coronavirus (COVID-19) spread globally, leading to one of the fastest declines in stock market history. Against a challenging backdrop, the Fund's public equities portfolio generated a return of -2.5%. The GEF's tilt towards companies with more stable and durable business models can be attributed to its outperformance of the wider equity market by 4.6%, as stocks in GEF showed greater resilience in the downturn. The GEF's relative performance over the year mirrors its outperformance since its inception in October 2016.

The GEF exhibited a low turnover of holdings and a stable roster of external managers, reflecting a long-term investment philosophy. This translates to broadly unchanged sector and regional exposures compared to the benchmark, the MSCI All Country World Index (MSCI ACWI), over the year. From a sector exposure perspective, the GEF maintained an overweight to consumer staples versus its benchmark, which follows naturally from the bias towards holding the stock of high-quality companies. From a regional exposure perspective, Western Europe (which includes the UK) remains the largest overweight position, whilst the Asia-Pacific region is the Fund's largest underweight. Overall, the GEF maintains an underweight position to emerging markets compared to benchmark.

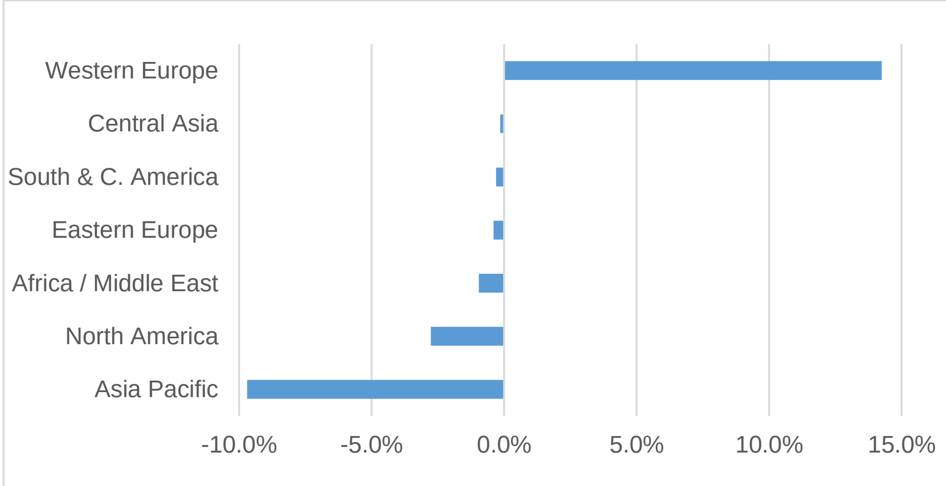
A significant development within LPPI's internally managed portfolio was the formalisation of the mandate focusing on opportunities within small and mid-cap companies. Intentions are to increase this segment to a target weight of 5% of the Fund over the course of 2020.

Looking ahead, LPPI remain confident that the bias towards equity managers who exhibit a significant tilt towards quality stocks will continue to provide superior risk adjusted returns versus the wider global equity markets over the longer term.

LPPI GEF – internal vs external breakdown as at 31 March 2020



LPPI GEF–regional weights v MSCI ACWI as at 31 March 2020



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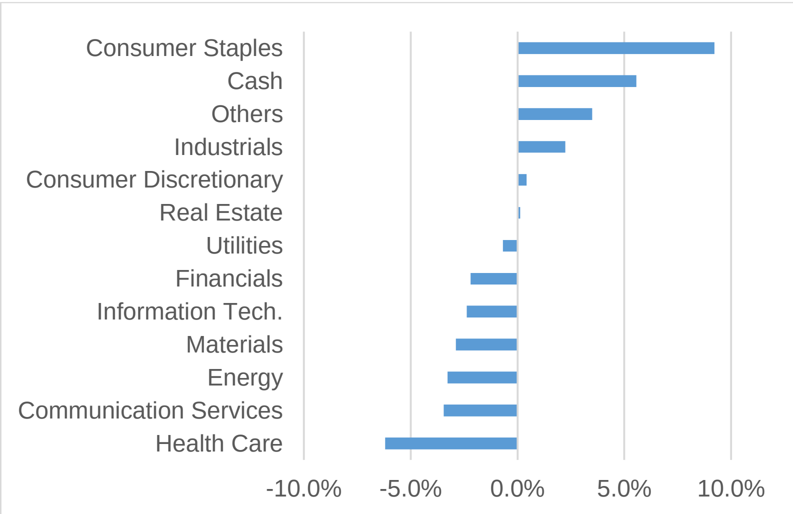
LPPI GEF – sector weights v MSCI ACWI as at 31 March 2020



Fixed income

LPPI's Fixed Income Fund ("FIF") was launched in February 2018 and the Fund committed capital on launch day. The FIF currently consists of two complementary managers, one with a "top down" investment style and the other with a "bottom up" focus.

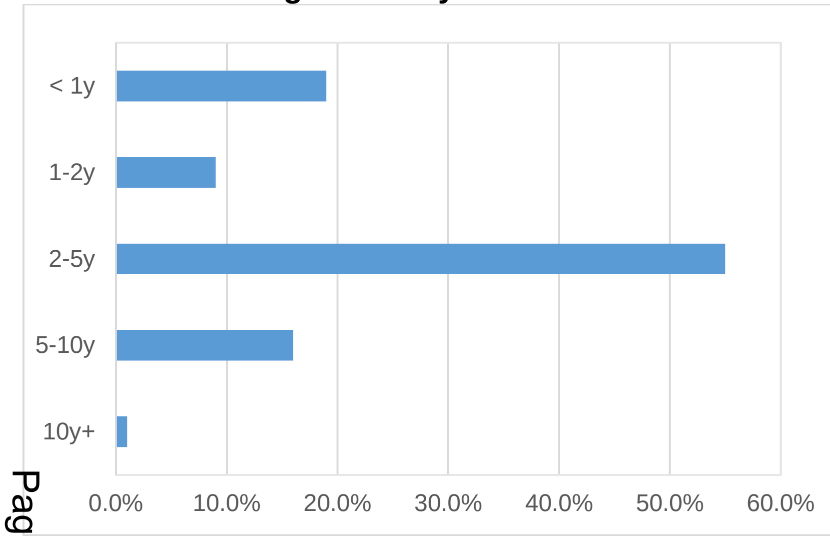
Prevailing themes of trade tensions between the US and China, decelerating world economies and the change in tack by central banks through the revival of monetary stimulus efforts largely underpinned fixed income market dynamics in 2019. Against this backdrop both risk (credit) and safe-haven (government issuance) assets performed well. However, this uniform ascension in value was short lived. The negative impact of COVID-19 on businesses and the wider economy over the first quarter of 2020 triggered sharp declines in risk assets, including investment-grade corporate bonds as well high yield debt. Meanwhile government bonds benefited from a flight to quality sentiment.

The trend of falling interest rates in recent years forms doubt regarding the ability to profit from them falling further. This view is reflected in the FIF's low duration / interest rate risk exposure. The FIF's prudent stance on rate risk led to performance lagging the benchmark (Bloomberg Barclays Global Aggregate Bond Index GBP-Hedged) to the end of the reporting period. However, heading into 2020 the FIF exceeded its target return of LIBOR + 2% with positioning benefiting from the macro environment. The unanticipated arrival of the COVID-19 pandemic and extreme caution shown in response by investors impacted the credit focus of the FIF. Spreads on a range of credits and securitised products widened significantly as a result, hurting returns and undoing much of the positive gains made within 2019. Over the reporting period, the FIF returned -4.5% against the benchmark return of +5.1%.

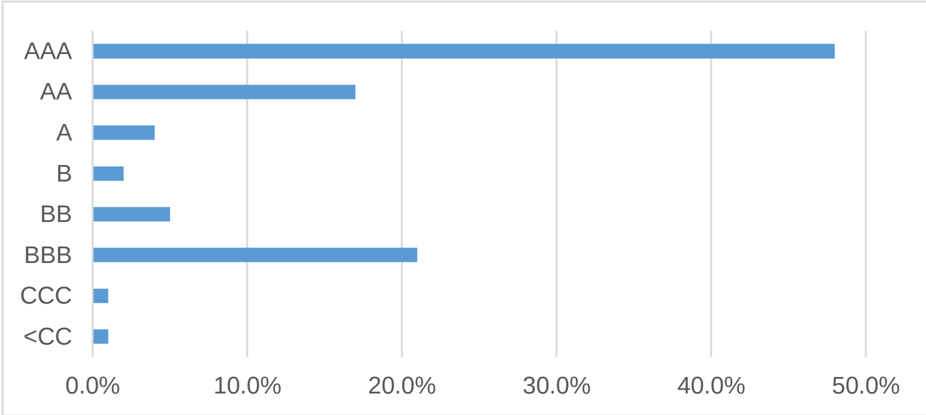
On the following page are three charts, exhibiting the FIF's aggregate positioning as at 31 March 2020. Please note that individual exposures may not total 100% due to derivative contract positions.

Based on LPPI's investment outlook, the FIF will continue to be credit focused with prevailing market conditions providing opportunities to generate target returns.

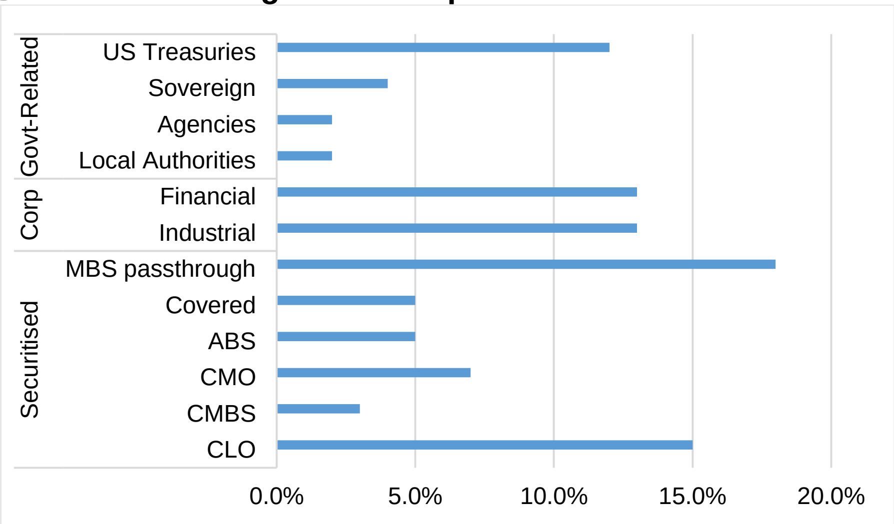
LPPI FIF – holdings maturity as at 31 March 2020



LPPI FIF – holdings by credit rating as at 31 March 2020



LPPI FIF – holdings sector exposure as at 31 March 2020



Private equity

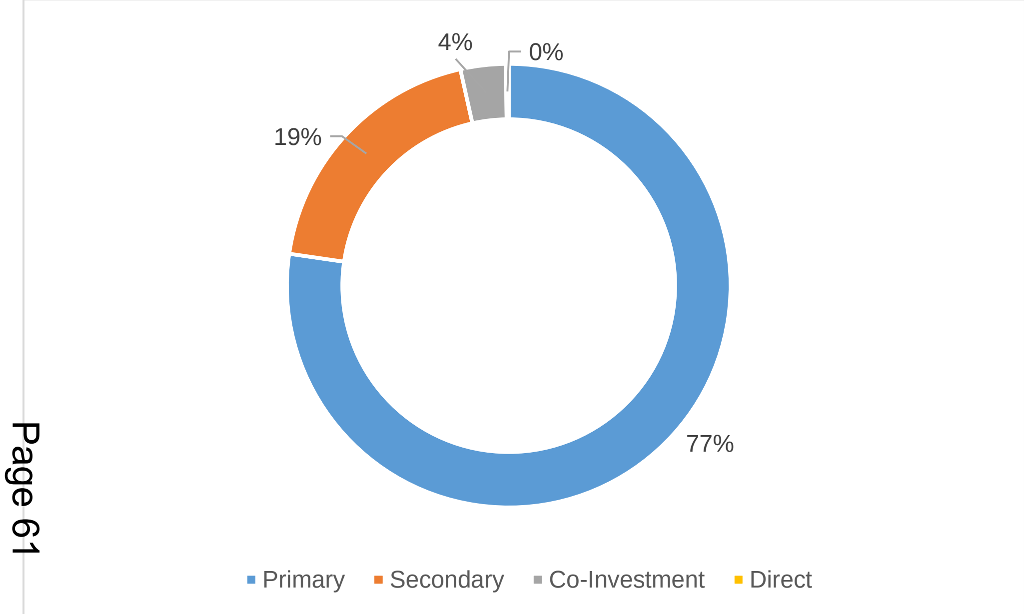
Compared to public equity, private equity offers a higher return and risk profile. This comes from generally investing in smaller companies with higher leverage and hence higher growth expectations. Private equity also has lower liquidity – a 10-year fund life is common – which is also compensated through typically higher returns. Private equity investments are held through a variety of closed-ended limited partnerships, spanning a wide range of vintages and managed by a diverse collection of managers who, in turn, cover a variety of strategies and geographic areas.

Improving economic fundamentals, low interest rates and higher valuation multiples have bolstered private equity in the last ten years. The Fund's private equity portfolio has been a recipient of these favourable conditions having generated strong returns and consistently outperforming its return benchmark due to a well-diversified allocation to many top quartile managers.

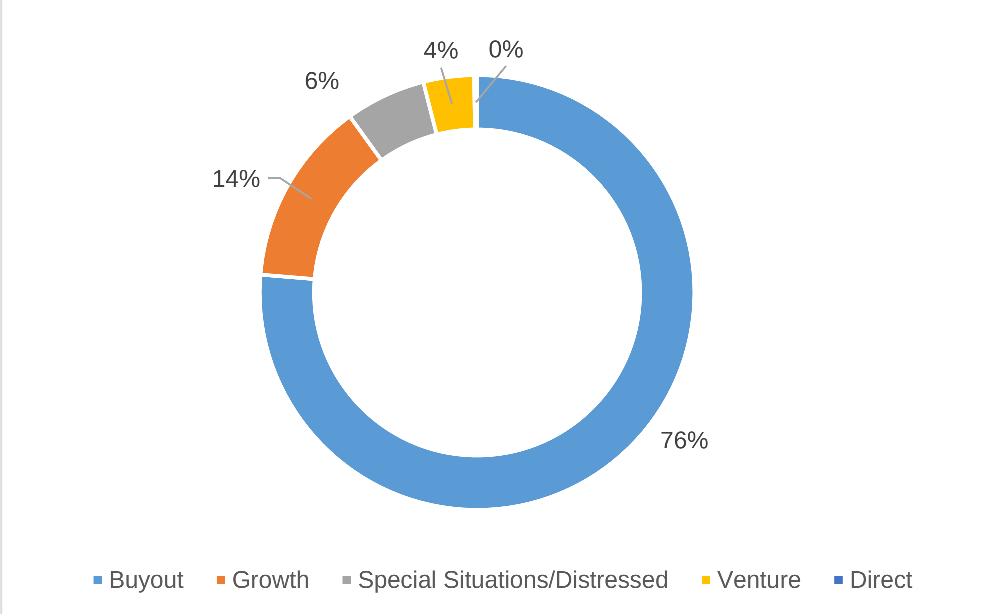
Over the shorter 1-year horizon, the private equity portfolio significantly outperformed its target with a return of +25.8%. Due to the reporting lag that is common with private market investments, the effect of COVID-19 on private equity valuations has yet to be realised but we anticipate this to be reflected later in 2020. While there was no discernible impact on valuations, the same cannot be said for transactional activity, as deal flow shrank in the first quarter of 2020 and is expected to decline further over the rest of 2020.

The Fund has reduced the rate of commitment to new private equity funds in accordance with its strategic asset allocation. This has been gradually achieved in a carefully, managed approach that ensures vintage diversification and manager relationships are maintained. Within the portfolio, there has been a reduction in exposure to large buyout funds, where valuations and leverage are currently at high levels. This is being achieved through new commitments to other private equity investment types and is likely to be reflected in portfolio exposures over the next few years as capital is drawn down. In a competitive market environment that has led to elevated pricing and scarcer opportunities, the Fund's capital continues to be prudently deployed.

Private equity portfolio – investment strategy breakdown as at 31 March 2020



Private equity portfolio – investment type breakdown as at 31 March 2020



<u>**Private Equity Strategy Definitions**</u>:

Primary fund investments are made *indirectly* through private equity funds into a portfolio of companies

Secondary fund investments are also made *indirectly* through private equity funds but involve buying and selling *pre-existing commitments of other investors*

Co-investment is an investment *directly* into a company *alongside other investors*

Direct investing is an investment *directly* into a company *solely by the investor*. It can involve buying the entire company or a minority investment

Real estate

Real estate plays a strategically important role within the Fund's overall investment portfolio, both because of its diversification benefits as well as the rental income generated that is used to fund member benefits without the need to liquidate other investments.

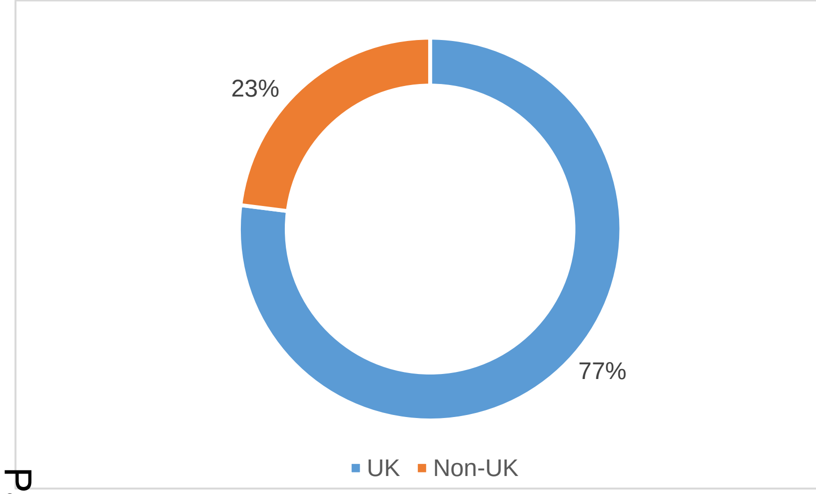
A key milestone was achieved over the year with a significant portion of the Fund's direct and indirect real estate assets being pooled into the LPPI Real Estate Fund (REF). This process started in October 2019 and was completed in the first quarter of 2020. Through the pooling process, the Fund has achieved greater regional and sector diversification as well as underlying property and fund manager diversification. The Fund has retained direct ownership of its national and county portfolio managed by Knight Frank. Elsewhere, the Fund has exposure to UK social housing through its investment in Heylo Housing.

Given the long-term nature of real estate investments, performance should be assessed over longer time horizons. Over the longer three-year and five-year horizon, the Fund's real estate portfolio has produced strong absolute and relative performance. Over the last twelve months, the portfolio (covering both the pre and post-pooling periods) generated a positive return of +3.7%, underperforming the benchmark return. The double-digit gains produced by Fund's national portfolio was only slightly diminished by the negative return of the county portfolio (property investments focused on the Lancashire region).

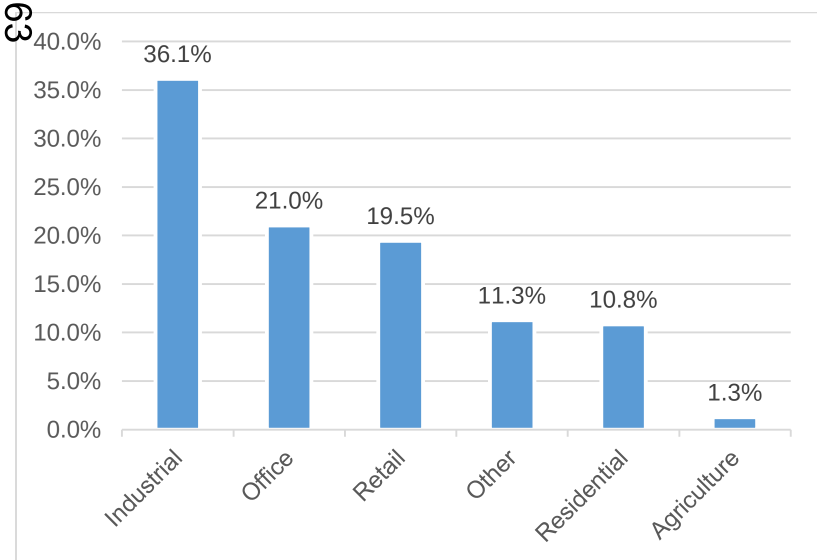
The pooled REF is invested with a focus on rental income, with assets selected to produce levels similar to that of the benchmark index. The real estate portfolio reflects the investment philosophy ingrained throughout LPPI whereby a focus is placed on the selection of high-quality investments with strong fundamentals to preserve value, maintain liquidity and ensuring continuity of tenant income. The above criteria are believed to be of benefit to the portfolio in the current climate where the COVID-19 crisis is causing rental payments to slow down, with tenants seeking deferments and concessions. At a sector level, there is a positive bias to office and industrial and relative underweight positioning to retail properties which has helped to protect the portfolio against capital loss. The retail sector suffers from secular headwinds, as online shopping grows, which has been exacerbated by the effects of the COVID-19 lockdown.

Moving forward the incumbent crisis is anticipated to accelerate existing trends within property valuations and we could see a redefining of property requirements. Furthermore, LPPI are conscious of any impact on rental income and are closely monitoring the properties within the REF. Despite these concerns, confidence remains that property fundamentals are largely unchanged, quarterly income distributions should be maintained and well-located quality properties should continue to outperform.

LPPI REF – geographical breakdown as at 31 March 2020



LPPI REF – sector breakdown as at 31 March 2020



Infrastructure

Infrastructure as an asset class typically offers long-term returns that are aligned to the Fund's investment objectives whilst also providing diversification and broadly resilient cashflows with a degree of inflation linkage. The majority of the Fund's infrastructure exposure is through LPPI's Global Infrastructure Fund ("GIF"). This comprises allocations to a variety of global infrastructure funds, and direct investment projects.

A key component of the GIF is GLIL (LPPI is the appointed alternative investment fund manager of GLIL), a distinctive platform designed to fully align the interests of like-minded investors who wish to exploit the very long-term investment opportunities in infrastructure investing. Through GLIL, the Fund now owns interests in various core infrastructure assets in the UK, including investments in wind-powered electricity generation, water assets, rail rolling stock and ports.

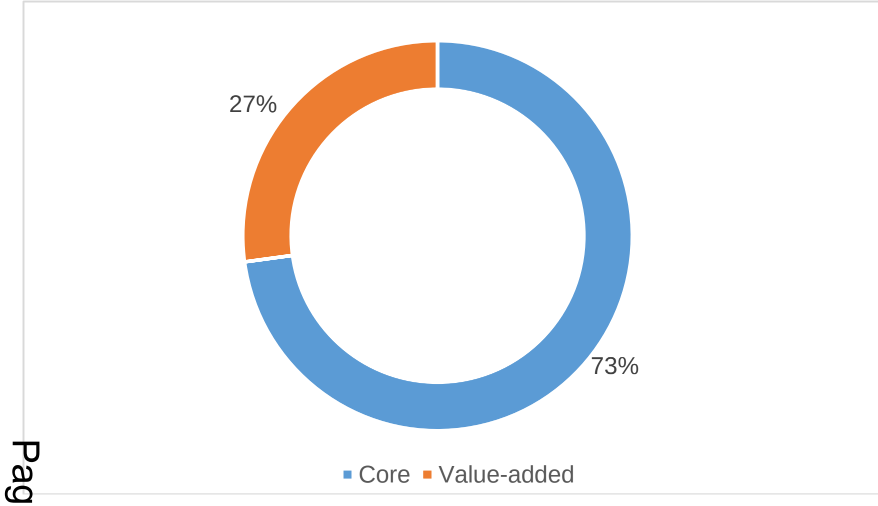
The residual allocation to infrastructure is predominantly invested in energy-related infrastructure projects which remain on the Fund's balance sheet and is expected to continue to roll off in the next couple of years. Their impact on overall performance is minimal given the small exposure to these funds.

Furthermore, the GIF has made an increasing number of direct investments globally with significant allocations in the renewable energy sector. The scale that the GIF brings enables investments to be made on favourable terms, which reduces fee costs over the investment horizon and provides stronger governance rights to protect the Fund's long-term interests. Over the reporting period the fund has experienced significant activity, with two new investments as well as an additional pooling of assets.

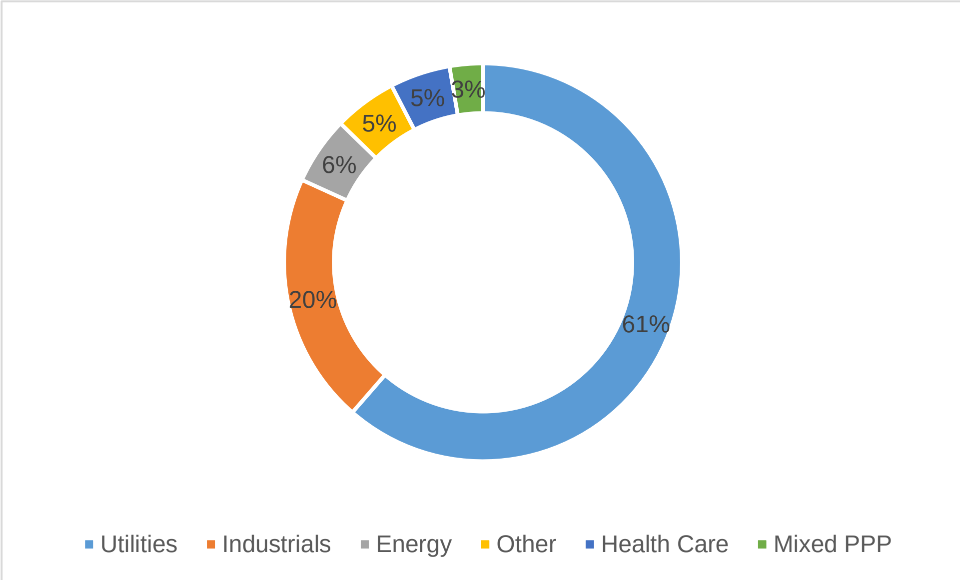
The Fund's infrastructure portfolio delivered a positive return (+3.7%) over the twelve-month period despite facing material regulatory headwinds and a challenging energy market outlook reflected by the double-digit declines in the Fund's on-balance sheet energy infrastructure funds. Similar to other private market assets, infrastructure performance should be assessed over longer horizons in which the Fund's infrastructure portfolio has consistently exceeded its benchmark return. Looking back over the past year, infrastructure stood apart from other asset classes as deal activity did not suffer due to the impact from the COVID-19 pandemic. There was, however, a shift in capital deployment towards more defensive, less cyclical assets such as telecoms and social infrastructure.

The competitive market environment continues to be testing in finding appropriately priced deals. Despite this the LPPI Infrastructure team are working on a number of attractive opportunities and maintain a strong long-term pipeline.

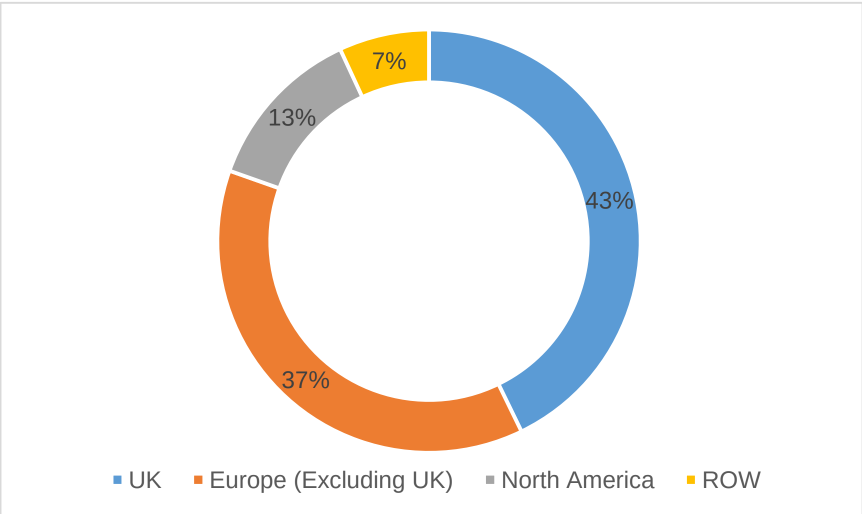
LPPI GIF portfolio – strategy breakdown as at 31 March 2020



LPPI GIF portfolio – sector breakdown as at 31 March 2020



LPPI GIF portfolio – geographical breakdown as at 31 March 2020



Credit

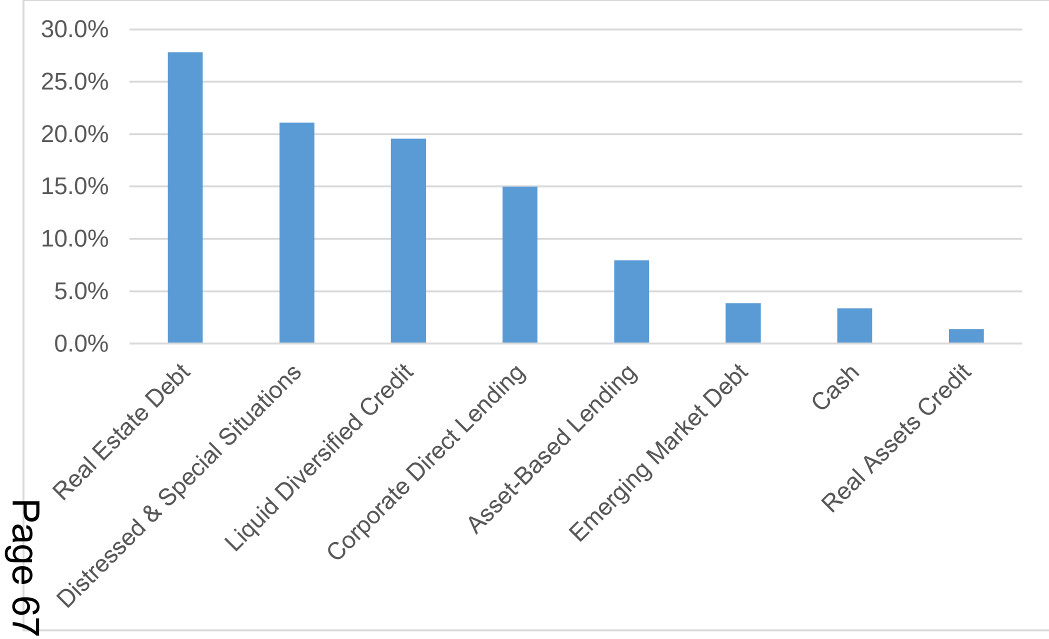
The majority (over 85% as at 31 March 2020) of the Fund's credit exposure is through LPPI's Global Credit Fund (GCF). The GCF invests in a range of credit-linked assets globally across the credit quality spectrum. Credit exposure is predominantly in illiquid investments which are typically held to maturity. The income generated from the GCF is a material source of cash that can be used to meet liability payments and is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund. Outside of the GCF, the Fund has small exposures in legacy, externally managed credit mandates covering direct lending, distressed debt and loans.

The support to credit markets from a relatively benign credit environment was interrupted by the COVID-19 pandemic and ensuing financial stress. In this environment, the Fund's credit portfolio generated a modestly positive return (+1.6%) but lagged that of the benchmark set for the portfolio. The GCF generated a positive return (+3.5%) over one year but lagged that of the benchmark set for the strategy. Among the different underlying strategies, distressed debt and corporate direct lending were worst affected and detracted from positive performance. However, negative returns in the lower-quality part of the portfolio were offset by resilience shown in liquid diversified credit and asset-based credits. Over the longer-term, performance remains strong with notable outperformance against the benchmark since inception.

Over the course of 2019, steps were taken to incrementally tilt the GCF portfolio towards higher-quality, senior secured and asset-based/asset-backed credits, which are likely to provide greater resiliency in challenging market conditions. The Fund's exposure to emerging market debt has notably decreased following this reorientation. The broad types of investments comprising the LPPI GCF at 31 March 2020 are included in the graph below.

Looking forward, although there has been a substantial retracement of the drawdown since March, LPPI anticipates the next phase of this credit cycle to lead to many investment opportunities in rescue financing, restructuring and special situations while also concentrating on managers that are able to minimise expected losses whilst optimising returns.

LPPI GCF portfolio – investment type breakdown as at 31 March 2020



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Diversifying strategies

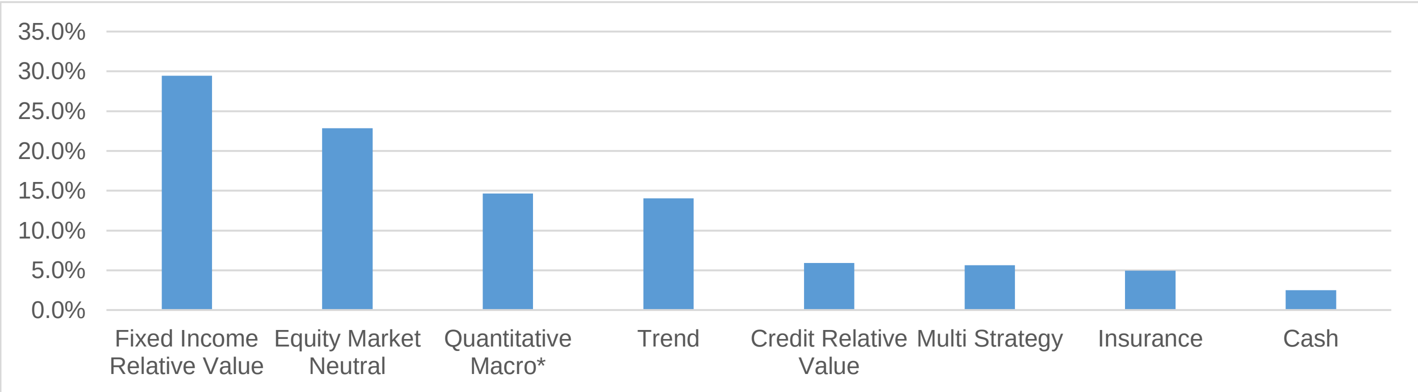
The entirety of the Fund's diversifying strategies exposure is through the LPPI Diversifying Strategies Fund (DSF), which was implemented in the fourth quarter of 2019. The DSF seeks to generate a diversifying source of return to complement clients' equity and fixed income allocations, whilst maintaining low correlation to public equity (especially in times of market stress). The DSF follows a diverse, multi-strategy approach employing a range of relative value, risk premia and directional investment approaches in traditional markets, alongside alternative markets like insurance.

From its inception to 31 March 2020, the Fund's diversifying strategies returned -5.9%. Although posting a negative return it nonetheless provided diversification against broader market turbulence as equity and credit markets underwent severe stress in the first quarter of 2020.

The portfolio has tilted to areas where greater opportunities have materialised, such as fixed income relative value and insurance-based strategies. Two external managers were appointed over this period to oversee the credit relative value and re-insurance strategies while exposure to discretionary macro (funds which aim to form a view of the state of the world, analyse the implications of this for asset prices and construct a portfolio to take advantage of this analysis) was reduced through a manager redemption in the fourth quarter of 2019.

Moving forwards, LPPI are reviewing long volatility programmes, with the idea of providing structural protection against an uncertain macroeconomic backdrop over the next twelve months.

LPPI DSF portfolio – strategy type breakdown as at 31 March 2020



* Quantitative Macro strategies use rules-based trading models (utilising statistical techniques and quantitative research) to invest across a range of asset classes

Responsible investment

LCPF is committed to the long-term responsible investment (RI) of retirement savings on behalf of Fund members.

Responsible investment practices support the delivery of the sustainable returns needed to pay pensions through a focus on identifying and understanding investment risks and improving risk-adjusted returns over the long term.

The Fund's assets are managed under pooled investment arrangements. As part of pooling, day to day decision-making around the appointment of asset managers, the selection of investment products, and the exercise of ownership responsibilities has been delegated to LPPI. The Fund has set an overall investment strategy and is also involved in investor collaborations that engage with companies, regulators and interest groups on issues that matter to the Fund, but investment selection and ongoing stewardship activities (such as shareholder voting) are managed centrally by LPPI on behalf of the whole partnership. LPPI are monitored by the Fund and held to account for delivering the investment strategy and for implementing RI policy commitments.

Ensuring Transparency

The Fund aims to be as transparent as possible about the approach to responsible investment and the activities which flow from it.

Consideration of RI begins at a strategic level with decisions about which asset classes the Fund will invest in. Whatever the asset class or the sector, it is a clear requirement for the Fund's asset managers to evaluate material influences which could affect the future value of investments by incorporating environmental, social and governance (ESG) considerations into their analysis. The approach to Responsible Investment including the commitment to ESG integration is set out in the Fund's Investment Strategy Statement (ISS) which is included as Appendix 7 to this annual report.

A detailed review of the approach to RI was undertaken during 2018 and an updated RI policy for the Fund was adopted in November 2018. The policy comprehensively sets out the Fund's values, beliefs, approach, and priorities and is a companion document to the Investment Strategy Statement. The policy is included as Appendix 9 to this annual report.

The policy articulates the thinking that shapes the Fund's approach, its outcome in terms of identified priorities, and the standards agreed with Local Pensions Partnership Investments as provider of investment management services to the Fund. The policy reflects the commitment to fulfilling the responsibilities held as an institutional asset owner and steward of the retirement savings of fund members and their beneficiaries.

Applying high standards

Two main external benchmarks are used to hold the Fund and LPPI to account.

The Fund is a signatory to the UK Stewardship Code (2012) and ranked Tier 1 (highest) by the Financial Reporting Council (FRC) for the arrangements in place to ensure the effective stewardship of the investment portfolio. The Statement of Compliance describes in detail how the Fund complies with the best practice principles encompassed by the Code.

At the end of 2019, the FRC published a revised UK Stewardship Code (2020) which implements requirements under the Shareholder Rights Directive II and sets a much higher threshold for stewardship activity. In line with the FRC's timeline for new arrangements under the revised Code, the Fund will consider the best approach to demonstrating alignment with the new standard, but it is anticipated that this will predominantly come through LPPI's reporting on stewardship activities on behalf of the partnership.

The Fund's approach and requirements are aligned with the commitments investors make as signatories to the Principles for Responsible Investment (PRI). LCPF delisted as a PRI signatory in July 2018 to enable LPPI to begin reporting on arrangements and activities on behalf of the whole partnership. LPP has reported twice since becoming a PRI signatory (most recently in March 2020) and Transparency Reports are accessible from the PRI website describing arrangements in place and giving detailed examples of good practice.

Responsible investment priorities

Two issues have been identified as primary concerns for the Fund as a responsible asset owner:

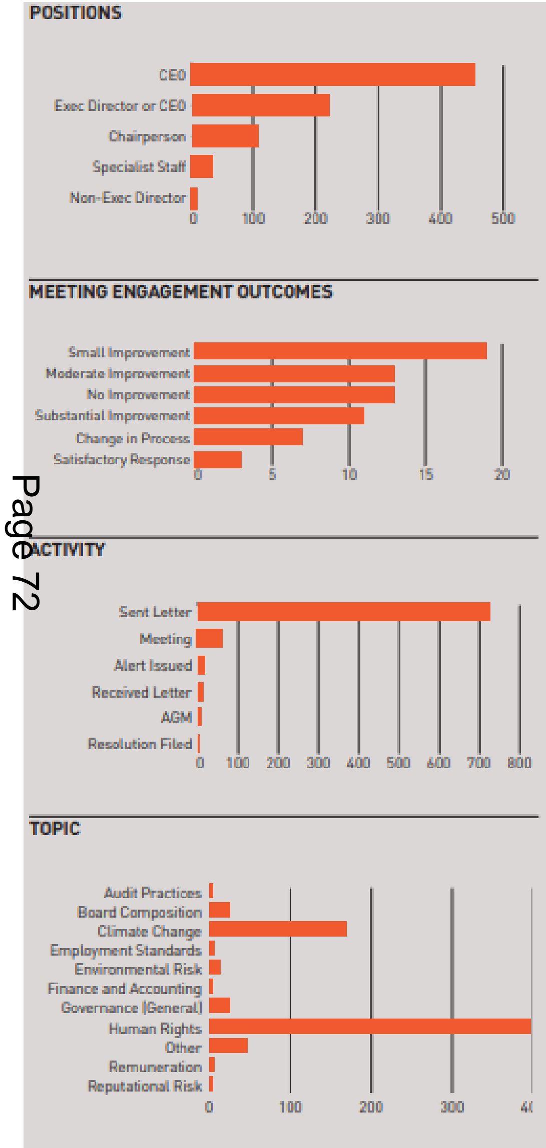
- Corporate governance
- Climate change

Company fundamentals, including the quality of leadership and broader corporate governance, determine how well positioned investee companies are to accommodate and thrive in response to multiple stimuli (economic, social, political and environmental). LPPI is asked to seek out, invest in, and focus stewardship efforts on promoting well managed and sustainable companies. This involves monitoring and engaging companies to address issues such as excessive corporate pay differentials and to encourage positive behaviours such as fair and just employment practices and transparent disclosure on corporate activities.

The Fund prioritises working in partnership with like-minded investors, and favours collaborative partnerships that collectively gain the attention of companies. As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund is placed alongside 79 other UK local government pension funds. The forum represents and promotes the investment interests held in common and helps maximise joint influence as shareholders. LAPFF activities are supported by attending the AGM and Annual Conference as well as participating in the Forum's programme of quarterly business meetings. The Chair of the Pension Fund Committee and Head of Fund are members of the LAPFF Executive Committee currently. This reflects a commitment to active partnership with other LGPS pension funds to set high standards, advocate for progressive policy and hold investee companies to account.

In the last 12 months as a member of LAPFF, the Fund was represented in the range of activities undertaken by LAPFF summarised in the tables and graphs below (which are taken from the Forum's Annual Report 2019).

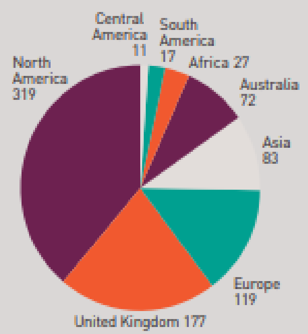
Local Authority Pension Fund Forum – Annual engagement statistics 2019:



COMPANIES MOST ENGAGED

Company	Number of Engagements	Number of Members Holding
Exxon Mobil Corporation	8	27
Southern Company	7	22
Arcelormittal Sa	7	21
General Electric Company	7	24
Royal Dutch Shell Plc	6	53
General Motors Company	6	17
Rio Tinto Group (Gbp)	5	44
Chevron Corporation	5	26
Amazon.Com Inc.	5	37
Glencore Plc	5	28

ENGAGEMENT BY REGION



For more information on LAPFF and its activities please visit http://www.lapfforum.org/

Climate change is recognised as a significant investment issue. The Fund is a long-term investor and it is envisaged that climate change will impact all companies, markets, sectors and geographies over time, but in ways and to timescales that are not straightforward to predict. It is important to address climate change as a systemic, multi-dimensional investment risk that is simultaneously environmental, social and governance risk.

In setting priorities, the initial focus of the Fund has been on extractive fossil fuel companies and the risk posed by assets becoming stranded as the global transition to lower carbon energy progresses. The RI policy explains the conditions placed on investments in the fossil fuel sector, which require companies to demonstrate adequate planning for the transition to a low carbon economy and visible steps to adapt their operations and business models.

The portfolio has a relatively low level of exposure to traditional energy. Within listed equities just 0.4% is held in the energy sector (compared to 3.7% benchmark) and the companies held are well rated by the Transition Pathway Initiative which assesses companies against a series of benchmarks based on the information they disclose publicly.

Low exposure to energy in listed equities also translates into a lower carbon intensity (relative to the benchmark) which reflects that the energy sector is disproportionately carbon intensive. Additional analysis suggests the listed equity portfolio has emissions below the pathway for 1.5°c degrees of warming, but the Fund recognises that methodologies for evaluating alignment are at a very early stage of development. Working with LPPI, tools and metrics that help understand and address the investment risks posed by climate change will continue to be sought.

Projecting forward, the likelihood of stronger fiscal and regulatory interventions to achieve well below 2°c of global warming (in line with the Paris Agreement) is increasing. It will be necessary to consider how measures introduced to deliver the UK Government’s commitment to carbon neutrality by 2050 will pose risks or potentially offer UK investment opportunities. The Fund is already investing in a low carbon future; 4.5% of the portfolio is in assets identified as “green” because they are directly involved with renewable energy generation or otherwise supporting decarbonisation as part of the global transition. The infrastructure portfolio includes investments in wind and solar energy in the UK, Europe and beyond, and investments in the generation of energy from waste are also held.

Examples of activity

Investments

At the end of 2019, alongside the other UK pension funds which invest through infrastructure collaboration GLIL, the Fund secured a minority stake in Cubico, a renewable energy portfolio that comprises over 250 MW of wind and solar projects at 18 sites across the UK.

As part of consortium Rock Rail (also through GLIL) the Fund is helping to finance the introduction of state-of-the-art passenger trains which will transform passenger journeys and support a more sustainable railway. Some of the first trains in the UK to be financed with long-term investment from pension funds and insurance companies have gone into operation during 2019 with the launch of two new fleets of rolling stock that are now operating on the Greater Anglia and South Western railway networks.

There are also examples of investments which are bringing new infrastructure, jobs and economic benefits to the North West.

St Leonards House, Lancaster **Redevelopment of disused listed building, former furniture factory of renowned manufacturer Waring & Gillow, remodelled as 180-bed student accommodation, situated in Lancaster city centre. The property is situated close to many amenities, and the mainline train station is only 8 minutes' walk, which is convenient for students and their visitors travelling to Lancaster by train.**	

Multiply Logistics North, Bolton **Redevelopment of a former open cast coal mine between Preston and Manchester into one of the premier logistics hubs in the North West, totalling 800 acres. The site is home to Aldi's North West Regional Distribution Centre amongst other occupiers. This development consists of 10 distribution units ranging in size from 20,000 to 150,000 square feet, 9 of which are complete and let, delivering modern facilities to local businesses and creating multiple employment opportunities.**	

Stewardship

The Fund is committed to engaging with pension funds and other stakeholders to share best practice and recognise the risks and opportunities investments face from climate change. In November 2019 the Head of Fund joined an investor roundtable to discuss how approaches to the challenge posed by climate change are evolving. https://www.room151.co.uk/interviews/sponsored-investment-roundtable-climate-and-the-lgps/

The right of shareholders to vote at annual general meetings offers a direct route for communicating views and urging companies to make changes or improvements. LPFA's investment in listed equities is through the LPPI Global Equities Fund (GEF). LPPI votes on shares in the GEF directly and publishes quarterly reports on meetings voted, the individual resolutions tabled and whether voting supported or opposed proposals. Voting reports are publicly available from the LPP website where they can be referred to for granular insights.

https://www.localpensionspartnership.org.uk/Who-we-are/Our-Investment-Stewardship/Shareholder-voting

In the 12-months from April 2019 to March 2020 LPPI:

- voted at 502 company meetings on 6,981 separate resolutions
- voted against 19% of management proposals on remuneration and supported 57% of shareholder resolutions relating to remuneration
- supported 85% of shareholder resolutions related to improving corporate action on human rights issues
- supported 83% of shareholder resolutions relating to diversity
- voted against management in 25 instances where board nominations failed to address an inadequacy in board diversity
- supported 77% of shareholder resolutions related to climate change.

G Asset pools

The table below shows the costs to LCPF of setting up both the pooling company, Local Pension Partnership Ltd, as well as the individual pooling vehicles which continued in 2019 with the creation of the LPPI Real Estate Fund. LCPF transferred in both direct and indirect assets over the latter stages of 2019 and early 2020.

Pool set up and investment transition costs by year

	2014-15 £'m	2015-16 £'m	2016-17 £'m	2017-18 £'m	2018-19 £'m	2019-20 £'m
Set up costs						
Legal	–	0.1	0.1	0.3	–	0.3
Professional fees	–	0.1	0.1	0.3	–	0.1
Other support costs	–	–	–	0.1	–	0.4
Total	**–**	**0.2**	**0.2**	**0.7**	**–**	**0.8**
Transition costs	**–**	**–**	**2.0**	**0.3**	**–**	**–**

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Pool set up and investment transition costs by type of expense

	Current Year			
	Direct £'m	Indirect £'m	Total £'m	Cumulative £'m
Set up costs				
Legal	–	0.3	0.3	0.8
Professional fees	–	0.1	0.1	0.6
Other support costs	–	0.4	0.4	0.5
Total set up costs	**–**	**0.8**	**0.8**	**1.9**

Transition costs	–	–	–	**2.3**

The table below compares the fee savings realised from the inception of pooling versus the preceding year, 2015-16. The savings are based on grossed up fees based on revised CIPFA guidance in 2016, whereas previously fees may have been lower as they may have been netted off against the change in market value. This is consistent with current recommended practice.

As performance fees are included within the calculation of fee savings this may reduce the comparability of LCPF's costs against other pension schemes and pooling structures.

Fee savings for the year ended 31 March 2020 are £8.1m resulting in net savings for the year of £7.3m.

Total expected costs and savings

	2014-15 £'m	2015-16 £'m	2016-17 £'m	2017-18 £'m	2018-19 £'m	2019-20 £'m
Set up costs	0	0.2	0.2	0.7	0	0.8
Transition costs	0	0	2.0	0.3	0	0
Fee savings	0	0	(0.6)	0.4	(9.1)	(8.1)
Net savings realised	**0**	**0.2**	**1.6**	**1.4**	**(9.1)**	**(7.3)**

Ongoing investment management costs

Investment expenses are shown broken down into their constituent categories and split between those resulting from investments held in the pooled vehicles and those held on the balance sheet of the Fund.

The following table summarises investment management costs for 2019/20. It has been compiled from cost transparency templates completed by each of the Fund's investment managers. The 'Direct' costs column reconciles to the costs disclosed in Note 10 within the accounts of the Fund (section H of this annual report), while 'Indirect' costs are those costs that do not meet the criteria for inclusion in the accounts but do represent underlying costs to the Fund's investments. The investment expenses are split between those held within pooled vehicles and those held directly by the Fund.

	LPPI pooled assets			Non pooled assets			Fund total
	Direct £'m	Indirect £'m	Total £'m	Direct £'m	Indirect £'m	Total £'m	£'m
Management fees	30.8	–	30.8	9.7	–	9.7	40.5
Performance	19.3	–	19.3	(1.8)	–	(1.8)	17.5
Transaction costs	2.3	6.9	9.1	0.0	–	–	9.2
Custody	–	0.0	0.0	0.1	–	0.1	0.1
Administration	–	7.3	7.3	–	2.4	2.4	9.8
Governance, Regulation and Compliance	–	3.1	3.1	–	0.8	0.8	3.9
Property expenses	–	0.1	0.1	–	1.8	1.8	1.9
Other	–	0.6	0.6	–	0.5	0.5	1.0
Total	**52.3**	**18.1**	**70.3**	**8.1**	**5.5**	**13.6**	**83.9**

Despite the Fund's assets increasing in value for much of the period in question, overall management fees for pooled and non-pooled investments were marginally lower relative to the prior year. This can be attributable to one of the benefits of asset pooling. Moreover, direct costs across both LPPI pooled and non-pooled assets, which includes performance fees and transaction costs among other expenses, are lower compared to the previous year. There were no changes made to the strategic asset allocation over the year, nor were there material over/underweight positions which would translate to a change in management fees paid.

Following clearer guidance from CIPFA, greater transparency on investment management costs has been achieved as reflected in the provision of indirect investment costs outlined in the above table. With the inclusion of these indirect costs, overall costs of £83.9m for the Fund appear higher than what was reported in previous years.

With the establishment of the LPPI Real Estate Fund and the transfer of directly held assets into the newly created fund, the percentage of total assets pooled with LPPI rose from 78% to 87% in March 2020. Additional pooling has led to a shift in where investment management costs are borne. The transition of a higher proportion of total fund assets to pools is expected to result in reduced investment management costs. The full impact of transferring the real estate assets will be reflected in the results for the year ending 31 March 2021.

Understanding the relationship between costs, risks and return associated with the pension fund portfolio

A significant part of LCPF's portfolio is invested in alternative / private market asset classes such as real estate, infrastructure and private equity. These asset classes are unable to be managed passively due to their lack of liquidity and active management (undertaking operational improvements, for example) is a key driver of returns. In exchange for a greater involvement within the investment selection and management process, costs can exceed those typically seen within public market investments

Whether an asset falls within the public or private market classification, active management typically requires additional research, diligence, and systems amongst other considerations to facilitate stronger returns. This additional investment in resource should translate through to better long-term risk-adjusted returns. Strong asset performance over the last few years, generated through actively managed assets, has been identified as the principal driver for the improvement in LCPF's funding position at the latest triennial valuation review.

LPPI's Investment Committee oversees all investment managers and weighs up the benefits of deploying capital across different asset classes to optimally balance capital growth and capital preservation whilst seeking to provide the best value for LCPF's members.

H 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 Chief Executive and Director of Resources, who is also the Section 151 Officer 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 Section 151 Officer to the Pension Fund

The Section 151 Officer 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 Section 151 Officer 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 Section 151 Officer 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 2020 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.

Angie Ridgwell

Section 151 Officer

Lancashire County Pension Fund

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31 March 2020 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 178,150 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse, is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS and has regard to relevant standards such as the Myners' principles. A copy of the Governance Policy Statement is available to view through the following link Governance-policy-statement

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition) which defines the seven core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;

- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The statement also sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both Fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2020.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Lancashire Local Pension Board.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and how such risks are to be mitigated, together with any legal or other considerations that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund. Many of these functions are now performed under contract by the Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on performance in relation to the Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and are subject to review by the Investment Panel.

The administration service is undertaken by LPP. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPPA.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely in the county council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following county council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.
The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk.

Towards the end of the financial year a global pandemic of the Coronavirus known as Covid-19 has taken place. As this represents a significant risk to the Fund a specific risk register has been developed, dedicated to Covid-19 which covers the main functions of the Fund namely:

- Administration;
- Funding;
- Investment;
- Governance;
- Member Communications.

Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced. The risk register is regularly reported to the Pension Fund Committee and the Pension Board.

Fulfilling the core functions of an Audit Committee

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The various LGPS Regulations, covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS. The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP Investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

Assurance provided by internal audit

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by LPP's own internal audit service and a programme of work has been completed in respect of the county council's responsibilities which covered:

- The council's oversight of Local Pensions Partnership Limited;
- Collection of employee and employer contributions;
- Accounting for the Pension Fund through the council's general ledger.

All audits gave substantial assurance that the relevant controls are adequately designed and effectively operated.

In addition the Head of Internal Audit seeks to obtain and understand the assurance provided by LPP's own internal auditors Deloitte. During 2019/20 Deloitte has completed and reported four audits under its three-year risk-based audit plan, two of which relate to LPP's own operation rather than its work in administering the Fund or investing on its behalf. Because the scope of audit work on LPP's activities and the information available about it are both restricted, the council can take only limited assurance over LPP's work. The relevant internal audit work undertaken related to covenant reporting and the 'senior manager and certification regime' (relating to compliance with FSA regulation, on both of which Deloitte provided assurance that the controls were effective with scope for improvement.

Whistle blowing and receiving and investigating complaints from the public

The Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process. The results of this work are reported to the county council's Audit, Risk and Governance Committee.

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake continuing professional development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the Pension Fund is LPP. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement 'The Role of the Chief Finance Officer in Local Government', and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

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The key planned activities of the Fund during 2019/20 were:

- The triennial valuation of the Fund;
- To monitor the administration service as changes continue to be made within LPP;
- To review the cost of LPP and estimated savings made;
- To revise the Funding Strategy Statement as necessary.

Actions Planned for 2020/21

The following specific actions are proposed for during 2020/21:

- Monitoring the impact of Covid-19 with the continued development and monitoring of a separate risk register;
- Review the governance arrangements of the Fund in light of the expected Good Governance Report from the Scheme Advisory Board;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPP including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken on employer risk and implement any identified changes.

Conclusion

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the Lancashire County Pension Fund.

Signed

……………………………………   ………………………………………..

County Councillor Eddie Pope
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Date: …………………………………

Independent auditor's report to the members of Lancashire County Council on the consistency of the pension fund financial statements of Lancashire County Pension Fund included in the Pension Fund Annual Report – TO BE UPDATED FOR 2019/20 FOLLOWING LCC AUDIT, RISK AND GOVERNANCE MEETING

Opinion

The pension fund financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated [ ].

Section 151 Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Lancashire County Pension Fund

Fund account for year ended 31 March 2020

2018/19		Note	2019/20
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
170.9	Contributions	6	177.0
11.0	Transfers in from other pension funds	7	17.0
181.9	**Additions from dealings with members**		**194.0**
(275.3)	Benefits	8	(287.1)
(16.4)	Payments to and on account of leavers	9	(21.8)
(291.7)	**Withdrawals from dealing with members**		**(308.9)**
(109.8)	**Net (withdrawals)/additions from dealings with members**		**(114.9)**
(76.3)	Management expenses	10	(65.0)
(186.1)	**Net (withdrawals)/additions including fund management expenses**		**(179.9)**
	Returns on investments		
193.5	Investment income	11	206.1
781.5	Profit and losses on disposal of investments and changes in the value of investments	13	1.4
975.0	**Net return on investments**		**207.5**
788.9	**Net increase in the net assets available for benefits during the year**		**27.6**
7,621.2	**Opening net assets of the scheme**		**8,410.1**
8,410.1	**Closing net assets of the scheme**		**8,437.7**

Net assets statement as at 31 March 2020

31 March 2019		Note	31 March 2020
£m			**£m**
8,327.3	Investment assets	13	8,320.6
67.1	Cash deposits	13	108.8
8,394.4	**Total net investments**		**8,429.4**
22.0	Current assets	19	15.0
(6.3)	Current liabilities	20	(6.7)
8,410.1	**Net assets of the fund available to fund benefits at the end of the reporting period**		**8,437.7**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2020 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 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.

Contribution income of £177.0m together with transfers in of £17.0m part funded the payment of £308.9m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2020, together with management expenses, is funded from investment income.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

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

- the Local Government Pension Scheme (Amendment) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

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

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

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

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at Lancashire Fund Information.

The investments of the Fund are managed by the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP also manages the administration functions on behalf of the two partner authorities.

The Lancashire Local Pension Board assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

Membership

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

Organisations participating in the Lancashire County Pension Fund include:

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

Membership of the Fund, as at 31 March 2020 is detailed in the following table:

31 March 2019	Lancashire County Pension Fund	31 March 2020
300	Number of employers with active members[1]	313
133	Number of ceased employers (no active members but some outstanding liabilities)	140
	Number of active scheme members[2]	
25,721	County Council	25,614
27,422	Other employers	28,340
53,143	**Total**	**53,954**
	Number of pensioners	
24,692	County Council	25,497
24,651	Other employers	25,674
49,343	**Total**	**51,171**
	Number of deferred pensioners[2]	
37,691	County Council	36,753
36,299	Other employers	36,272
73,990	**Total**	**73,025**
176,476	**Total membership[3]**	**178,150**

[1] includes employers for whom admission to the Fund is in progress
[2] March 2019 membership numbers have been adjusted to transfer 5,089 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 2,985 pending leavers has been made at 31 March 2020.
[3] March 2020 membership numbers vary from the Local Pensions Partnership Annual Administration Report for the year ended 31 March 2020 due to the dates at which the reports were produced.

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2019/20 are based on the valuation at 31 March 2016. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2019/20 range from 0.0 % to 28.0 % of pensionable pay and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

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

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2019/20* 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 nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2019/20.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate certified by the fund actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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 to and from other schemes

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme (Amendment) Regulations 2018.

Individual transfers in or out are accounted for when received or 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.

Investment income

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.

Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Dividends received within the LPPI Global Equities pool are included within distributions from pooled funds and are reinvested within the LPPI Global Equities Fund.

Property related income

Property-related income consists primarily of rental income. Rental income from 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.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits or 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 assets 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.

Management expenses

The Fund discloses its pension fund management expenses on an accruals basis and in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

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

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

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

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

Investment management expenses

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

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

A number of the fee mandates in place include an element that is performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2019/20, £8.3m of fees is based on such estimates (2018/19: £19.3m).

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Net assets statement

Financial assets

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

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

Freehold and leasehold properties

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. The risks and rewards of ownership of these properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value.

The properties were valued at open market value at 31 March 2020 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). As a result of the COVID19 pandemic and the impact of the virus on the market, the valuation at 31 March 2020 is reported on the basis of 'material valuation uncertainty'. Note 5 provides additional information.

Foreign currency transactions

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

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 and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

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

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

Financial liabilities

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

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 International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

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

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, Mercer, and reviewed by the Fund and actuary during the intervening period. 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 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity, long term credit and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, long term credit and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities, long term credit and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates, in particular given the absence of any consensus view on the future path of the Covid-19 pandemic and its impact on the economy.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Due to the uncertainty in the financial markets caused by the current COVID-19 pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty this year and that the estimated valuations may be misstated. There is a wide range of outcomes resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the actions and time needed to return to a more 'steady state' in the market.	The market value of private equity and infrastructure investments in the financial statements totals £1,958.6m (2018/19: £1,796.5m). There is a risk that these investments might be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data. There is more uncertainty than usual in respect of the closing valuation of long term credit due to the market impact of COVID-19.	The market value of long-term credit investments in the financial statements totals £1,098.3m (2018/19: £1,134.1m excluding investment in loans secured on real assets). There is a risk that these investments might be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Indirect core property investments	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. The current COVID-19 pandemic is impacting financial markets in all sectors ad at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value. As a result, there is a risk that the value of indirect property investments may be under or over stated. Valuers are faced with an unprecedented set	Indirect property investments in the financial statements total £799.6m (2018/19: £124.0m). During the year property investments previously held directly by the Fund were transitioned into the Local Pensions Partnership Real Estate Fund. The market value of these properties on the date of transition was £641.3m and is now included within total indirect property investment value.

	of circumstances this year, on which to base a judgment. Valuations have therefore been reported on the basis of 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty, and a higher degree of caution, should be attached to the valuation of indirect core property holdings that would normally be the case.	There is a risk that these investments may be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Non-core property investments	The non-core property investment comprises a 100% share in the real estate investment trust (REIT), HH No.1 Ltd. This investment is classified as real estate but the Fund holds an interest in the trust rather than the underlying investments which are shared ownership housing assets. The fair value is derived from the value of the REIT and is dependent upon future looking assumptions. HH No.1 Ltd was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds. As for other non-quoted investments, there is an increased risk of misstatement in the valuation at 31 March 2020 due to the uncertainty in the market as a result of the ongoing pandemic.	The Fund has an investment in shared ownership housing, classified as non-core property, and valued at £330.5m. This is a new asset during the year and comprises 100% holding of the real estate investment trust, HH No.1 Ltd. There is a risk that this asset may be over / understated in the accounts.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to relating to future experience. The main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed rate of return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) 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 £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £300m.

	Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, post-retirement increases on GMP from April 2021, the impact of COVID19 and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts.	
Direct property valuations	The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Valuation – Professional Standards – 2017.Avison Young have advised that as a firm, due to the COVID-19 pandemic, they can attach less weight to previous market evidence for comparison purposes and that they are faced with unprecedented circumstances on which to base a judgement. As for indirect property holdings, the valuation of direct property is reported on the basis of 'material valuation uncertainty'. This does not mean that the valuation cannot be relied upon but that less certainty can be attached to the valuation than would otherwise be the case.	Investment properties held directly by the Fund are valued at £110.2m (2018/19: £761.9m). The significant reduction in investment value is due to the transition of the majority of the Fund's national investment portfolio into the LPPI Real Estate Fund during the year and now classified as indirect core property investments – see above. The market value of £110.2m at 31 March 2020 comprises property situated within the county boundary of Lancashire (£63.8m)) and properties located in Wales (£38.1m)) and Scotland (£8.3m).

Note 6 - Contributions receivable

2018/19		2019/20
£m	**By category**	**£m**
58.7	Members	61.4
	Employers:	
96.8	Normal contributions	101.5
11.4	Deficit recovery contributions	11.2
4.0	Augmentation contributions [1]	2.9
112.2	Total employers contributions	115.6
170.9	**Total contributions receivable**	**177.0**
	By type of employer	
57.8	County Council [1]	58.3
93.1	Scheduled bodies [1]	98.2
20.0	Admitted bodies	20.5
170.9		**177.0**

[1] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2019/20, £0.3m is voluntary and additional regular contributions (2018/19: £0.3m).

Note 7 - Transfers in from other pension funds

2018/19		2019/20
£m		**£m**
11.0	Individual transfers in from other schemes	17.0
11.0		**17.0**

Note 8 - Benefits payable

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2018/19		2019/20
£m	**By category**	**£m**
226.5	Pensions	239.3
43.0	Commutation and lump sum retirement benefits	42.0
5.8	Lump sum death benefits	5.8
275.3	**Total benefits payable**	**287.1**
	By type of employer	
116.4	County Council	121.1
137.5	Scheduled bodies	144.0
21.4	Admitted bodies	22.0
275.3		**287.1**

Note 9 - Payments to and on account of leavers

2018/19		2019/20
£m		**£m**
0.6	Refunds to members leaving service	1.3
15.8	Individual transfers	20.5
16.4		**21.8**

Note 10 - Management expenses

2018/19		2019/20
£m		£m
3.7	Fund administrative costs	3.4
71.7	Investment management expenses	60.4
0.9	Oversight and governance costs [1]	1.2
76.3		**65.0**

[1] Oversight and governance costs above include external audit fees which amounted to £31,310 (2018/19: £27,810). Additional fees of £9,000 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime and £1,500 for assessment of the impact of the McCloud ruling.

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Investment management expenses

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2018/19		2019/20
£m		£m
1.0	Transaction costs[1]	2.3
48.3	Fund value based management fees [2]	40.5
22.4	Performance related fees	17.5
-	Custody fees	0.1
71.7		**60.4**

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.
[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

Note 11 - Investment income

2018/19		2019/20
£m		**£m**
2.1	Fixed interest securities	2.4
157.2	Pooled investment vehicles	179.5
1.7	Pooled property investments	8.6
32.0	Net rents from properties	15.5[1]
0.5	Interest on cash deposits	0.1
193.5	**Total investment income**	**206.1**

[1]The reduction in rental income since last year is due to the transition of a significant number of directly held properties into the Local Pensions Partnership Real Estate Fund with effect from 1 October 2019, combined with an increase in property related expenditure. Income from the real estate fund is included within pooled investment income from the date of transition.

Note 12 - Property income

2018/19		2019/20
£m		**£m**
36.7	Rental income	22.1
(4.7)	Direct operating expenses	(6.6)
32.0	**Net income**	**15.5**

Note 13 - Reconciliation of movements in investments

	Market value as at 1 April 2019	Purchases at cost	Sales proceeds	Change in value during the year [1]	Market value as at 31 March 2020
	£m	£m	£m	£m	£m
Fixed interest securities	110.7	585.5	(546.3)	(7.4)	142.5
Index linked securities	283.6	-	-	(283.6)	-
Pooled investment vehicles	7,043.2	483.1	(522.4)	(90.4)	6,913.5
Pooled property investments	124.0	49.1	(14.1)	971.1	1,130.1
Private equity	-	12.5	-	-	12.5
Direct property	761.9	11.0	(23.6)	(639.1)	110.2
	8,323.4	**1,141.2**	**(1,106.4)**	**(49.4)**	**8,308.8**
Cash deposits	67.1				108.8
Loan investments	-				3.0
Investment income due	3.9				8.8
Net investment assets	**8,394.4**				**8,429.4**

[1] £1.4 m on the face of the Fund account includes the change in market value of investments disclosed above (£49.4m), plus profits and losses on disposals and changes in the market value of investments held within the pools. The change in value of direct property above includes £641.3m market value of properties transitioned to the LPPI Real Estate Fund during the year which is included as an increase in market value within pooled property investments above. The change in value of index linked securities (£283.6m) reflects the restructuring of the investment in shared ownership housing which is now reflected within pooled property investments.

	Market value as at 1 April 2018	Purchases at cost	Sales proceeds	Change in market value [1]	Market value as at 31 March 2019
	£m	£m	£m	£m	£m
Fixed interest securities	116.8	321.3	(329.1)	1.7	110.7
Index linked securities	178.0	122.2	(3.1)	(13.5)	283.6
Pooled investment vehicles	6,321.5	507.0	(496.3)	711.0	7,043.2
Pooled property investments	113.3	8.3	-	2.4	124.0
Direct property	715.5	34.8	-	11.6	761.9
	7,445.1	993.6	(828.5)	713.2	8,323.4
Cash deposits	162.0				67.1
Investment accruals	3.1				3.9
Net investment assets	7,610.2				8,394.4

1 £781.5m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

Investments analysed by fund manager

31 March 2019			31 March 2020	
£m	% of net investment assets		£m	% of net investment assets
Private equity investments				
635.0	7.6%	LPPI Private Equity Fund	750.0	8.9%
Private equity investments managed outside of LPPI Private Equity Fund				
15.4	0.2%	Trilantic Capital Partners	15.1	0.2%
-	-	Local Pensions Partnership Limited	12.5	0.1%
650.4	**7.8%**	**Total private equity investments**	**777.6**	**9.2%**
Long term credit investments				
923.0	11.0%	LPPI Credit Investments	947.4	11.3%
Credit investments managed outside of LPPI Credit Investments Fund				
111.5	1.3%	CRC	61.2	0.7%
52.1	0.6%	Neuberger Berman	51.7	0.6%
31.8	0.4%	Pimco Bravo	26.7	0.3%
10.1	0.1%	EQT	7.6	0.1%
5.6	0.1%	Hayfin	3.7	-
352.0	4.2%	Heylo Housing Trust[1]	-	-
1,486.1	**17.7%**	**Total long term credit investments**	**1,098.3**	**13.0%**
Fixed income investments				
314.7	3.7%	LPPI Fixed Income Fund	332.8	3.9%
Liquid credit investments managed outside of LPPI Fixed Income Fund				
181.6	2.1%	LPPI internal and LCC Treasury Management	254.3	3.0%
496.3	**5.8%**	**Total fixed income investments**	**587.1**	**6.9%**
Global equity investments				

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3,729.6	44.4%	LPPI Global Equities Fund	3,454.7	41.0%
3,729.6	**44.4%**	**Total global equity investments**	**3,454.7**	**41.0%**
Infrastructure investments				
930.3	11.1%	LPPI Global Infrastructure Fund	958.1	11.4%
Infrastructure investments managed outside of LPPI Global Infrastructure Fund				
103.2	1.2%	Arclight Energy	108.3	1.3%
55.6	0.7%	Icon Infrastructure Partners	65.7	0.8%
31.5	0.4%	Highstar Capital	27.7	0.3%
25.5	0.3%	Capital Dynamics Red Rose	21.2	0.3%
215.8	**2.6%**		**222.9**	**2.7%**
1,146.1	**13.7%**	**Total infrastructure investments**	**1,181.0**	**14.1%**
Diversifying strategy investments				
-	-	LPPI Diversifying Strategies Fund	90.3	1.1%
-	**-**	**Total diversifying strategies investments**	**90.3**	**1.1%**
Property investments				
Directly held properties				
761.9	9.1%	Knight Frank	110.2	1.3%
Pooled property funds				
Core property				
-	-	LPPI Real Estate Fund	799.7	9.5%
47.9	0.6%	M&G Europe Fund	-	-
40.3	0.5%	Gatefold Hayes	-	-
28.3	0.3%	Kames Target	-	-
7.4	0.1%	BaseCamp Real Estate Partners Ltd	-	-
Non-core property				
-	-	HH No.1 Limited[1]	330.5	3.9%
885.9	**10.6%**	**Total property investments**	**1,240.4**	**14.7%**
8,394.4	**100.0%**	**Net investment assets**	**8,429.4**	**100.0%**

[1]HH No.1 Limited (£330.5m) was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds (2018/19: £352.0m).

The following individual investments represent over 5% of the net assets of the fund.

31 March 2019			31 March 2020	
£m	**% of total fund**		**£m**	**% of total fund**
3,729.6	44.4%	LPPI Global Equities Fund	3,454.7	41.0%
930.3	11.1%	LPPI Global Infrastructure Fund	958.1	11.4%
923.0	11.0%	LPPI Credit Investments	947.4	11.3%
-	-	LPPI Real Estate Fund	799.7	9.5%
635.0	7.6%	LPPI Private Equity Fund	750.0	8.9%

Fixed interest securities

31 March 2019		31 March 2020
£m		**£m**
63.8	UK corporate bonds quoted	64.2
12.0	Overseas public sector	-
34.9	Overseas corporate bonds quoted	78.3
110.7		**142.5**

Index linked securities

31 March 2019		31 March 2020
£m		**£m**
283.6	UK quoted[1]	-
283.6		**-**

[1]£283.6m at 31 March 2019 was part of the Fund's investment in Heylo Housing Limited. The company was restructured during the year and the Fund now holds an investment in HH No.1 Limited, a real estate investment trust classified as non-core property within the real estate portfolio of the Fund.

Pooled investment vehicles

31 March 2019		31 March 2020
£m	**UK funds:**	**£m**
314.7	Fixed income funds	323.8
137.0	Private equity	150.4
955.8	Infrastructure	979.3
997.0	Long term credit investments	951.4
68.6	Property funds	1,130.1
	Diversifying strategies	90.3
	Overseas funds:	
195.3	Fixed income funds	139.6
513.4	Private equity	614.7
190.3	Infrastructure	201.7
10.1	Long term credit investments	7.6
3,729.6	Equity funds[1]	3,454.7
55.4	Property funds	-
7,167.2		**8,043.6**

[1]The LPPI Global Equities Fund includes UK equities.

Direct property investments

31 March 2019		31 March 2020
£m		**£m**
624.8	UK – freehold	96.0
137.1	UK – long leasehold	14.2
761.9		**110.2**

During the year, directly held properties with a market value of £641.3m at the date of transition were transitioned into the LPPI Real Estate Fund. These assets are now reported within pooled properties as at 31 March 2020.

Property holdings

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

31 March 2019		31 March 2020
£m		**£m**
715.5	**Opening balance**	**761.9**
	Additions:	
3.4	• Purchases	0.5
31.2	• New construction	3.8
0.9	• Subsequent expenditure	6.7
-	Disposals	(23.6)
-	Transition to LPPI Real Estate Fund	(641.3)
10.9	Net increase in market value	2.2
761.9	**Closing Balance**	**110.2**

Leases

All directly held investment properties are leased to tenants. There are no investment properties held by the Fund used for purposes other than to generate rental income.

Residual asset risk

The independent valuation of the direct property portfolio considers the level of committed tenancies amongst other variables. Lessees do not have an option to purchase the properties at the expiry of their lease period and all rental contracts include market review clauses in the event that the lessee exercises an option to renew. Rental 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 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 property managers to fill these voids. As at 31 March 2020, the Fund has the following future minimum lease payments due from tenants.

2018/19 £m		2019/20 £m
36.3	Leases expiring within one year	0.3
109.8	Leases expiring between one and five years	0.8
112.2	Leases expiring later than five years	3.2
258.3	**Total future minimum lease payments receivable under existing non-cancellable leases**	**4.3**

The above disclosures have been reduced by a credit loss allowance of 7.5 % (2018/19: 2.1%) per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This adjustment is based on experience of rents outstanding 28 days after the due date. The credit loss allowance has increased since the previous year as a result of market conditions – for example, requests for rent cancellations or deferments.

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.

Cash deposits

31 March 2019		31 March 2020
£m		**£m**
43.5	Sterling	89.6
23.6	Foreign currency	19.2
67.1		**108.8**

Note 14 - Financial instruments classification

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

31 March 2020

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	142.5		
Loan investments		3.0	
Pooled investment vehicles	6,913.5		
Pooled property investments	1,130.1		
Cash deposits		108.8	
Investment accruals	8.8		
Debtors		15.0	
Total financial assets	**8,199.2**	**126.8**	
Financial liabilities			
Creditors			6.7
Total financial liabilities			**6.7**

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31 March 2019

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	110.7		
Index linked securities	283.6		
Pooled investment vehicles	7,043.2		
Pooled property investments	124.0		
Cash deposits		67.1	
Investment accruals	3.9		
Debtors		22.0	
Total financial assets	**7,565.4**	**89.1**	
Financial liabilities			
Creditors			6.3
Total financial liabilities			**6.3**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1.4.m (2018/19: £781.5m gain) after adjusting for directly owned property.

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

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

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, including those held in the LPPI Global Equity Fund, 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.

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 overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided by the managers of 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. Ordinarily, 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. As a result of the extended reporting deadline granted by central government in response to the COVID19 pandemic, the Fund's custodian, Northern Trust, held the investment accounts open for a longer period than normal. This enabled the reporting of a number of sub-manager 31 March 2020 valuations, eliminating the need for the roll-forward approach for those Funds, which make up 23 % of the total reported market value of level 3 investments.

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.

Fair value hierarchy

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

31 March 2020

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,786.5	941.6	3,471.1	8,199.2
Loans and receivables	43.7	76.3	-	120.0
Non-financial assets at fair value through profit and loss (property holdings)	-	110.2	-	110.2
Net investment assets	**3,830.7**	**1,128.1**	**3,471.1**	**8,429.4**

31 March 2019

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,155.9	-	3,409.5	7,565.4
Loans 7and receivables	67.1	-	-	67.1
Non-financial assets at fair value through profit and loss (property holdings)	-	761.9	-	761.9
Net investment assets	**4,223.0**	**761.9**	**3,409.5**	**8,394.4**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies,	Not required.
Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund’s own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Description of asset	Assessed valuation range[1]	Value at 31 March 2020	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Private equity funds	11.7%	777.6	868.9	686.4
Infrastructure funds	5.1%	1,180.2	1,240.2	1,120.1
Long term credit	5.1%	952.9	1,001.4	904.3
Fixed income funds	5.1%	139.6	146.7	132.5
Non-core property funds	3.8%	330.5	343.1	317.9
Diversifying strategies	5.1%	90.3	94.9	85.7
Level 3 investments		**3,471.1**		

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity funds	Infrastructure funds	Long term credit funds[1]	Property funds[1,2]	Diversifying strategies	Total level 3 investments
	£m	£m	£m	£m	£m	£m	£m
Market value 1 April 2019	198.2	650.3	1,146.1	1,290.9	124.0	-	3,409.5
Purchases during the year and derivative payments	-	128.7	108.6	-	163.2	96.0	496.5
Sales during the year and derivative receipts	(72.0)	(147.5)	(21.2)	(4.0)	(49.9)	-	(294.6)
Transition of assets from credit to non-core property	-	-	-	(330.5)	330.5	-	-
Transition to fair value level 2[2]	-	-	-	-	(234.2)	-	(234.2)
Unrealised gains / (losses)	(6.3)	80.0	(57.5)	(40.5)	(3.1)	(5.7)	(33.1)
Realised gains	19.7	66.1	4.2	37.0	-	-	127.0
Market value 31 March 2020	**139.6**	**777.6**	**1,180.2**	**952.9**	**330.5**	**90.3**	**3,471.1**

[1]The Fund's investment in Heylo Housing Limited was restructured during the year. The previously held equity and debt investments were realised and converted at nil gain or loss to an equity holding in HH No. 1 Limited, a real estate investment trust. The Fund has reclassified this investment from long term credit investments to pooled (non-core) property funds.

[2] Pooled property investments brought forward at 1 April 2020 were transitioned into the LPPI Real Estate ACS during the year. The LPPI Real Estate ACS is categorised as level 2 within the fair value hierarchy.

Note 17 - 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.

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 2019/20 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.3%
Total equities	11.7%
Alternatives	5.1%
Total property	3.8%

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

Asset type	**31 March 2020**	**Potential market movements (+/-)**	**Potential value on increase**	**Potential value on decrease**
	£m	**%**	**£m**	**£m**
Investment portfolio assets:				
Total equities	4,232.3	11.7%	4,728.8	3,735.8
Alternatives	2,702.3	5.1%	2,839.9	2,564.7
Total property	1,240.4	3.8%	1,287.6	1,193.2
Total bonds (including index linked)	145.6	6.3%	154.8	136.4
Total assets available to pay benefits	**8,308.8**		**9,011.1**	**7,630.1**

Asset type	**31 March 2019**	**Potential market movements (+/-)**	**Potential value on increase**	**Potential value on decrease**
	£m	**%**	**£m**	**£m**
Investment portfolio assets:				
Total equities	4,380.0	9.8%	4,807.4	3,952.5
Alternatives	2,946.8	7.7%	3,173.7	2,720.0
Total property	886.0	4.0%	921.5	850.6
Total bonds (including index linked)	110.6	6.7%	118.0	103.2
Total assets available to pay benefits	**8,323.4**		**9,020.6**	**7,626.3**

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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2019	Asset type	31 March 2020
£m		£m
67.1	Cash and cash equivalents	108.8
67.1	**Total**	**108.8**

Interest rate risk - sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

		Impact of	
	31 March 2020	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	108.8	1.1	(1.1)
Total change in assets available		**1.1**	**(1.1)**

		Impact of	
	31 March 2019	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	67.1	0.7	(0.7)
Total change in assets available		**0.7**	**(0.7)**

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 2020 and as at the previous year end.

31 March 2019	Currency exposure – asset type	31 March 2020
£m		**£m**
4,243.0	Overseas equities	4,068.5
395.7	Overseas alternatives	348.9
55.4	Overseas property	-
46.9	Overseas bonds (including index linked)	78.3
4,741.0	**Total overseas assets**	**4,495.7**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 8.1%. An 8.1 % fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2018/19: 8.0%).

An 8.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2020	Potential market movement +/- 8.1%	Value on increase	Value on decrease
	£m	**£m**	**£m**	**£m**
Overseas equities	4,068.5	330.1	4,398.6	3,738.4
Overseas alternatives	348.9	28.3	377.2	320.6
Overseas bonds (including index linked)	78.3	6.4	84.7	71.9
Total assets available to pay benefits	**4,495.7**	**364.8**	**4,860.5**	**4,130.9**

Currency exposure - asset type	Asset value at 31 March 2019	Potential market movement +/- 8.0%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,243.0	341.1	4,584.1	3,901.9
Overseas alternatives	395.7	31.8	427.5	363.9
Overseas property	55.4	4.5	59.9	50.9
Overseas bonds (including index linked)	46.9	3.8	50.7	43.1
Total assets available to pay benefits	**4,741.0**	**381.2**	**5,122.2**	**4,359.8**

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 institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £108.8m (31 March 2019: £67.1m) and was held with the following institutions:

31 March 2019	Summary	Rating	31 March 2020
£m			£m
	Bank deposit accounts		
58.3	Northern Trust	Aa2	33.1
7.6	Svenska Handelsbanken	Aa2	75.7
	Cash float with property manager		
1.2	Barclays Bank Plc	A1	-
67.1	**Total**		**108.8**

Liquidity risk

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.

The Fund has financial liabilities of £6.7m at 31 March 2020, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life, Utmost Life and Pensions 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 2019 to 31 March 2020 for Prudential and 1 September 2018 to 31 August 2019 for Equitable Life/Utmost Life and Pensions and are not included in the Pension Fund accounts, in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Equitable Life / Utmost Life and Pensions[1]	Prudential	Total
	£m	£m	£m
Value at start of the year	0.6	29.0	29.6
Income (incl. contributions, bonuses, interest and transfers in)	-	6.5	6.5
Expenditure (incl. benefits, transfers out and change in market value)	-	(4.2)	(4.2)
Value at the end of the year	**0.6**	**31.3**	**31.9**

[1]AVC investments held by Equitable Life were transferred to Utmost Life and Pensions during the year.

Note 19 - Current assets

31 March 2019		31 March 2020
£m		£m
8.0	Contributions due – employers	9.0
4.9	Contributions due – members	5.2
9.1	Sundry debtors	0.8
22.0		**15.0**

Note 20 – Current liabilities

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31 March 2019		31 March 2020
£m		£m
0.8	Unpaid benefits	0.8
5.5	Accrued expenses	5.9
6.3		**6.7**

Note 21 - Contractual commitments

As at 31 March 2020 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £409.3m (2019: £566.2m). 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 a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £93.7m (2019: £190.9m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

There are no outstanding commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio (2019: £21.9m).

During the year, the Fund's total outstanding commitment to the indirect real estate fund has been called and the commitment therefore reduced to nil (2019: £22.0m). The associated investment has been transferred to the LPPI Real Estate pool.

Note 22 - Related party transactions

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

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

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £0.6m (2018/19: £0.5m) 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 £33.2m to the Fund in 2019/20. Total employer contributions from the Council in 2018/19 amounted to £32.6m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2020 amount to £5.4m (2018/19: £5.5m).

During the year to 31 March 2020, the Local Pensions Partnership repaid £17.5m loan finance to Lancashire County Council.

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2020.

Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2020 payroll, are included within current assets in note 19.

Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2019/20 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2020.

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

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2019/20

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/19 – 31/03/20	57,801	8,728	66,529
Director of Finance	01/04/19 – 31/03/20	2,148	305	2,453
Chief Executive and Director of Resources	01/04/19 – 31/03/20	4,326	-	4,326

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

2018/19

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/18 – 31/03/19	56,667	8,557	65,224
Director of Financial Resources/Finance	01/04/18 – 31/03/19	1,938	293	2,231
Chief Executive and Director of Resources	01/04/18 – 31/03/19	4,029	-	4,029

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

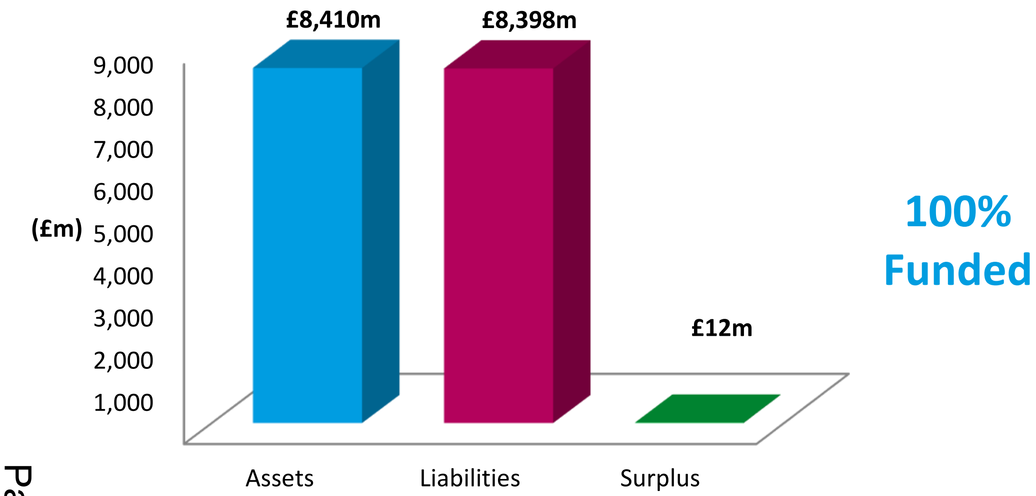
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2020 - 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 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,410 million represented 100% of the Fund's past service liabilities of £8,398 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £12 million.



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The valuation also showed that a Primary contribution rate of 17.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 16 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) is an addition of approximately £2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.
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 Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.8% per annum	4.55% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. Once the final remedy is known, the position and any potential impact will be reviewed by the Fund in light of the current funding strategy (which includes an implicit allowance for the estimated costs).

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall

Fund level we estimate that the cost of the judgment is an increase in past service liabilities of broadly £68 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases	3.7% per annum*	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £10,987 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£265 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£145 million (this includes any increase in liabilities arising as a result of early retirements and GMP indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £345 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £11,052 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £40 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

John Livesey ***Mark Wilson***

Fellow of the Institute and ***Fellow of the Institute and***

Faculty of Actuaries ***Faculty of Actuaries***

Mercer Limited

June 2020

Note 25 – Events after the reporting period

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Non-adjusting event – COVID19 pandemic

The outbreak of COVID-19, declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in all sectors by the efforts being made to reduce the spread of the virus. There have been a number of material factors which make it difficult to quantify the potential outcome for financial markets. Although there has been significant variation to individual fund values (both increases and decreases), as at end of June 2020, investments are valued overall at a higher value than in these financial statement at 31 March 2020.

I Lancashire Local Pension Board – Annual Report 2019/20

The Lancashire County Pension Fund's Local Pension Board (the Board) has now been up and running for nearly five years. As a reminder to readers, our legal duty is to assist the Pension Fund Committee. Because Board members explicitly represent either employers or members, we also have a representative role in the governance structure of the Fund.

After five years, the Board has established an effective way of adding value. We create an annual Work Plan to ensure that we are working in tandem with the Committee and are doing so methodically. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the Committee. If we believe something requires particular attention, we may make a formal recommendation to them which requires a response. However, we are always aware that our role is to assist the Committee and a good relationship between the two bodies is absolutely essential. I meet with the County Councillor Pope (Chair of the Pension Fund Committee) regularly and attended as many Committee meetings during the year as I was able to. Board members were pleased to welcome County Councillor Pope to our meeting in January 2020 in return and I can confidently assert that the two bodies work closely together.

I will start by reminding readers of the mechanics of the Board and then cover the training we undertake to fulfil the knowledge requirements. I will aim to give a flavour of what we actually did during the year and finally comment on where we expect to focus our efforts in the next year.

Membership of the Pension Board

The Board has nine members: four Employer representatives, four Scheme Member representatives and I act as the Independent Chair. Members serve an eight year term, except for the Chair who serves four. Apart from the Chair, none are remunerated other than for expenses incurred in attending meetings or training.

There have been some changes to the composition of the Board. At the beginning of the year Bob Harvey indicated his intention not to continue as a Scheme Member representative and on behalf of the Board I would like publicly to thank him for his contribution to the work of the Board over the past four years. Following a public procurement process, I am delighted to welcome Deborah Parker on to the Board as the new Scheme Member representative. During the year County Councillor Christian Wakeford, one of the two Lancashire County Council employer representatives, was successful in being elected as a Member of Parliament and chose to resign. I would also like to thank him for his services over the last two years and am pleased to welcome County Councillor Peter Britcliffe as his replacement.

The Board is scheduled to meet four times a year at County Hall for about two hours. In order to cover our wide remit we allocate areas of responsibility to each Board member, who are expected to lead the discussion of those topics. The Board also established a small Advisory Group which met with the Director of Administration from the Local Pensions Partnership to offer advice and feedback on pension service administration issues.

In July 2019 the Board meeting was not quorate as a member was unable to attend at the last minute due to unforeseen circumstances. The Board members present continued to discuss items on the agenda with a Note of the meeting being presented to the subsequent Board meeting where recommendations were approved. The April 2020 meeting was cancelled in consequence of the Government's response to COVID-19. Some papers will be circulated among members for information and a process has been put in place where formal approval is needed.

The Board has a budget to cover both its expenses and to allow it to commission reports if required. During the year the cost of running the Board came to £11,500.

Attendance of Board members at meetings.

Details of individual members' attendance at Board meetings (between 1st May 2019 and 30th April 2020), together with in year changes to the membership of the Board, are set out below.

Name	**Representing**	**9th July 2019**	**15th October 2019**	**14th January 2020**	**21st April. 2020**
W Bourne	Independent Chair	✓	✓	✓	Cancelled
County Councillor C Wakeford	Employer rep - LCC	Absent	N/A	N/A	Cancelled
County Councillor P Britcliffe	Employer rep - LCC	N/A	✓	Apologies	Cancelled
T Pounder	Employer rep - LCC	Apologies	✓	✓	Cancelled
S Thompson	Employer – Unitary, City, Borough, Police & Fire	Apologies	✓	✓	Cancelled
C Gibson	Employer rep - Others	✓	✓	✓	Cancelled
K Haigh	Scheme Member rep	✓	✓	✓	Cancelled
Y Moult	Scheme Member rep	✓	✓	✓	Cancelled
D Parker	Scheme Member rep	✓	✓	✓	Cancelled
K Wallbank	Scheme Member rep	✓	✓	Apologies	Cancelled

Changes to the membership of the Board

Ms D Parker was appointed in July 2019 to fill the vacancy following the resignation of Mr R Harvey in March 2019.
In July 2019 County Councillor P Britcliffe replaced County Councillor C Wakeford as an employer representative (LCC) on the Board.

Training

The Board is under a legal obligation to ensure its members maintain their levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual review, which becomes an agenda item at our next meeting. Board members have opportunities to attend training events during the year and continue to complete the online training modules from The Pension Regulator's Public Service toolkit.

Members are actively encouraged to join internal training sessions held jointly with the members of the Pension Fund Committee. During the year, internal training workshops were held on a number of topics including the following:

May 2019 – Employer risk
September 2019 - Risk Framework
November 2019 - Climate Change and Stewardship
January 2020 - The Pension Regulator

Members are also notified of and encouraged to attend external training conferences to extend their knowledge and meet LPB members from other Funds.

The table below shows the number of internal/external training events individual Board members attended during the period 1st May 2019 to 30th April 2020, together with online modules from The Pension Regulators Public Service Toolkit completed during the year.

Name	Internal events	External Events	Online Modules
W Bourne	1	5	0
County Councillor P Britcliffe	1	0	0
T Pounder	2	3	0
S Thompson	2	0	7
C Gibson*	2	1	0
K Haigh	7	1	2
Y Moult	6	3	0
K Wallbank	5	0	0
D Parker*	4	0	7

*These Board members were due to attend separate external pension related Conferences in March 2020 though both events were cancelled in response to the Covid-19 pandemic. Where possible expenditure is being recouped and the situation monitored in case events are rescheduled for later in the year.

Further information about the Board, including minutes and public papers, can be viewed on the Your Pension Service website.

Activities

In the previous year I noted that we spent a lot of our time on administration service levels, and this continued to be a focus for the LPB particularly in the first half of the year. I believe that the service provided to members has now recovered to somewhere near previous levels, although I recognise there is still further work to do.

The core of our work is oversight. At every meeting, we look at any breaches of the regulations and consider the Key Performance Indicators (KPIs) agreed with LPP as indicators or performance levels. I said last year that we were looking for a full review of these to ensure they properly reflect the experience of Fund members. This is still work in progress, but I can assure members that it is a priority for the LPB. They should help us understand how effectively the Fund is delivering its services to members and thereby assist the PFC in the crucial role of monitoring LPP's performance properly.

In our scrutinising role, during the year among other things we reviewed the Funding Strategy Statement which follows the March 2019 actuarial valuation, compliance with The Pensions Regulator's Code on Public Pensions (COP14), data quality improvements and the Fund's governance structure, both internally and in respect of LPP. We provided input on the responses to a number of issues facing the Fund as a result of government issues or legal judgements. In all cases in fulfilling our role our objective has been to protect the interests of employers and members and to ensure the Fund remains viable and solvent.

We also reviewed and commented on a number of documents including the Communications and Engagement and Responsible Investment policies. The wide range of expertise among Board members as well as their experience as users, either employers or members of the Fund, means the Board is well placed to provide useful and relevant feedback to the Committee in all these areas.

One of our formal objectives is to assist the Pension Fund Committee in ensuring the Fund is managed efficiently and effectively. As part of this we offer input and spend much time on the risk register and also made suggestions about the scope of internal and external audits. This is all part of keeping a careful eye on the operation of Fund's governance structure and processes.

I write this during the crisis precipitated by COVID-19 (coronavirus). At the moment in-person meetings have been cancelled by Lancashire County Council and there is no guarantee that the Board will be able to meet in the way we have until now. As a result we will explore ways for

Board members to continue to contribute to the work of the Pension Fund Committee and the Fund until such times as the current pandemic has passed.

We expect our focus in the next 12 months to be very much on our core functions. In particular The Pensions Regulator will be bringing in a new Code of Practice and there is a clear intention to improve the KPIs as mentioned above. Following the recent sharp falls in markets, communication and engagement with members and employers is going to be a high priority. We view it as particularly important in these difficult times to remind all parties how valuable the LGPS Scheme is to those enrolled in it. Finally, we will continue our work of monitoring The Local Pensions Partnership, whose services on both the investment and administration sides are so vital to the Fund.

The Board's role does not cover investments but it would be remiss of me, in the light of the recent sharp fall in markets, not to make some comment. I said last year that your Fund was in a good position with funding levels at 31st March 2019 likely to be close to 100%. While the Fund (through the Local Pensions Partnership) had already taken substantial steps to mitigate market risk, the funding level at March 2020 will inevitably be lower as a result of the current COVID-19 pandemic. However, I would remind members that paying pensions is a long-term business, and markets do by their nature rise and sometimes fall sharply. While I do not wish to be complacent about the seriousness of recent events, the Fund remains in a robust position to endure current market uncertainties.

I would like once again to finish by thanking the officers at LCPF who support us in our duties. As part of our Annual Review I speak individually to each Board member, and I can again record full agreement that we are ably and effectively supported by the Lancashire County Pension Fund team. I am delighted to recognise that publicly in this report.

William Bourne
Independent Chair of the Lancashire Local Pension Board
April 2020

J Actuarial Valuation

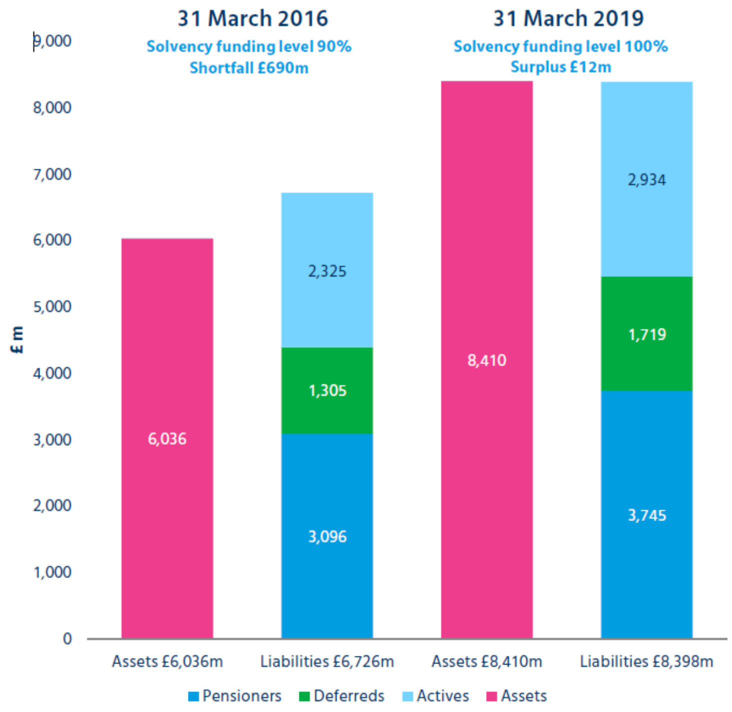
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2019 which determines contribution rates effective from 1 April 2020 to 31 March 2023.

The Funding objective is to achieve and then maintain assets equal to the Funding Target. The Funding Target is the present value of 100% of projective accrued liabilities, including allowance for projected final pay. This is to comply with the requirements of the LGPS regulations to secure the solvency of the Fund and is in accordance with the Funding Strategy Statement (FSS). The methodology and assumptions by which the Funding Targets and contribution rates are calculated have also been determined in accordance with the FSS.

The FSS specifies an average period for achieving full funding of 16 years. The FSS sets out the circumstances in which this may vary from one employer to another Where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put into place which requires additional contributions to correct the shortfall.

The valuation (effective from 1 April 2020) revealed a funding level of 100% and an average employer's contribution rate of 17.4% plus a deficit contribution in 2020/21 of £3m.

The chart below, taken from the certified actuarial valuation as at 31 March 2019, compares the assets and liabilities of the Fund at 31 March 2019. Figures are also shown for the last valuation as at 31 March 2016 for comparison.


31 March 2016
Solvency funding level 90%
Shortfall £690m
31 March 2019
Solvency funding level 100%
Surplus £12m
£ m
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
6,036
2,325
1,305
3,096
8,410
2,934
1,719
3,745
Assets £6,036m
Liabilities £6,726m
Assets £8,410m
Liabilities £8,398m
Pensioners
Deferreds
Actives
Assets

The employer contributions for 2019/20 are based on the 2016 valuation and the recommended employer contributions for the period 1 April 2020 to 31 March 2023 are set out in the Schedule to the Rates and Adjustments of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding pension funds in the United Kingdom. The valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Appendix 1 of the Funding Strategy Statement. Your Pension Service - Lancashire Fund Information

The actuarial valuation report as at 31 March 2019 has been included as Appendix 8 to this annual report.

K Contacts

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Pension Fund Accounts

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L Glossary

Accounting policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Active management
Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions.

Actuarial strain
This is a charge paid by employers to the pension fund for paying pensions early.

Actuarial valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the fund actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits.

Actuary
An independent consultant who advises the scheme and every three years formally reviews the assets and liabilities of the scheme and produces a report on the scheme's financial position, known as the Actuarial Valuation.

Additional voluntary contributions (AVC's)
This is an extra contribution a member can pay to their own pension scheme to increase future pension benefits.

Administering authority
A local authority required to maintain a pension fund under LGPS regulations. Within the geographical boundary of Lancashire this is Lancashire County Council.

Admitted bodies
An organisation which, under Pension Scheme Regulations, is able to apply to the administering authority to join the scheme (e.g. a contractor providing services to the council or another scheduled body). Upon acceptance, an admission agreement is prepared admitting the organisation and allowing its employees to join.

Alternative investments
Investments considered outside of the traditional asset classes of stocks, bonds, cash or property.

Asset allocation
Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return and is a central concept in financial planning and investment management.

Assumed pensionable pay
Where an employee loses pay due to sickness or reduced pay family related leave, the pay actually received is substituted with "assumed pensionable pay" when calculating "career average" benefits and employer contributions. Assumed pensionable pay is the average of pay in the three months prior to the month in which the reduced pay occurs.

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund accounts and issue an opinion on their accuracy.

Auto enrolment
UK employers have to automatically enrol their staff into a workplace pension if they meet the criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark
These are investment performance standards that we expect our investment managers to achieve and against which we measure their investment return.

Bid price
The price a buyer pays for a stock.

Bonds
Loans, with a fixed rate of interest, made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date.

Career average revalued earnings (CARE) scheme.
With effect from 1 April 2014, the benefits accrued by members of the LGPS will be in the form of CARE benefits. Every year a member accrues a pension benefit equivalent to 1/49th of their pensionable pay in that year. The pension accrued will increase in line with the annual change in the consumer prices index over the period to retirement.

Cash and cash equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collateral
An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions.

Conflicts of interest
Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of those conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. Those conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer price index (CPI)
CPI is a measure of inflation based on the change in the price of a fixed basket of goods and services. The difference between CPI and retail price index (RPI) is that CPI excludes some items

used in RPI such as mortgage interest payments and council tax, and includes other items not used in RPI. The basket of goods and services on which CPI is based is expected to provide lower, less volatile, inflation increases.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Creditors
Amounts owed by the Pension Fund for work carried out, goods received or services provided, which has not been paid by the date of the net assets statement.

Credit strategies
Credit strategies involve investing in loans or the provision of other credit. At the safest end this this may involve investing in Gilts – debt issued by government, where risk is perceived to be minimal but where returns are very low; at the other end of the spectrum are loans to heavily indebted companies or even companies who have credit difficulties, where there are higher levels of risk but where significantly enhanced returns are available.

Currency forward
An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

Custody / custodian
Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors
Amounts owed to the Pension Fund which had not been paid by the date of the net assets statement.

Deficit
The extent to which the Fund's past service liabilities exceed the value of the Fund's assets.

Defined benefit
An employer sponsored retirement plan where employee benefits are sorted out based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS are defined benefit.

Discount rate
The rate of interest used to convert a future cash amount to a present day value. It is a measure of the 'time value' of money.

Diversifying Strategies
Diversifying Strategies seeks to generate a diversifying, liquid source of return to compliment traditional asset allocation in client portfolios. The pool seeks to achieve this through exposure to

a variety of approaches in traditional markets, alongside alternative investment opportunities. The pool aims to provide returns that have a low correlation to equities – particularly in times of market stress.

Emerging markets
Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Equities
Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG (environmental, social and corporate governance)
Responsible Investors understand that ESG characteristics are financially material to investment decision-making if they are likely to have an impact on a company and its performance within the period of their ownership. Long term investors such as pension funds which aim to hold assets for an extended period of time need to assess the impact of a variety of potential influences, some of which are systemic risks which are not possible to predict with certainty (such as climate change).

Investors who integrate the consideration of ESG characteristics are seeking insight into future risks and opportunities which may be financially material to the investments they are already holding or those that are under consideration.
Environmental criteria look at how a company performs as a steward of the natural environment both as a consumer of resources and a producer of goods, services and waste.
Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates.
Governance criteria examine a company's management and decision-making framework, the corporate culture this creates and the quality of corporate leadership offered.
ESG is often used as a catch-all term for the approach to assessing these various criteria as part of being an informed and responsible investor.

Financial instrument
A contract between two parties that involves a monetary exchange for some type of debt or asset.

Fixed interest securities
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

Future service contribution rate
The contribution rate payable by an employer, expressed as a % of pensionable pay. This rate is the rate which will be sufficient to meet the costs of new benefits being accrued by active members in the future.

Funding level
The ratio of a Pension scheme's assets to its liabilities. Used as a measure of the scheme's ability to meet its future liabilities.

Index-linked securities
Investments in stock where the interest payments and the final redemption proceeds are linked to the retail price index. Such stocks provide protection against inflation.

Infrastructure
The public facilities and services needed to support residential development, including highways, bridges, schools and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment management expenses
All expenses relating to managing the Fund's investments.

Investment strategy
Investor's long-term distribution of assets among various asset classes taking into consideration, goals of the Fund, attitude to risk and timescale.

Liabilities
Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pension benefits and payments that are due to be paid when someone retires.

LPP – Local Pensions Partnership
The Local Pensions Partnership (LPP) is a collaboration between two successful LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority, with the goals of creating:

- A best-in-class, end-to-end pensions services organisation for public sector funds; LPP currently provide pensions administration services to 13 funds, including LGPS, fire and police schemes.
- An FCA-regulated structure for asset pooling.
- An organisation focused on managing assets and liabilities (risk) together in order to improve long-term fund performance, stabilise contributions and reduce deficits.
- A partnership which is open to other LGPS and public sector funds to join as owner shareholders or as investors only in LPP's pool.

Market value
The price at which an investment can be bought or sold at a given date.

Myners review
Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review published in March 2001, investigated the challenges facing institutional investment decision making.

Over the counter (OTC)
A security traded in some context other than on a formal exchange. The phrase "over the counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Past service liability
The value, in present day terms, of the benefits accrued by members up to the valuation date. Calculated on the basis of a set of assumptions agreed between the administering authority and the actuary.

Pension boards
The role of each board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

Pension boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.

Pooled investment vehicles
Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private equity
Shares in un-quoted companies.

Property
All buildings and land that the Fund owns, including pooled property funds.

Quantitative easing
The introduction of new money into the money supply by a central bank. The central bank increases the money supply and buys government bonds.

Related party
A person or organisation which has influence over another person or organisation.

Responsible investment
An approach to investment which recognises that the consideration of environmental, social and governance factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

Pension funds invest the retirement savings of scheme members in order to fund the benefits they are entitled to receive in the future. There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

Scheduled bodies
Organisations which are listed in parts 1 and 2 of schedule 2 to the LGPS Regulations 2013. These bodies automatically have the right to offer LGPS membership to eligible employees.

Organisations listed in part 1 are required to enrol eligible employees into the LGPS. This list includes, but is not limited to: County and District Councils, Combined Authorities, Fire and Rescue Authorities, Police and Crime Commissioners, Chief Constables, Further and Higher Education Corporations, Sixth Form Colleges and Academies.

If an organisation is listed in part 2 it can choose to offer membership to all or some employees. This list includes, but is not limited to: Parish Councils, subsidiaries of County or District Councils, Other precepting authorities not listed in Part 1.

Service level agreement

A commitment between a service provider (for example LPP) and a client (for example, the Fund) that defines exactly which services will be provided and the level or standard expected for those services.

Stock lending
The act of loaning securities to another investor in return for a fee. When a security is loaned the ownership is also transferred to the borrower.

Transfer values
The value of a pension scheme members benefits available to buy benefits in another scheme.

Triennial actuarial valuation
Every three years the actuary formally reviews the assets and liabilities of the Lancashire LGPS scheme and produces a report on the scheme's financial position.

Venture capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

50:50 scheme
In the LGPS, active members are given an option to accrue a lower benefit in return for paying a lower level of contribution.

Appendices

Appendix 1

Scheme employers with active members at 31 March 2020

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Total Active Employers	**101,548**	**61,529**	**11,228**
County Council	**33,257**	**25,106**	**-**
Lancashire County Council excluding Schools	49	15,551	-
Lancashire County Council Schools	29,359	8,422	-
Archbishop Temple High	110	33	-
Ashton Community Science College	165	50	-
Baines High School	117	33	-
Balshaws Church of England High School	116	35	-
Barrowford Primary School	84	23	-
Blessed Trinity Roman Catholic College	199	60	-
Brownedge St Marys	125	37	-
Cardinal Allen	155	47	-
Central Lancaster High School	60	18	-
Delph Side	61	17	-
Haslingden High School	269	80	-
Hillside Specialist School	156	46	-
Hollins Technology College	185	56	-
Hutton Church of England Grammar School	119	34	-
John Cross	26	7	-
Lea Endowed Church of England Primary	35	10	-
Leyland St James Church of England Primary	49	14	-
Moor Park High	130	40	-

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Morecambe Bay Academy	21	6	-
Morecambe Road School	173	50	-
Mount Carmel	167	51	-
New Longton All Saints Church of England Primary School	38	11	-
Ormskirk School	215	64	-
Our Lady Queen of Peace	128	38	-
Peel Park	165	46	-
Rhyddings School Accrington	123	38	-
St Andrews Church of England Primary School	88	25	-
St Richards Roman Catholic Primary School	43	12	-
The Loyne Specialist School	222	64	-
Walton Le Dale	123	37	-
West End Primary School	39	11	-
Westgate Primary School	143	40	-
Scheduled Bodies (183)	**55,885**	**30,643**	**9,377**
Blackburn With Darwen Borough Council	9,383	4,026	-
Ashleigh Primary	1	2	-
Audley County Infant	72	28	-
Avondale County Primary	76	30	-
Blackburn Central High School	89	36	-
Blackburn the Redeemer Church of England Primary School	75	28	-
Brookhouse Primary School	30	11	-
Cedars Primary	40	16	-
Crosshill School	25	10	-
Holy Trinity Church of England Primary	39	15	-
Longshaw County Infant	55	21	-
Longshaw County Junior	59	23	-
Sacred Heart Primary	28	11	-

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
St Albans Roman Catholic Primary	1	2	-
St Barnabas & St Pauls Church of England Primary	81	31	-
St James Church of England Primary School	48	19	-
St Michael with St John Church of England Primary School	39	16	-
Turncroft Nursery School	21	9	-
Blackpool Borough Council excluding Schools	15	3,910	-
Blackpool Borough Council Schools	-	430	-
Burnley Borough Council	957	390	-
Chorley Borough Council	1,223	566	966
Fylde Borough Council	2	382	-
Hyndburn Borough Council	1,922	427	-
Lancaster City Council	-	1,045	-
Pendle Borough Council	756	318	-
Preston City Council	2,192	949	-
Ribble Valley Borough Council	775	314	187
Rossendale Borough Council	2	255	-
South Ribble Borough Council	939	445	588
West Lancashire Borough Council	2,147	844	-
Wyre Borough Council	-	440	-
Blackpool Transport Servs.Ltd	-	31	-
Edge Hill University	3,703	1,711	839
University Of Central Lancashire	5,608	2,633	1,021
Lancaster & Morecambe College	457	184	130
Blackpool & The Fylde College	1,602	694	207
Preston College	570	268	280
Runshaw College	817	315	92
Blackburn College	945	421	89
Burnley College	625	294	134

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Nelson and Colne College	921	400	344
Myerscough College	837	351	178
Blackpool Sixth Form College	222	112	-
Cardinal Newman College	328	147	53
Blackburn St Mary's	174	72	10
QEGS Blackburn Academy (FS)	159	62	72
Lancashire Fire and Rescue Service	795	354	-336
Penwortham Town Council	13	8	-
Blackpool Coastal Housing	514	285	-
Pilling Parish Council	9	2	0
Kirkland Parish Council	1	0	-
Catterall Parish Council	7	2	-
Garstang Town Council	7	2	-
United Learning (Accrington Academy)	127	67	-
ANWET (Darwen Aldridge Community)	241	129	-
Fulwood Academy	76	40	-
St Annes on Sea Town Council	20	8	1
Active Lancashire Limited	80	53	-
Lancaster Girls GS (Academy)	97	42	45
Lancaster RGS (Academy)	194	69	71
Clitheroe Royal GS (Academy)	129	46	62
Hodgson Academy	149	58	47
FCAT (Hambleton Primary Academy)	23	11	7
Ripley St Thomas C E (Academy)	252	88	46
St Michael's CE High (Academy)	102	40	49
ATCT (Bowland High Academy Trust)	108	37	31
St Wilfrid's C of E Academy	122	52	99
Lostock Hall Academy Trust	79	27	32
St Christopher's CE (Academy)	186	78	95
Bishop Rawstorne High Academy	77	27	31
Belthorn Primary Academy	49	16	8

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Garstang Community Academy	100	33	30
Parbold Douglas CE Academy	32	11	10
FCAT (Westcliff Prim Academy)	37	14	14
All Saints CE Prim Sch (Academy)	37	15	17
Tarleton Academy	120	51	32
FCAT (Montgomery HS Academy)	112	47	59
Morecambe Town Council	4	2	-
Parklands High School Academy	127	54	28
Penwortham Priory Academy	106	41	18
Albany Academy	106	40	26
Norbreck Primary Academy	75	30	20
Waterloo Primary Academy	136	57	33
Hawes Side Academy	93	35	20
The Lancashire Colleges Ltd	18	10	-
Academy at Worden	61	26	14
Wensley Fold CE Primary Academy	76	31	32
Star Academies	288	222	-
Bacup Rawtenstall GS (Academy)	117	49	24
Roseacre Primary Academy	49	18	17
ATCT (Roseacre Primary Academy)	21	8	8
Star Academies (Islamic Boys High School)	22	12	1
Thames Primary Academy	95	39	31
Maharishi School (Free School)	47	15	-
Pendle Education Trust-Colne Primet	79	27	15
Pendle Education Trust - Walter St	82	31	16
Moorside Community Academy	68	26	12
Fylde Coast Academy Trust	58	29	2
Blackpool MAT (Devonshire Academy)	99	35	40
Blackpool MAT (Park Academy)	147	66	59
Blackpool MAT (Anchorsholme Academy)	88	31	38
FCAT (Unity Academy)	173	74	64

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Langdale Free School	10	4	-
Star Academies (Olive Blackburn)	23	18	-
Star Academies (Olive London)	33	26	-
Education Partner Trust (The Heights)	70	30	24
Preesall Town Council	9	2	0
BFET (South Shore Academy)	146	50	52
Darwen Town Council	1	0	-
Habergham Eaves Parish Council	0	0	-
Old Laund Booth Parish Council	0	0	-
Police & Crime Commissioner	103	60	4
Blackpool MAT (Revoe)	92	37	51
Cidari Education (St Georges)	81	33	42
ATCT (Witton Park Academy Trust)	116	45	60
Cidari Education (Lukes & Philips)	27	11	30
Cidari Education Ltd (St James)	41	17	19
Cidari Education Ltd (St Barnabas)	22	8	22
Cidari Education Ltd (St Aidans)	30	12	18
Blessed Edward MAT (St Marys)	145	58	50
Blessed Edward MAT (St Cuthbert's)	47	17	27
FCAT (Aspire Academy)	115	40	52
Blessed Edward MAT (Christ)	36	12	13
ANWET (Darwen Vale Academy)	96	38	70
Star Academies Eden Girls School Waltham	28	16	1
Star Academies Eden Girls School Coventry	31	23	-
Star Academies Eden Boys School Bolton	55	24	0
Lancashire Chief Constable	7,942	3,565	2,000
BFET (Marton Primary Academy)	74	22	25
CSCST (Burnley High Free School)	44	18	0
Cliviger Parish Council	0	0	-
Star Academies Islamic Girls High School	77	31	19

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Cidari Education Trust	16	31	-
Cidari Edu Ltd(Baines Endowed)	73	33	29
Cidari Ed Ltd(Marsden St John)	33	11	7
ANWET (Sudell PS Academy)	36	11	20
Blackpool Housing Company Ltd	100	54	-
Pendle Edu Trust (Castercliff)	59	20	27
Education Partner Trust (Coal Clough)	117	41	22
Star Academies (Eden BS Preston)	16	9	-
Star Academies (Eden GS Slough)	50	25	-
Star Academies (Eden BS Birmingham)	37	24	-
FCAT (Blackpool Gateway Academy)	47	22	5
Eden School	22	12	2
Whittle-le-Woods Parish Council	1	1	-
Education Partner Trust (Pleckgate High School)	129	49	71
Freckleton Parish Council	1	0	-
PET (West Craven)	85	29	20
Star Academies Highfield Humanities	97	36	62
Pendle Education Trust	32	16	1
Education Partnership Trust	34	27	-
Blessed Edward Trust	12	7	-
Star Academies Olive Bolton	18	10	-
Star Academies Olive Preston	22	13	-
Star Academies Olive Birmingham	21	17	-
Clayton-Le-Woods Parish Council	4	2	-
FCAT (Mereside)	78	27	30
Tor View SLC	211	97	62
FCAT (Westminster Primary Academy)	57	22	42
Mosaic Academy Trust	89	35	32
Cidari (Newchurch PSM)	8	3	3
Star Academies - Eden Girls Manchester	38	17	-
Cidari Education (St Silas)	42	17	21

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Bay Learning Trust (Morecambe Bay Academy)	177	71	58
Star Academies (The Valley Leadership Academy)	43	17	14
Star Academies (Eden Boys LA Birmingham East)	16	5	-
Learning Together Trust (Adlington PS)	21	8	6
Blackpool Waste Services	12	7	-
Nelson Town Council	4	2	-
Bay Learning Trust (Central Lancaster High School)	47	18	14
Star Academies (Eden Girls LA Birmingham)	16	6	-
Star Academies (Eden Boys LA Bradford)	9	3	-
Education Partner Trust (The Heights Burnley)	29	12	-
Romero (St Mary's RC)	12	5	4
Champion Education Trust (Blackburn Central High School)	67	28	38
Champion Education Trust (Crosshill Specialist School)	18	7	13
Romero Catholic Academy Trust (St John the Baptist	18	7	5
Romero CAT (St Augustines)	8	3	2
Romero CAT (All Saints RC HS)	13	5	4
United Learning (The Hyndburn Academy)	61	24	18
Romero CAT (Blessed Trinity RC)	18	5	5
Star Academies - Eden Boys Manchester	28	12	-
Admitted Bodies (146)	**12,406**	**5,780**	**1,851**
UCST (AKS Arnold)	29	11	28
Galloways Society for Blind	3	1	18
Lancaster University	4,500	2,071	543
Lancashire County Branch Unison	0	1	-
NW Inshore Fisheries & Conservation	101	40	28

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
UCST (AKS Lytham)	28	13	-
University of Cumbria	1,832	865	655
Whitworth Town Council	5	2	2
Kirkham Grammar School	97	29	32
Caritas Care Limited	257	107	70
Community Council of Lancashire	21	8	29
Progress Housing Group	187	109	-
Preston Care and Repair	3	2	-
Pendle Leisure Trust Ltd	259	123	22
Together Housing Association Ltd	1,601	724	94
Leisure in Hyndburn	123	56	51
Adventure Hyndburn	38	19	24
Blackpool Zoo (Grant Leisure)	31	16	-
Rossendale Leisure Trust	31	18	-
Marketing Lancashire Ltd	53	36	-
Liberata UK Ltd (Pendle)	131	66	-
West Lancs Community Leisure	-	44	-
South Ribble Community Leisure	116	50	86
Community Gateway Association Ltd	203	109	-
Bulloughs (Our Lady)	0	0	-
Chorley Community Housing Ltd	86	50	-
NSL Ltd.(Lancaster)	-	1	-
Capita(Rossendale Borough Council Transfer)	1	8	-
Consultant Caterers Ltd	4	5	-
Bootstrap Enterprises Ltd	0	3	-
Alternative Futures Group Ltd	-	6	-
Creative Support Ltd	-	13	-
New Progress Housing	257	110	-
Progress Housing Association	121	52	-
Community and Business Partners	39	22	-
I Care (Home)	-	3	-

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Fylde Coast YMCA (Fylde TUPE)	-	1	-
Cofely FM Ltd (Lend Lease)	28	10	-
Creative Support Ltd (Midway)	15	6	-
Mellor's (Bishop Rawstorne)	6	2	-
Mellor's (Hambleton Primary School)	1	0	-
Andron (formerly Solar)	-	1	-
Cofely FM Ltd (Pleckgate)	2	2	-
Liberata UK Ltd (Burnley)	207	76	-
Essential Fleet Services Ltd	-	7	-
Elite Cleaning and Environment	4	1	-
Eric Wright FM - Site Supervisors Highfield HC	0	4	-
Cofely FM Ltd (Witton Park)	2	0	-
Mellors (Little Hoole)	2	1	-
Mellors (Holy Cross)	8	3	-
Cofely FM Ltd (Blake/Cross)	-	1	-
Service Alliance Ltd (Altham)	1	0	-
Lancashire Care Foundation	16	6	-
Service Alliance (Ribblesdale)	1	0	-
Mellors (Brinscall)	5	1	-
Burnley Leisure	216	114	-
CG Cleaning (Kennington Road)	2	1	-
Compass Contract Services (UK) Ltd	26	7	-
Caterlink (Mount Pleasant School)	1	0	-
Churchill (Moorside)	1	0	-
Service Alliance (St Wilfrid)	2	1	-
Blackpool, Fylde and Wyre CU	7	2	-
QEGS Blackburn Ltd	5	2	-
Mellors (Queens Drive)	1	0	-
Service Alliance (Whalley Primary School)	1	0	-
RCCN (Whitefield)	1	0	-
Bulloughs (Carr Head Primary School)	0	0	-

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
FCC Environment	22	7	-
County Councils Network	13	18	1
Urbaser Ltd	61	16	0
Service Alliance (Clitheroe Pendle)	1	0	-
I Care	18	7	-
Independent Living Fund (Blackpool Borough Council)	6	2	-
Elite CES (Fulwood & Cadley)	1	0	-
Elite CES Ltd(Moor Nook School)	4	1	-
Elite CES Ltd (Carr Hill)	4	1	-
Service Alliance (St Mary Mag)	1	0	-
Churchill (Morecambe Bay)	1	0	-
Compass CS (Preston)	16	5	-
Local Pensions Partnership Limited	468	247	-
Premiserv (St Peters)	1	0	-
5AM Contract Cleaning (Blackpool Coastal)	2	1	-
RCCN (Burscough)	2	1	-
Maxim (Acorns PS)	1	0	-
Elite CES (Hambleton)	3	1	-
Elite CES Ltd (St Annes)	2	0	-
Bulloughs (BFET Marton)	2	0	-
Mellors (Delph Side)	2	1	-
Mellors (Lostock Hall Academy)	6	1	-
Maxim (Lancaster Girls Grammar)	2	0	-
Maxim (Lancaster Royal Grammar)	12	4	-
Maxim (Newton Bluecoat)	1	0	-
Maxim (St John with St Michael)	1	0	-
CG Cleaning (St Teresas)	0	0	-
Service Alliance (St Marys RC Primary)	0	0	-
Capita (Property & Infrastructure)	13	7	-
Maxim (St Georges CE Primary School)	1	0	-

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Compass CS Ltd (Highfield)	10	2	-
Greenwich Leisure Limited (Preston City)	93	34	-
Cockerham Parish Council	0	0	-
Nether Wyresdale Parish Council	0	0	-
Clarets in the Community Ltd	3	1	-
Compass Contract Services (Hodgson Academy)	4	2	-
Mellors (Parklands High School)	9	2	-
Maxim (Mayfield Primary School)	1	0	-
Orian (Larches House)	1	0	-
Noonan (Hyndburn CCTV)	4	2	-
Bay Learning Trust (Carnforth High School)	95	38	29
Mellors (St Michaels CE Academy Trust)	11	4	-
Star Academies (Bay Leadership Academies)	115	46	41
Compass CS (Mer/Mon/Uni)	36	10	-
Maxim (St Joseph's Primary School)	0	0	-
Pendle Education Trust (Casterton Primary Academy)	50	19	15
Mellors (Tarleton Community Primary School)	4	2	-
FCAT (Armfield Academy)	51	20	-
Andron (Longridge High School)	3	1	-
Maxim (Bolton le Sands Primary School)	1	0	-
Maxim (Kelbrook Primary School)	3	1	-
Endeavour LT (Burscough Priory Academy)	49	19	19
Maxim (St Augustines)	2	1	-
Laneshaw Bridge Primary School	32	11	8
Maxim (Helmshore Primary School)	1	0	-
Andron (Cidari - St Georges School)	4	1	-
Blacko Primary School	16	6	3

	Contribution Received		
Employer Name	**Employer (£'000)**	**Employee ('£000)**	**Deficit Recovery ('£000)**
Colne Park High School	123	50	34
Lord Street Primary School	64	25	19
The Pennine Trust	3	1	1
Orian Solutions Ltd (Parklands High School)	4	1	-
Wolseley UK	3	1	-
Maxim (Kingsfold Primary School)	1	0	-
5AM Contract Cleaning (Revoe)	2	1	-
Local Pensions Partnership Investments	112	78	-
CG Cleaning Ltd (Burnley St Peters)	6	2	-
CG Cleaning Ltd (Moorside Primary School Lancaster)	2	1	-
CG Cleaning Ltd (St Wulstans & St Edmunds)	4	1	-
Bulloughs (Balshaw High School)	2	1	-
Mellors (Cidari - Multi Academies)	44	11	-
Mellors (Cidari - St Silas)	9	3	-
Orian Solutions Ltd (Layton Primary School)	1	0	-
Maxim FM (St James Primary School Clitheroe)	2	1	-
Lancashire Care NHS Foundation Trust (EIS)	28	10	-
Aspens Services Ltd (AE - Sudell Primary School)	2	1	-
Aspens Services Ltd - (AE - DACA/DAES)	11	4	-
Aspens Services Ltd - (AE - Darwen Vale High School)	3	1	-
Bulloughs Cleaning Services Ltd- (AE - Sudell Primary)	1	0	-

Appendix 2 – Governance Policy Statement

Appendix 2 -
Governance policy s

Appendix 3 – Administration Annual Report

Appendix 3 -
Lancashire Annual A

Appendix 4 – Communication Policy Statement

Appendix 4 -
Communications Po

Appendix 5 – Pensions Administration Strategy Statement

Appendix 5 -
Pensions admin stra

Appendix 6 – Funding Strategy Statement

Appendix 6 -
Funding Strategy St

Appendix 7 – Investment Strategy Statement

Appendix 7 -
Investment strategy

Appendix 8 – Actuarial Valuation

Appendix 8 - LCPF
Actuarial Valuation I

Appendix 9 – Responsible Investment Policy

Appendix 9 -
Responsible Investm

***The full documents will be included in the final annual report rather than embedded**

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected: (All Divisions);

McCloud Update

Contact for further information:
Colin Smith, (01772) 534826, Technical Advisor
Colin.Smith@lancashire.gov.uk

Executive Summary

This report sets out an update on the on-going issues around the McCloud judgement and current consultation.

Recommendation

The Committee is asked to note the contents of the update and are invited to provide any comments to the Head of Fund for consideration as part of the current consultation.

Background and Advice

The Ministry of Housing, Communities and Local Government published its consultation on draft Regulations introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales on 16 July 2020.

The proposals look to remedy the unlawful discrimination, identified by the court judgement on the McCloud case, which ruled the protection of older members was discriminatory when this was introduced following the reforms of the LGPS in April 2014 when the current Career Average scheme was introduced. Effectively active members within ten years of their 2008 Scheme normal pension age on 31 March 2012 were granted transitional protection by means of a final salary underpin, i.e. a comparison of the benefits that could have been accrued under the previous final salary scheme.

The judgement affected all public sector schemes and the Government stated they would address discrimination for all affected members, not just those who made a claim.

As a consequence the draft regulations set out in the consultation for the LGPS in England and Wales will essentially remove the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.

Lancashire County Council

Those affected are members of the LGPS who were active members of the LGPS on 31 March 2012 and who have since accrued membership in the 2014 LGPS scheme with no disqualifying break in service. The changes will also be retrospective, and so benefits for all qualifying leavers since 1 April 2014 will need to be revisited to determine whether the underpin calculation will produce a higher benefit.

The consultation closes on 8 October 2020.

Impact on Administration

It is clear that implementing the changes will create a significant administration burden as it has been estimated that up to a quarter of the total fund membership (active membership and leavers) will fall into scope of the proposed changes to the underpin resulting from the McCloud ruling. It is expected that the new regulations are likely to be in place from 1 April 2022.

The anticipated administration to carry out and implement the changes will involve:

- Increased process time on current caseload
- Backdated benefit reviews for past leavers in scope
- Member and employer communications
- System software updates

The Ministry of Housing, Communities and Local Government has stated that it doesn't envisage that many members will actually see an increase in benefits as a result of the new underpin. However as it is envisaged that around a third of active members will be in scope, the real issue from a Fund cost perspective is the scale of underpin calculations that will still need to be carried out for a large number of members, both on an ongoing basis and additionally as a retrospective exercise for leavers.

McCloud and update on cost cap process

Legislation requires HM Treasury and the Scheme Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Earlier calculations for the 2016 process found that the cost “floor” had been breached, which meant that improvements to benefits or changes to member contributions would be required (with effect from 1 April 2019) to bring the cost of the LGPS back to the target level. However, the processes were paused pending the outcome of McCloud.

On 16 July 2020 the government announced that the cost cap process would now be restarted to take account of the changes brought in by McCloud in the cost assessment. As a result once the costs of the McCloud rectification are allowed for this may reduce or eliminate the need for any further cost/benefit changes.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Implementing the changes will create a significant administration burden which will need to be resourced and costed appropriately.

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

Paper	Date	Contact
HMT consultation on McCloud and update on cost cap process a consultation on McCloud and an update on the cost cap process	16/07/2020	C Smith, (01772) 534826,
MHCLG consultation on McCloud a consultation on changes to the LGPS		

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected: (All Divisions);

Lancashire County Pension Fund - Admission and Termination Policy
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, 01772 530808, Head of Fund,
abigail.leech@lancashire.gov.uk

Executive Summary

The admissions and termination policy was last updated in April 2018. The latest review incorporates further changes to legislation covering exit credits, allowances for the on-going effects of the McCloud judgement and generally to bring the policy in line with the Funding Strategy Statement which was amended in March 2020.

Recommendations

The Pension Fund Committee is asked to:

1. Approve the changes to the admission and termination policy set out at Appendix 'A' to this report to enable a short consultation with the employers in the Fund.

2. Agree that a further report on the outcome of the consultation and a final draft of the admissions and termination policy be presented to the Committee at its meeting on the 27th November 2020.

Background and Advice

The current admissions and termination policy has been in place since April 2018 when the policy was amended following a review of the actuarial assumptions which are used to assess the value of the liabilities at the point the employer exits the fund.

This latest review incorporates further changes to legislation covering exit credits, allowances for the on-going effects of the McCloud judgement and generally to bring the policy in line with the Funding Strategy Statement which was amended in March 2020.

The changes have been made following discussions with our actuaries and the key updates are highlighted within the full draft policy statement set out in Appendix 'A'.

A summary of the key changes are set out below.

Exit Credits

When an employer leaves the Fund, an assessment needs to be made of the assets and liabilities attributable to it under the Fund. If there is any deficit of assets against liabilities then this needs to be met by the employer. This assessment and payment of any deficit is both a requirement of the LGPS Regulations and sensible financial practice, as otherwise the deficit attributable to the leaving employer would need to be picked up by other employers within the Fund.

Given that employers being admitted and subsequently leaving the Fund can be a regular event, it makes sense to have a standardised policy for determining the basis under which employers are admitted to the scheme and the methodology for dealing with exit payments or credits upon an employer terminating from the Fund.

Having a clear policy ensures the following:

- Providing clarity to all stakeholders.
- Providing a consistent approach, and which is therefore less open to challenge by the leaving employer and their advisers.
- Enabling the admission and termination process to be carried out efficiently.

With regard to the treatment of exit credits, the Funding Strategy Statement currently covers the Fund policy on exit credits. The admission and termination policy is now updated to match this, and includes detail on how the Fund would handle any disputes on exit credits.

Additionally the policy now provides further clarity on how deficit or exit credits would be dealt with on the termination of a scheme employer in circumstances where a guarantor or successor exists and also in circumstances where a risk sharing arrangement is in place. Clarity is also provided on how the exit process will apply to academies in the Fund, whether participating as a stand-alone academy or as part of a multi academy trust.

Mc Cloud

In respect of allowances for McCloud the policy now includes that, for employers newly admitted to the scheme, the future service rate and deficit (where applicable) at the point of admission will not include any employer-specific allowance for the "McCloud" judgment, but will instead be calculated using the 2019 valuation assumptions which included a margin of prudence in respect of the judgment.

The assumptions used to calculate termination positions are also adjusted to allow for McCloud and further to bring them in line with the general assumptions used at the 2019 valuation.

Deferred Debt

Recently the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 were laid on 27 August 2020 with an implementation date of 23 September 2020, and reference is made to this legislation in the draft admission and termination policy. This legislation will introduce “deferred debt” provisions, which would allow employers to continue to participate in the Fund as ongoing employers after their last active member leaves in order to manage an exit payment that may be due. The Fund will develop a policy in this area once the full impact of these provisions have been reviewed, and incorporate it into this policy at a future date.

Employer covenant

Finally a minor amendment is made to re-inforce the Fund's commitment to employer covenant assessments and reinforces the fact that values of any bond or security put in place by scheme employers, may be reviewed by the Fund periodically to ensure they remain at an appropriate level.

Employer consultation period

It is intended to have a short consultation period with employers on the draft policy up to the 31 October 2020. It is then proposed that any new policy would have an effective date of 1 December 2020, subject to approval by the Committee on the 27th November 2020.

Consultations

Mercers – fund actuary

Implications:

This item has the following implications, as indicated:

Risk management

It is good practice to review the policy to ensure it is up to date and that employers in the Fund are protected from the downside risk of an employer exiting.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

DRAFT

ADMISSION AND TERMINATION POLICY

LANCASHIRE COUNTY PENSION FUND

AUGUST 2020

Lancashire County Council

A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an employer's participation in the LCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS), and is to be considered part of that document.

POLICY OBJECTIVES

RISK MITIGATION

The Fund, in managing the admissions and exit process, aims to mitigate risk as far as possible, within its risk management framework. The admissions and exit process reflects this framework.

EFFICIENT PROCESSES

The Fund, in managing the admissions and exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

COSTS OF MANAGING ADMISSIONS AND TERMINATIONS

The Fund will pass on relevant actuarial costs to new employers but at the same time operate a model which seeks to minimise these costs. The Fund will also recover its own costs from employers and apply a charging framework which encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.

It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.

LCPF 'DEFAULT' POSITION

This policy has been subject to consultation with employers in 2020.Where the term 'default position' is used within this policy it is assumed that any existing or aspirant employer has made itself aware of, and accepts, existing policy and practice, unless specifically stating otherwise. In practical terms this means where there is a requirement (on the Fund) to consult with employers around aspects of the admissions/entry process, the Fund will assume employers accept its default position unless the employer expressly states otherwise. Should an employer wish to deviate from the Fund's default position then the Fund's charging framework will reflect the additional cost of doing so.

The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members who transfer to another employer, as a result of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement, retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.

Please see the glossary for an explanation of the terms used throughout this document.

B - ENTRY TO THE FUND

1. BACKGROUND

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme (LGPS) (the "Regulations"). Unlike other employers, such as county councils, district councils, academies and further and higher education corporations, who are named within the Regulations as bodies having an automatic right to participation in the LGPS, admission bodies do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the LGPS.

The Council as administering authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status MUST be submitted to the Council, as administering authority, in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should be submitted at least three months before the proposed transfer or admission date.

Regulation reference: Regulation 3 (5), 4 (2) (b) and Schedule 2 part 3 paragraph1 and 12 (a) of the Local Government Pension Scheme Regulations 2013/2356

The regulations above detail the criteria under which an admission body may enter into an admission agreement with the Lancashire County Pension Fund. Those criteria are set out below specifically under the terms of Schedule 2 Part 3 paragraph 1 and Regulation 4 (2) (b):

Schedule 2 Part 3 paragraph 1

a) *a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);*
b) *a body, to the funds of which a Scheme employer contributes;*
c) *a body representative of*
    i. *any Scheme employers, or*
    ii. *(ii) local authorities or officers of local authorities;*
d) *a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
    i. *the transfer of the service or assets by means of a contract or other arrangement,*
    ii. *a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),*
    iii. *directions made under section 497A of the Education Act 1996;*
e) *a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme*

Regulation 4 (2) (b)

Where a person's entitlement to be a member of an NHS Scheme is by reason of employment by—

i. *a Care Trust designated under section 77 of the National Health Service Act 2006,* *ii. an NHS Scheme employing authority as a result of a prescribed arrangement under section 75 of that Act, or section 33 of the National Health Service (Wales) Act 2006, or*

iii. the Care Quality Commission as a result of a transfer of employment from the Commission for Social Care Inspection, in connection with its dissolution under Part 1 of the Health and Social Care Act 2008;

Then that person can be designated as eligible for membership of the Scheme in an admission agreement made between an administering authority and one of the bodies specified in (i) to (iii) above if the person was an active member immediately before becoming employed by one of those bodies; and the person is not an active member of an NHS Scheme in relation to that employment.

2. POLICY STATEMENT

a) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (d) (i) (formerly known as Transferee Admission Bodies)

Admissions under this criterion relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement. The Fund's policy is to accept these admissions but may not do so if there are unaddressed concerns around the prior compliance, with the Fund's Pensions Administration Strategy Statement (PASS), of an existing admitted employer. The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers proactively to ensure they understand and meet PASS commitments.

Unless exceptional circumstances are identified the Fund's default position will be for the admitted body to commence from a 100% funded position and be closed to all but those eligible employees identified at the point of transfer.

In addition where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities. The Fund reserves the right to insist on security even if the transferring employer does not agree.

b) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Regulation 4 (2) (b)

An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.

c) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 1 (a) (formerly known as Community Admission Bodies) and the remaining criteria under schedule 2 Part 3 excluding a) above

The Fund will expect an existing scheme employer to act as guarantor in respect of an admission (normally the Fund will require this to be a scheduled body of suitable standing). Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Head of the Lancashire County Pension Fund.

Where an admission is agreed, following a risk analysis agreed by the administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund.

In all cases an admission body must accept and agree to meet the conditions of participation detailed at Appendix 1 and the clauses set out within Lancashire County Pension Fund's standard draft admission agreement.

The value of any bond may be reviewed by the Fund periodically, and where appropriate the Fund may require an increase in (or reduction of) any bond as required. Similarly, the Fund may review the value of any security, and require additional protection where this is deemed necessary.

The Fund's default position is that it will not amend its standard Admission Agreement template; should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £35 per hour

FUTURE SERVICE CONTRIBUTION RATES AND DEFICITS

In line with the philosophy of minimising costs for all involved, the Fund will use models (where possible) provided by the Fund actuary which will set interim future service contribution rates (FSR) and deficits according to the principles set out below.

Models are used in respect of new academies, Parish or Town Councils and the admission of an employer in respect of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement (in certain circumstances).

Where the parameters fall outside those specified within the models below, admissions will normally involve a full actuarial assessment of relevant parameters. Any risk issues will be addressed by the Fund with a view to minimising risk exposure to itself.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However the administering authority reserves the right to determine that an employer specific deficit recovery period will apply.

1 - ACADEMIES

The new Academy will generally be an ex-Local Education Authority (LEA) school from one of the Fund's three employers with LEA status. Where this is the case:

- The FSR will be set at the previous employer's existing FSR rate, which will apply until the next valuation
- The opening deficit will be calculated using an actuarial model which allocates a share of the LEA's deficit at the most recent valuation of the Fund, such that the academy's deficit contributions are the same before and after conversion
- The deficit recovery period will be consistent with that of the LEA

At the next valuation a 'stand-alone' FSR and deficit will be calculated by the Fund's actuary. The Fund's general deficit recovery policy will be used to determine deficit payments, unless its risk management framework determines that a different period be applied, either at the academy creation stage or at subsequent triennial valuations

Where a new academy joins the Fund as an independent free school or via its status as part of a multi-academy Trust which is already a Fund employer, and where the pre-Academy status school was not the responsibility of either Lancashire County Council, Blackburn with Darwen Borough

Council or Blackpool Borough Council, no opening deficit will typically be assigned. The FSR applied will initially match the LEA area in which multi academy trust or stand-alone free school is based. At the next triennial valuation a 'stand-alone' FSR and deficit will be assigned to the new academy based on their individual circumstances.

Academies which were previously schools under an LEA outside of the three existing LCPF LEA employers will only be able to join LCPF if they join a Multi Academy Trust (MAT) which is already a Fund employer. If an academy leaves one MAT and joins another which is not a LCPF employer, any deficit will be allocated to the previous MAT.

Given that there are a growing number of academy chains (or multi academy trusts), which operate as single employers with common policies in regard to issues such as ill health and early retirement and common sets of employer discretions, the Fund will offer the option of pooling to academy chains as part of subsequent valuation exercises.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

2 – PARISH OR TOWN COUNCILS

Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved. The factors cover future service only, and so assume that the employer is fully funded on admission. If this is not the case then cases are referred to the Fund's actuary for assessment.

Similarly cases will also be referred to the scheme actuary if any member has an earlier period of LGPS service which they wish to link to service with the Parish or Town Council or, additionally, where exceptional circumstances are identified.

The temporary FSR will apply until the next valuation, at which stage a 'stand-alone' FSR for the Parish or Town Council will be calculated by the Fund's actuary.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the Fund.

3 –PROSPECTIVE ADMISSION BODIES FALLING UNDER SCHEDULE 2 PART 3 1 (D) (I) (FORMERLY KNOWN AS TRANSFEREE ADMISSION BODIES)

SMALL CONTRACTORS

Admission agreements often relate to bodies that have taken on work on behalf of a scheme employer by means of a contract. Such bodies will have an opening FSR matching the transferring employer's FSR where the criteria set out below are met (unless the body and the outsourcing scheme employer agree otherwise at the outset of the contract):

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under these circumstances the FSR used throughout the lifetime of the contract will that of the original transferring employer (including any changes following triennial valuations).

Under this approach the original transferring employer assumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In particular, where an admission takes place under this approach, then both the admission body and original transferring employer accept that the admission body is not entitled to any exit credit, or responsible for any termination payment, when the admission agreement ends.

OTHER ADMISSION BODIES

Where the above criteria are not met, then, at the point of admission, the FSR will be set by the Fund actuary, and reassessed at each following valuation. At the end of the admission any identified deficit or surplus will be dealt with in line with the approach set out in section C of this policy document. This principle also applies where a contract is re-let to either an incumbent or new contractor.

In line with the approach adopted for the 2019 valuation, the FSR and deficit (where applicable) at the point of admission will not include any employer-specific allowance for the "McCloud" judgment, but will be calculated using the 2019 valuation assumptions which included a margin of prudence in respect of the judgment. The employer will be informed of the potential McCloud cost for their specific membership for budgeting purposes.

ALTERNATIVE APPROACHES

Transferring employers will be able to propose the use of other models, security arrangements or termination deficit calculations. However the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach Fund permission will be required and any additional costs incurred will be passed on to the admission body and/or transferring employer (as appropriate).

C - EXITING THE FUND

BACKGROUND

Lancashire County Pension Fund must obtain an actuarial assessment showing the exit position when a body ceases to be a scheme employer or no longer has any active members. This exiting employer may, depending on the details of their admission to the Fund, be liable for the exit position, be this a "termination payment" due to the Fund or an "exit credit" due to the exiting employer. This applies equally to all scheme employers participating in the fund, regardless of whether an admission agreement is in place. The purpose of settling of the exit position is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit, and that any excess assets above this are allocated appropriately.

Once the exiting employer has left the Fund their assets and liabilities within the Fund, including any termination payment that cannot be recovered from the exiting employer, will become the responsibility of the guarantor or successor body within the Fund where one exists, or the responsibility of the Fund as a whole (i.e. all scheme employers) otherwise.

This document sets out the Fund's standard polices when employers exit the Fund. However, the Fund reserves the right to apply a different approach should individual circumstances warrant it.

Regulation reference: Regulation 64 of the Local Government Pension Scheme Regulations 2013/2356;

POLICY STATEMENT

A termination assessment will normally be carried out for bodies who cease to be a scheme employer within Lancashire County Pension Fund, the actuarial cost of which will be charged to the exiting employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer as detailed in part B (section 3 – small contractors) of this policy statement.

The Fund's policy on termination payments and exit credits is:

a) **Where there is no Fund guarantor** any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus assessed on the termination assumptions will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then "orphaned", and so become the responsibility of the Fund as a whole (i.e. all scheme employers).

b) **Where a guarantor exists** who would subsume the assets and liabilities of the outgoing employer, **and there is no "risk-sharing" arrangement** (meaning the exiting employer is responsible for their final position in the Fund), any deficit will be recovered from the exiting employer in the first instance, and then any bond or security where applicable. Any surplus will be returned to the exiting employer as an exit credit. The remaining assets and liabilities are then the responsibility of the guarantor. (Depending on circumstances, the Fund may demand immediate payment of any unrecovered termination amount from the guarantor).

c) **Where a guarantor exists and there is a risk sharing agreement**, the assets, liabilities and any deficit or surplus will be subsumed by the guarantor (this will be adjusted as appropriate in any cases where there is a partial risk sharing arrangement).

Where a guarantor attempts not to underwrite the residual liabilities, the Fund will challenge this (and seek to recover any related costs form the guarantor). However should the guarantor be successful, the basis of assessment on termination will assume the liabilities are orphaned and thus the "corporate bond" approach will apply (as detailed in the "funding assumptions for termination calculations" section below).

EXIT CREDITS AND TERMINATION PAYMENTS – EMPLOYERS WITH A GUARANTOR

Where an exiting employer has a guarantor within the Fund, other than for "small contractors" as defined above, it will be necessary to determine which of b) and c) above applies. In such cases the Fund's policy will be as follows:

- The Fund will contact both the exiting employer and the guarantor to confirm whether there is a "risk-sharing" arrangement in place, and to ask for any evidence of this

- Where both sides agree as to the nature of the arrangement, the termination assessment will be progressed in line with the agreed approach

- Otherwise, the Fund's normal policy will be to proceed assuming the exiting employer is responsible for any termination payment, and so is entitled to any exit credit

Once the termination is complete, the two parties will be notified of the outcome. At that point either party will have 1 month to dispute the outcome. If this happens then payment of any exit credit will be put on hold, and the dispute will be resolved as follows:

- In the first instance the two parties will be expected to resolve the dispute "externally", without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored

- Where this does not lead to a resolution, then the case will be handled in line with the Fund's Internal Dispute Resolution policies

- Where this does not resolve the issue, the case will be referred to the Pensions Ombudsman

The Fund may seek to recover any costs associated with the dispute resolution process as part of the final termination settlement.

Where an exit credit may be payable the Fund will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount and subsequent treatment, and this is reflected in the processes laid out in this document.

FUNDING ASSUMPTIONS FOR TERMINATION CALCULATIONS

The LCPF policy is that a termination assessment will be made based on a corporate bond funding basis, unless the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the exiting employer's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the exiting employer if a shortfall emerges in the future (after the admission has terminated).

If, instead, the exiting employer has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the LCPF policy is that the valuation funding basis will be used for the termination assessment. The guarantor or successor body will then, following any termination payment or exit credit made, subsume the remaining assets and liabilities of the exiting employer within the Fund. This may, if agreed by the successor body and the Fund, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

Where the exiting employer is a stand-alone academy, the corporate bond basis will be used, as although the DfE provide a guarantee in these circumstances, they are not an employer in the Fund, and the nature of that guarantee does not include long-term responsibilities for the liabilities. This policy will also apply to other exiting employers with a similar guarantee.

Where the exiting employer is an academy that is part of a MAT which is remaining within the Fund, the ongoing funding basis will normally be used, as the MAT would be responsible for the ongoing assets and liabilities. In practice in some circumstances the Fund and the MAT may agree that no termination calculation is necessary, in which case the MAT will take over the deficit contributions of the former academy.

The corporate bond financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

31 March 2019	**Valuation funding assumptions**	**Corporate bond assumptions**
Discount Rate	3.8% p.a.	2.4% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.	2.4% p.a.

The above valuation funding discount rate of 3.8% includes a margin of prudence in relation to the McCloud judgment in line with the 2019 valuation approach. For termination assessments this margin will be removed, and instead allowance for McCloud will be based on the employer's actual membership profile, as detailed below.
All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption for the corporate bond approach. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

Therefore the corporate bond approach for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% p.a. used in the 2019 valuation for ongoing funding and contribution purposes.

Notwithstanding the above, at the discretion of the Fund a "minimum risk" approach may be used for the calculation of the termination assessment. Under such an approach the discount rate would be linked to long-term gilt yields rather than corporate bond yields, along with a higher allowance for future mortality improvements than used at the actuarial valuation. If this were to be applied then the employer would be notified when termination was being discussed.

MCCLOUD

In July 2020 the government issued a consultation detailing their proposed remedy in the McCloud case. While the consultation is currently ongoing, the Fund expects that the recommendations will largely be adopted. Therefore an allowance will be made within the termination assessment to reflect this.

The Fund's standard approach will be to assess the McCloud cost for members who were active immediately prior to termination, in line with the approach adopted for the assessments at the 2019 valuation – namely to extend the age related protections to all members who joined the Fund prior to 1 April 2012.

Non-active members will not be assessed, as the data required to calculate any costs for members who have already left service or retired is not typically readily available. Given the nature of the underpin, it is not expected that the costs for this group of members will be material in most cases.

This approach is designed to be proportional and pragmatic. However, should individual circumstances warrant it the Fund reserves the right to perform a more detailed assessment.

NOTIFICATION OF TERMINATION

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer.

In this case, employers are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

ALTERNATIVES TO TERMINATION

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the administering authority, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.

MORE RECENTLY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO.2) REGULATIONS 2020 WERE LAID AT THE END OF AUGUST WITH AN IMPLEMENTATION DATE OF 23 SEPTEMBER 2020. THIS LEGISLATION WILL INTRODUCE "DEFERRED DEBT" PROVISIONS, WHICH WOULD ALLOW EMPLOYERS TO CONTINUE TO PARTICIPATE IN THE FUND AS ONGOING EMPLOYERS AFTER THEIR LAST ACTIVE MEMBER LEAVES. THE FUND WILL DEVELOP A POLICY IN THIS AREA ONCE THE FULL IMPACT OF THESE PROVISIONS HAVE BEEN REVIEWED. IN THE INTERIM PERIOD BETWEEN THE REGULATIONS BECOMING EFFECTIVE AND THE FUND'S POLICY BEING PUT IN PLACE, THE FUND MAY AT THEIR ABSOLUTE DISCRETION ALLOW AN EMPLOYER TO BECOME A "DEFERRED-DEBT" EMPLOYER WHEN THEIR LAST ACTIVE MEMBER LEAVES, ON TERMS THAT THE FUND DEEMS APPROPRIATE.

TERMINATION AND EXIT CREDIT PAYMENTS

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment, within 30 days of formal notification. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

In line with the governing regulations, any exit credits will be paid to the exiting employer within 6 months of cessation (subject to availability of data, co-operation of the relevant parties and the need to resolve any disputes), or such longer period as may be agreed in the individual case.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination.

D - CHARGING STRUCTURE

'TARIFF' CHARGES – RECOVERY OF LCPF ADMINISTRATION COSTS

- Admission agreement - £1,000
- New Academy – £350

'NON-TARIFF' CHARGES – RECOVERY OF LCPF COSTS

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where 'late' admissions occur, the 'tariff' rates above will be doubled. 'Late' within this context means where the admission agreement is signed by the prospective admitted body after the transfer date and the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which the transfer date occurs.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

RECOVERY OF OTHER COSTS

Actuarial, Legal and any other costs incurred by LCPF in direct relation to an admission will be recovered from the new employer.

E - RISK MANAGEMENT

When an employer is admitted to the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with LCPF, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations – for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk, and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an aspirant admitted body joins the Fund under the exceptional circumstances route (as specified in section 2 above) the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

GLOSSARY

Actuarial Valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority:
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

CPI:
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Corporate bond basis:
An approach where the discount rate used to assess the liabilities is determined based on the yields of AA-rated corporate bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted for employer accounting purposes, and also is usually adopted when an employer is exiting the Fund.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit:
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Funding or solvency Level:
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement:
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Guarantee/guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting/transferring employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may sometimes be adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Recovery Plan:
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. Scheduled bodies include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme employers:
Any organisation that participates in the LGPS, including admission bodies.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Appendix 1

Conditions of Participation

1. **PAYMENTS**

1.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.

1.2 The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3 The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.

1.4 Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by the Administering Authority and notified to the Admission Body. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.5 Where the Admission Body certifies that:

1.5.1 an eligible employee aged 55 or more, is retiring by reason of redundancy or in the interests of efficiency; or

1.5.2 an eligible employee is voluntarily retiring on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions; or

1.5.3 an eligible employee who is a deferred member of the Scheme requests that their benefits are brought into payment early on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions;

and immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits as certified by an actuary appointed by the Administering Authority. Such sum to be paid (unless other terms are agreed between the Administering Authority and the Admission Body) within thirty (30) calendar days of receipt by the Admission Body of the written notification.

1.6 The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.

1.7 If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY'S UNDERTAKINGS

The Admission Body undertakes:

2.1.1 to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2 to comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and

Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734);

2.1.3 to adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;

2.1.4 to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

2.1.5 to notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.1.6 to notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment ;

2.1.7 to immediately notify the Administering Authority (and the Scheme employer where appropriate) in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.

2.1.8 Where the admission agreement exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract then employees are only eligible for continued participation of the LGPS where they are "employed in connection with" the contract. "Employed in connection with" shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.

3. **ACTUARIAL VALUATIONS**

3.1 The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2 Upon termination of this Agreement the Administering Authority must obtain:

3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former eligible employees as at the date of termination; and

3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

the costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

4. **TERMINATION**

4.1 An Admission Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate the Agreement to the other party or parties to the Agreement.

4.2 The Agreement shall terminate automatically on the earlier of:

4.2.1 the date of the expiry or earlier termination of the Contract ; or

4.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations.

4.3 The Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

4.3.1 the insolvency winding up or liquidation of the Admission Body;

4.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;

4.3.3 the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;

4.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected:
None;

Feedback from members of the Committee on pension related training.

Contact for further information:
Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer,
mike.neville@lancashire.gov.uk

Executive Summary

An update on pension related training involving members of the Committee since the last meeting.

Recommendation

The Committee is asked to note the report and any feedback from individual members given at the meeting in relation to training they have received

Background and Advice

The Training Policy of the Lancashire County Pension Fund sets out the approach to supporting the learning/development needs of individuals with responsibility for the strategic direction, governance and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

Since the last meeting members of the Committee have attended/participated in the following pension related training.

7th July 2020 virtual Workshop on Asset Safety and Cyber Security
County Councillors L Collinge, K Ellard; T Martin, J Mein, E Pope and A Schofield and Co-opted members P Crewe, Councillor D Borrow and Ms J Eastham.

19th August 2020 CIPFA McCloud Implementation Workshop Webinar
Co-opted Member Ms J Eastham.

1st September 2020 Zoom presentation on the Investment Panel's proposed amendments to the Strategic Asset Allocation for the Fund
County Councillors L Collinge, K Ellard; J Mein, E Pope and Co-opted members P Crewe, Councillor R Whittle, Councillor M Smith, and Ms J Eastham.

8th September 2020 Pension Trustee Circle Virtual ESG Roundtable
County Councillor L Collinge.

17th September 2020 SPS Alternative and Innovative Investing for Pension Funds Virtual meeting
County Councillor C Edwards.

Individual members of the Committee are invited to provide feedback on their experiences at the meeting.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Policy and Framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure that the members of the Pension Fund Committee and the Lancashire Local Pension Board are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

Costs associated with the training specified in this report were met by the Lancashire County Pension Fund.

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

Paper	Date	Contact/Tel
Approvals by the Head of Fund under the Scheme of Delegation regarding training.	July, August & September 2020	Mike Neville (01772) 533431
Attendance records for internal pension related workshops.	July & September 2020	Mike Neville (01772) 533431

Reason for inclusion in Part II, if appropriate
N/A

Pension Fund Committee
Meeting to be held on Friday, 18th September 2020

Electoral Division affected: (All Divisions);

Responsible Investment Report
(Appendix 'A' refers)

Contact for further information: Mukhtar Master, Governance & Risk Officer,
Lancashire County Pension Fund (01772) 5 32018
mukhtar.master@lancashire.gov.uk

Executive Summary

Responsible Investment encompasses a range of stewardship activities associated with Lancashire County Pension Fund (the Fund) fulfilling its duty to act in the best long-term interests of fund beneficiaries.

Set out at Appendix 'A' is a report from the Local Pensions Partnership which provides the Committee with an update on responsible investment matters during the second quarter of 2020 (April to June).

Recommendation

The Committee is asked to note the report.

Background

The report at Appendix 'A'' has been prepared by the Head of Responsible Investment at Local Pensions Partnership Investments Ltd (LPPI) and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement and the Responsible Investment Policy approved by the Committee at its meeting in March 2018.

Appendix 'A' incorporates the dashboard style report together with the qualitative overview of LPPI stewardship activities for the second quarter of 2020. A workshop for members of the Committee and the Lancashire Local Pension Board regarding the new dashboard style reporting will be held remotely on the 3rd November at 2:00pm and invitations will be circulated in due course.

Other matters of note for the Pension Fund Committee:

Covid-19

As reported at the last meeting, the Covid-19 pandemic continues to affect the corporate environment. There are clear indications that it may impact shareholder returns and senior executive pay. However, Annual General Meetings are generally taking place virtually, with a few being cancelled or postponed.

Principles for Responsible Investment

LPP have recently received their assessment result for 2020. The result has seen an improvement compared to last year. The ratings for both 'Strategy and Governance' and 'Direct Active Ownership' have improved to 'A+' and 'B' respectively. Additionally, 'Selection Appointment and Monitoring of Managers' has remained constant at a very respectable 'A' rating.

Local Authority Pension Fund Forum (LAPFF)

As reported previously, LAPFF, the Fund's engagement partner, continues to operate in accordance to the adjustments which have been made regarding Covid-19. Meetings are held online, together with regular email updates from the chair of the Forum.

With the quarterly Business Meetings being conducted online, it may be possible to facilitate attendance by a member of the Pension Fund Committee, if that was deemed useful. Expressions of interest can be made to the Chair of the Pension Fund Committee.

Consultations

Frances Deakin the Head of Responsible Investment at the Local Pensions Partnership was consulted regarding this report.

Implications:

This item has the following implications, as indicated:

Risk management

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Responsible investment practices underpin the fulfilment of the Funds fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments and enable the Committee to monitor the activities undertaken.

Involvement in a non-US type of “class action” may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix 1) and the Quarterly Active Ownership Report (Appendix 2).
It covers stewardship in the period 1 April to 30 June 2020 plus insights on current and emerging issues for client pension funds.

Key takeaways for the period:

- LPPI has adopted a clear public stance on Covid 19 and joined other investors publicly calling on government for recovery planning which builds a more sustainable, inclusive, and resilient economy for the future.
- LPP's second annual reporting to the Principles for Responsible Investment has been assessed and delivered high scores.
- As a supplement to the LPP Annual Report and Accounts 2019/20, LPPI will publish a first Annual Report on Responsible Investment in September 2020
- Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 3% of the portfolio.
  Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 4% of the portfolio.

1. RI Dashboard – portfolio characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix 1.

Asset class metrics offer insights on the composition of the portfolio and its general characteristics. There has been minimal change compared with the position at Q1 2020.

Listed equities
Microsoft was added to the Global Equities Fund (GEF) in Q2 and now features in the top 10 positions.
The largest sectors are information technology (20%) and consumer staples (17%).
Comparing the GEF with the benchmark (MSCI ACWI) indicates how sector exposures differ from a global market index as the outcome of stock selection decisions by asset managers (active portfolio management).
The GEF is noticeably underweight energy (0.5% versus 3.6% for MSCI ACWI) indicating low exposure to companies extracting, transporting, storing, and supplying fossil fuels.

Only 12.5% of listed equities are under assessment by the Transition Pathway Initiative (TPI) which indicates of a relatively low exposure to carbon intensive activities.
Of the companies which are TPI assessed:

- by value, 97% are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and strategic planning (TPI 4).
- all extractive fossil fuel companies are TPI 3 or above (100% compliance with LPPI's target for this sector).

Private Equity
Sector and geographical exposures are largely unchanged from Q1. The portfolio has a strong US presence (45%) and largest sector exposure is to Information Technology (32%).

Infrastructure
Sector and geographical exposures are largely unchanged from Q1. The portfolio is predominantly focussed within the UK/Europe (43% / 37%) and is 61% utilities (supply of power and water).

Real Estate
Sector and geographical exposures are unchanged from Q1.
The portfolio is 79% UK assets and has a 37% weighting to industrial uses (logistics).
Real World Outcomes feature the Real Estate portfolio this quarter, with additional information giving a flavour of the way in which real estate investments are making a positive social contribution in addition to achieving returns for the Fund

Green & Brown Exposures
Focussing specifically on direct assets (listed equity, private equity, and infrastructure) we have begun to calculate the Fund's exposure to Green and Brown activities. The resulting numbers give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to decarbonisation, principally through renewable energy generation, but we include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

This is a new form of analysis, and our methodology is still developing, particularly as we work to improve look-through to underlying assets held by pooled vehicles and fund of funds. Multiple factors affect the % exposure. The size of the fund (as the denominator) and of individual assets values within it (cumulatively the numerator) change continually, reflecting that individual assets are being revalued (upwards and downwards) existing assets are being sold, and new assets are being acquired continually and simultaneously across multiple funds and mandates.

Overall levels of Green and Brown exposures show minimal change compared to Q1 2020.
Brown activities remain at 3%. Green activities at 4%.
Brown exposure is principally arising from infrastructure and reflects indirect investments in midstream oil and gas as part of infrastructure pooled funds (44% of Brown).
Green exposure is 99% infrastructure and reflects renewable energy generation from wind, solar, hydro, and waste (collectively 84% of total green exposure).

2. Core Stewardship

This section of the report gives an overview of stewardship activities in the period.
Client pension funds delegate day to day implementation of the Partnership's approach to RI to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI

include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equity Fund (GEF)

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI is publicly available from the LPP website within quarterly shareholder voting reports.

Shareholder voting headlines for 2020 Q2 appear on page 3 of the RI Dashboard. The period April to June encompasses peak voting season which is evident from the number of meetings (338) and proposals voted (4,558).

a) Company Proposals

LPPI supported 93% of company proposals in the period.
Opposition voting concentrated on

- the election of directors (addressing individual director issues, overall board independence, inadequate board diversity)
- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, quantum of proposed rewards)

Insights – Director related

LPPI voted against 11 directors across nine company meetings regarding a lack of gender diversity on the Board. The companies concerned currently have no female directors.
At Perficient, Inc (USA: IT Consulting & Other Services) 58.6% of votes opposed the re-election of the Chair of the Nominating Committee. At the three other company meetings where results are disclosed, opposition votes against ranged from 7.6% to 23.3%.

LPPI voted against or withheld support for

- eight directors across nine meetings due to nominee directors being over-boarded. (Results: 8.1% - 35.6% Against)
- individual directors at six meetings due to poor attendance. These parties had failed to attend at least 75% of meetings in 12 months with no satisfactory reason for their absence. (Results:10.7% - 33.5% against).

The significant challenges posed by Covid 19 highlight the importance of strong governance and agile management strategy, both are reliant on engaged and able Board members devoting sufficient time to their role and duties.

Insights – Non-salary compensation

LPPI opposed management in 39 “say on pay” votes across 28 meetings. Common reasons included poor transparency around short-term and long-term incentive programmes, the granting of discretionary pay awards or increases without sufficient justification, and excessive total pay packages.

A majority of shareholders (including LPPI) voted against proposals on compensation at the following company meetings:
Sanofi (France: Pharmaceuticals),
Altria Group (USA: Tobacco),
Investors Bancorp (USA: Regional Banks)
Fidelity National Information Services (USA: Data Processing & Outsourced Services)
At the other companies, shareholder dissent ranged from 3.2% to 34.3%.

At the McDonalds AGM, LPPI's voting supported issues raised by a delegate manager's direct engagement with the company regarding the alignment of executive pay with long-term shareholder interests. This involved voting against the Remuneration Report and the re-election of members of the Remuneration Committee. This represented an escalation for the manager following limited progress made. The same manager has also recently closed a similar engagement with Mastercard successfully, following consistent and targeted long-term engagement.

b) Shareholder Proposals

LPPI voted on a total of 181 shareholder proposals, supporting 65%.

Of the shareholder resolutions LPPI supported, 14 related to improving the disclosure of political lobbying by companies including Pfizer (USA: Pharmaceuticals) and Motorola Solutions (USA: Communications Equipment). One resolution passed. At Western Union (USA: Data Processing & Outsourced Services) 53% of shareholders voted in support. At the remaining 13 meetings, shareholder support ranged from 12.7%-47.5%, averaging 36.3%.

At Alphabet (USA: Interactive Media & Services) LPPI supported a resolution co-filed by delegate manager Robeco on establishing a Human Rights Risk Oversight Committee within the Board of Directors. The resolution forms part of an engagement by the Robeco Active Ownership Team on the Social Impact of Artificial Intelligence (AI) which is featured in more detail below. The resolution followed a coordinated investor letter to Alphabet seeking constructive dialogue around the company's human rights approach. As the company was unresponsive, Robeco co-filed the resolution as an escalation. 16% of shareholders voted in favour of the resolution which, Robeco note, represents 45% of non-controlling shareholder votes.

LPPI supported five shareholder resolutions related to climate change at 4 meetings. Proposals included target setting for greenhouse gas emissions reduction and greater transparency through better corporate reporting on the mitigation of climate change risk. (Votes in favour ranged from 14.9% to 48.6%).

Shareholder Engagement

Company and manager engagements are underway on an ongoing basis, directly through board seats and Limited Partner Advisory Committees (LPAC) for private market assets, and more conventionally through shareholder engagement with listed companies.

LPPI's engagement partner Robeco has now completed a first full quarter of activity under the new contract for engagement services. The Active Ownership Report at Appendix 2 provides narrative on thematic engagements underway with listed companies (representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund).

Headlines for the period are summarised in the RI dashboard (at Appendix 1). The Robeco Active Ownership Team engaged with 66 companies, the predominant focus of these interactions was corporate governance (29%) and environmental management (24%). The current status of each engagement theme (as it stood at the end of the quarter) is summarised in the table “Engagement Results per Theme”.

Of 17 themes, four (Sound Environmental Management, Sound Social Management, Good Governance, and Global Controversy Engagement) are evergreen. The remaining 13 are thematic and reflect priorities identified through a combination of Robeco research and client input. Each theme is scheduled to last approximately three years, with progress continually tracked against clear objectives.

The first theme listed (ESG challenges in the auto industry) concluded at the end of June 2020 with an 80% success rate (Four of the five companies engaged have met the target outcomes in full, the fifth has met 4 out of 5 target outcomes.
Dialogue with companies focussed on commitments and outcomes around the following issues

- effective product quality management systems
- innovative business models
- forward looking product development
- impeccable product quality performance
- responsible lobbying

Each quarter, we will provide further insights into one of the live themes underway by the Robeco Active Ownership Team.

Case study - Social Impact of Artificial Intelligence (AI)

The Social Impact of AI theme commenced in 2019. It is focussed on the Information and Communication sector (companies either directly developing or using AI within the core of their business model). It addresses the position that

- the technological development and application of AI outpaces the evolution of principles (soft law, company principles, sector principles) and the implementation of legislation on the responsible use of the technology
- a lack of proper oversight and accountability in the development and deployment of AI applications may have negative consequences for society and for the companies involved.

The objectives of the engagement are to promote strong governance and human rights practices which mitigate negative social impacts from AI. Companies with clear policies, risk management systems and strong structures of accountability are less likely to be adversely impacted by incoming regulations or by reputational risks arising from association with mass surveillance, civil rights abuse, automation of the workforce, and content moderation and safety. The engagement will establish how well-placed companies are to manage the social impacts of AI judged against the following criteria:

- policy & guidelines
- governance
- due diligence

- design, development, and implementation
- stakeholder engagement

There is an expectation companies will adopt a socially conscious approach to machine learning from an early stage and maintain adequate knowledge of human rights and ethics within their development teams.

8 companies held by LPPIs GEF are being engaged under the theme

Accenture	Facebook
Alphabet	Hangzhou Hikvision
Apple	Microsoft
Booking Holdings	Visa

The status of the theme is reported as flat progress at the end of Q2.
This reflects the theme is relatively new and at preliminary stages of communication following initial dialogue around the concerns and investor asks of each company.
Under the AI theme, Robeco took the opportunity to co-file a shareholder resolution at the Alphabet AGM in April 2020, supporting a call by a wider coalition of investors for the company to establish a Human Rights Risk Oversight Committee composed of independent directors. https://www.ft.com/content/02f38575-1050-4f18-a49d-52bd054a5d51
LPPI voted in support of the shareholder resolution at the Alphabet AGM.

3. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which are opportunities for shared learning and a platform for collective action.
The following are headlines for 2020 Q1.

Coronavirus Response

As reported last quarter, LPPI has taken steps to publicly communicate a clear and responsible stance on Covid 19 by signing an Investor Statement on Coronavirus Response focussed on safeguarding employees and prioritising resilience and recovery.
https://www.localpensionspartnership.org.uk/News-and-views/details/LPP-signs-investor-statement-on-Coronavirus-response-

Subsequently, we are one of more than 200 businesses and investors to call on the UK government to deliver a recovery from the pandemic which builds a more sustainable, inclusive, and resilient UK economy for the future. We have signed a letter to the Prime Minister conveying strong support for a plan from the UK Government which:

- drives investment in low carbon innovation, infrastructure, and industry
- supports sustainable growth and increased job creation
- includes financial support package measures for businesses that are aligned with national climate goals.

LPPI has also signed an open letter to EU leaders urging planning for a sustainable recovery from COVID-19 which.

- prioritises human relief and job creation without locking in high carbon pathways.
- supports the Green Deal and upholds the Paris Agreement.
- ensures COVID-19 support addresses climate risk.

- prioritises climate resiliency and net zero emissions within economic solutions.
- embeds investor participation in recovery planning.

Institutional Investor Group on Climate Change (IIGCC)

LPPI has recently become a full member of the IIGCC. This confirms our commitment to working collaboratively with other investors to develop

- the tools, insights, and agreed best practice needed to assess and manage the risks our portfolios face
- the critical mass to positively influence companies and key actors to align their strategy, actions, and influence with meeting global targets for emissions reduction under the Paris Agreement.

In practice, LPPI has been working with the IIGCC for some time, most recently as a member of the Real Estate Working Group of the Paris Aligned Investment Initiative. Here we contributed our observations on the data challenges associated with being able to model portfolio carbon intensity and 1.5°alignment.
https://www.iigcc.org/news/european-investors-launch-project-to-support-alignment-of-portfolios-to-the-paris-agreement/

LGPS Scheme Advisory Board (SAB) / LGPS Cross Pool RI Group

As the Chair of the Cross-Pool RI Group, LPPI's Head of RI has been involved in preliminary discussions around to the Scheme Advisory Board's plan to support the development of an online A to Z of RI.

This is intended to be a useful and practical tool which will assist funds to make sense of the jargon and fit together the multiple pieces which make up the jigsaw of Responsible Investment and stewardship. LPPI has welcomed the initiative, offered practical advice on design and content, and will seek to support the ongoing development of a useful tool for LGPS pension funds.

Further details on the initiative are available from the SAB website:
https://lgpsboard.org/images/PDF/IGECJuly2020/Item4PaperCResponsibleinvestmentGuidanceUpdate.pdf

4. Other News and Insights

Principles for Responsible Investment

LPP became a signatory to the Principles for Responsible Investment in July 2018 and completed a first round of detailed reporting in 2019 – the first LPGS Pool to do so.
LPP's second set of annual reporting to the PRI was submitted in March 2020.
Our 2020 Assessment Report received in August 2020 confirms we have achieved the highest possible grade (A+) for our Strategy and Governance.

PRI Assessment Reports give us objective external assurance that our RI approach is well aligned with high standards.

Our rating for Strategy and Governance has improved from A to A+ between 2019 and 2020 and we continue to be rated A for our Selection Appointment and Monitoring of Managers. The steps we have taken to capture better data on our activities have been recognised in an improved assessment of our Direct Active Ownership, where we have progressed from a C to B. We continue to work on and evolve our approach and practices and to increase our transparency on RI and Stewardship issues in general

Annual Report on Responsible Investment

LPPI will publish a first Annual Report on Responsible Investment this autumn, as a dedicated supplement to the LPP Annual Report and Accounts 2019/20. The report will incorporate disclosure in line with the approach recommended by the Taskforce on Climate related Financial Disclosure (TCFD). Our first TCFD report was published last year.

This is a new approach which reflects our focus on improving communication about our RI and Stewardship activities; we recognise that this is an area of growing interest for our stakeholders.

In addition to increasing our commentary on RI and Stewardship through an Annual Report, we are making more information available from the RI section of the LPP website where visitors can view our RI Policy and its annexes in full, read more about our approach and see examples of our ongoing activities and partnerships.
(www.localpensionspartnership.org.uk/)

Responsible Investment Dashboard Q2 2020

1. Portfolio Insights

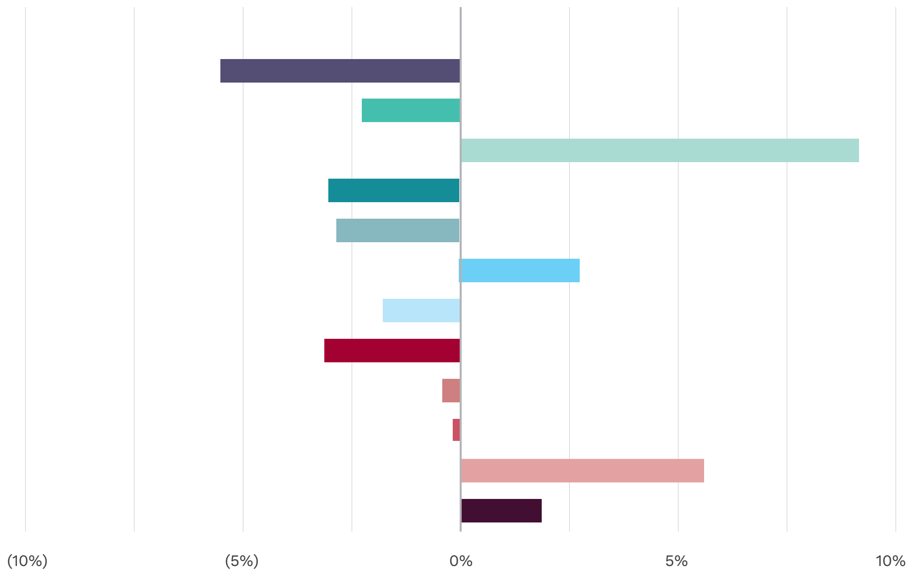
Appendix 1

Listed Equities (LPPI Global Equity Fund)

Sector breakdown (%)

Information Technology	20.7
Health Care	7.3
Consumer Discretionary	9.5
Consumer Staples	17.3
Energy	0.5
Materials	1.7
Industrials	12.2
Financials	11.6
Communication Services	6.2
Utilities	2.8
Real Estate	2.7
Cash	5.6
Others	1.8

LPPI Global Equities Fund sector weights VS MSCI ACWI ND



Top 10 positions

	Portfolio (%)
1. Nestle	3.1
2. Visa	2.7
3. Colgate - Palmolive	2.5
4. Accenture	2.4
5. British American Tobacco	2.3
6. Starbucks Corp	2.2
7. Pepsico	1.7
8. Starbucks	1.7
9. SPDR Gold Shares	1.6
10. Apple	1.5

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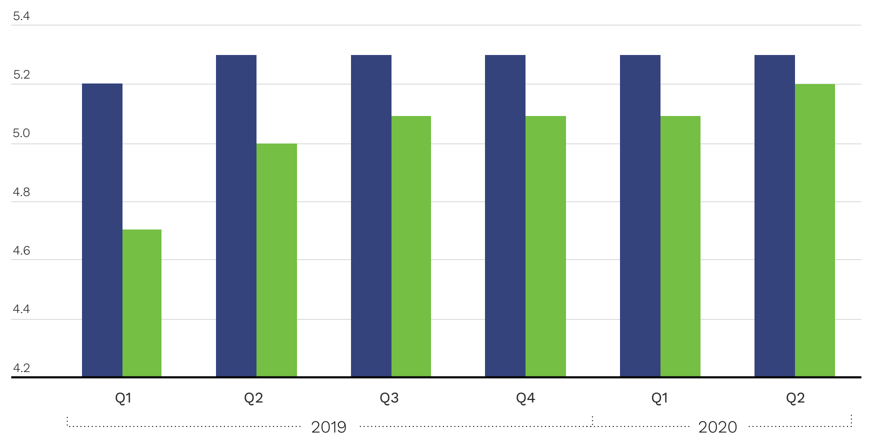
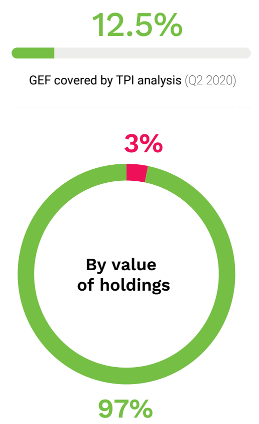
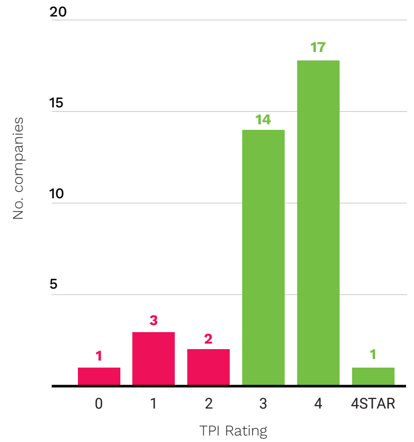
Portfolio ESG Score (MSCI ESG Metrics)



Transition Pathway Initiative – Management Quality Headlines





TPI Management Quality Rankings

- 0 - Unaware
- 1 - Aware
- 2 - Building capacity
- 3 - Integrated into operational decisions
- 4 - Strategic assessment

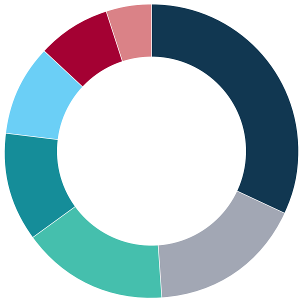
Responsible Investment Dashboard Q2 2020

1. Portfolio Insights

Other asset classes

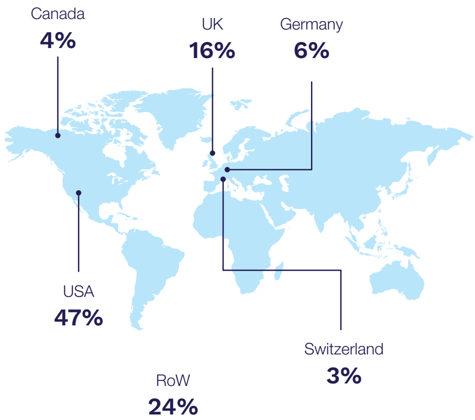
Private Equity

Industry Breakdown (%)



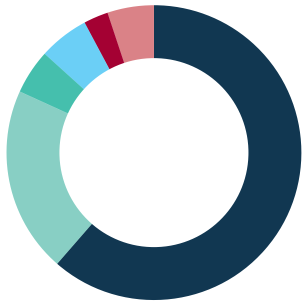
- I.T. 32
- Other 17
- Industrials 16
- Healthcare 12
- Consumer Discretionary 10
- Financials 8
- Consumer Staples 5

Region Breakdown (%)



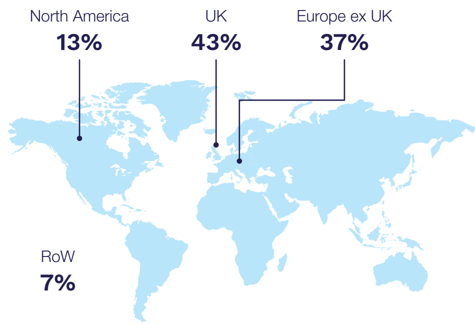
Infrastructure (LPPI Global Infrastructure Fund)

Industry Breakdown (%)



- Utilities 61
- Industrials 20
- Energy 6
- Healthcare 5
- Other 5
- PPP 3

Region Breakdown (%)



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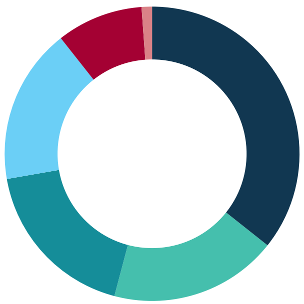
Real Estate (LPPI Real Estate Fund)

Sector Breakdown (NAV %)



- Industrial 36
- Office 18
- Other 18
- Retail 17
- Residential 10
- Agriculture 1

Geographical Exposure (NAV %)

Green & Brown Exposure

Green

Investments in businesses directly contributing to the global transition to a lower carbon economy, expressed as a % of the total value of the Pension Fund.

4.02% of portfolio — Public Markets 0.04%; Private Markets 3.98%

3.39% Renewable Energy Generation — Solar 0.14%; Wind 2.24%; Hydro 0.07%; Other 0.95%

0.63% Other "Green" — Activities Reducing Carbon 0.63%

Brown

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.

3.15% of portfolio — Public Markets 0.23%; Private Markets 2.93%

2.61% Energy — Upstream 0.18%; Midstream 1.39%; Downstream 0.73%; Integrated 0.30%

0.54% Generation — Power from fossil fuels 0.54%

Responsible Investment Dashboard Q2 2020

2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

Headlines

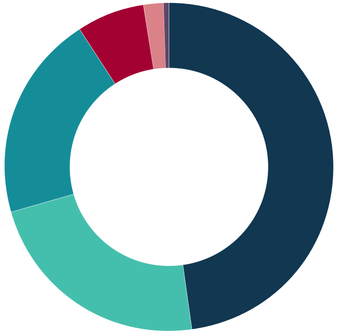
338 Meetings Voted

4,558 Proposals Voted

Supported 93%
4,377 Company Proposals

Supported 65%
181 Shareholders Proposals

41% Meetings with a vote against Management



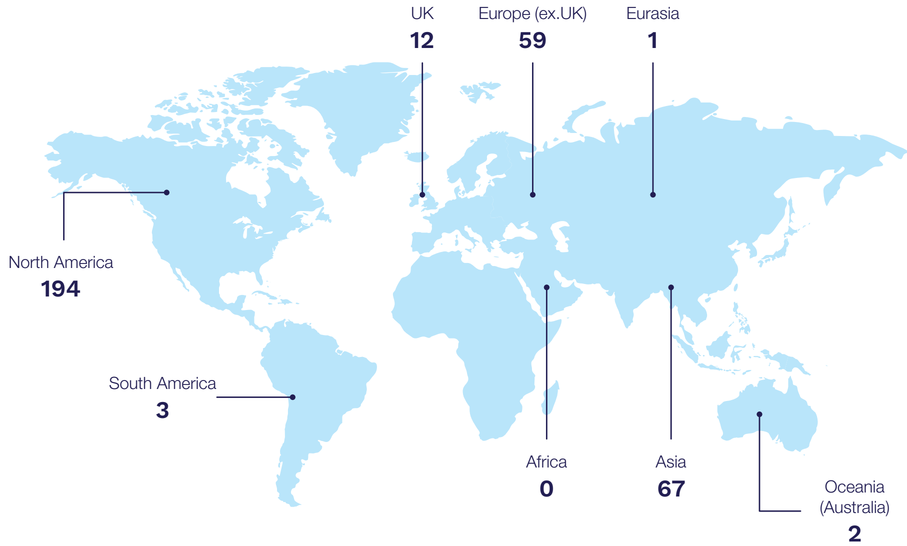
Votes Against Management (By Theme)

- Election of Directors (and related proposals) **128**
- Non-salary compensation **61**
- Capitalisation **54**
- Routine business **18**
- Mergers, acquisitions and reorganisations **5**
- Anti-takeover (and related proposals) **1**

Voting (By Theme)

Theme	Against	For
Election of Directors (and related proposals)	148	2542
Non-salary compensation	68	373
Anti-takeover (and related proposals)	1	29
Mergers, acquisitions and reorganisations	5	53
Capitalisation	58	274
Routine business	36	789
Shareholder proposals	63	119

Voting (By Region)

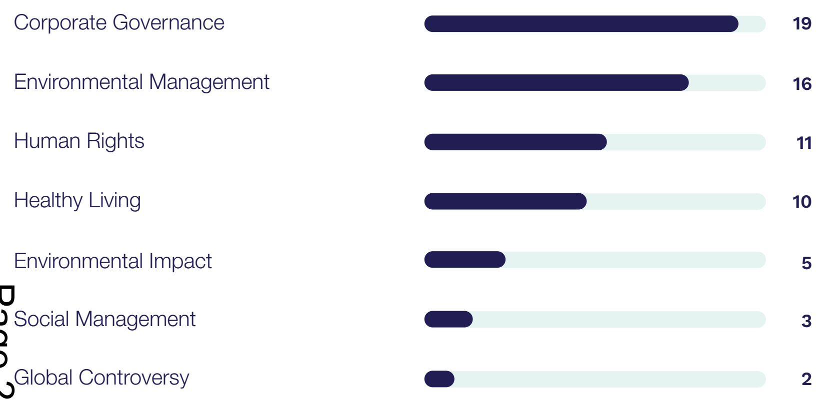


Responsible Investment Dashboard Q2 2020

2. Stewardship Headlines

Engagement (Public Markets)

Activity (by Topic)



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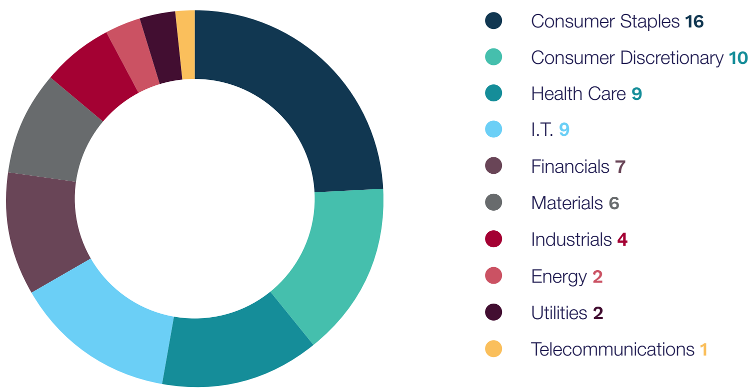
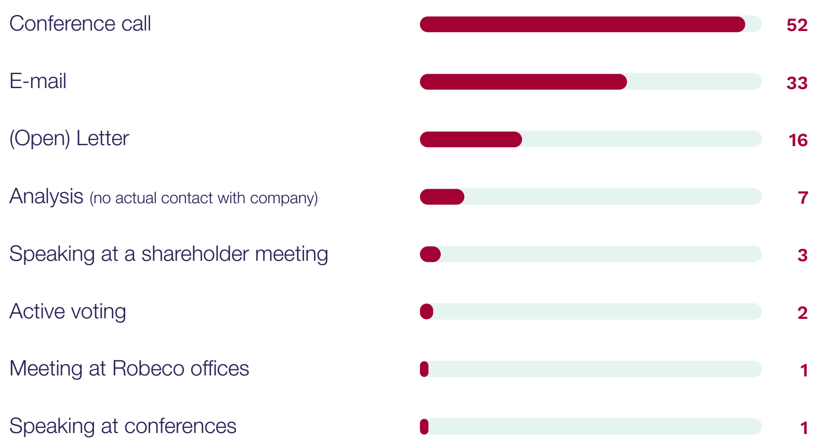
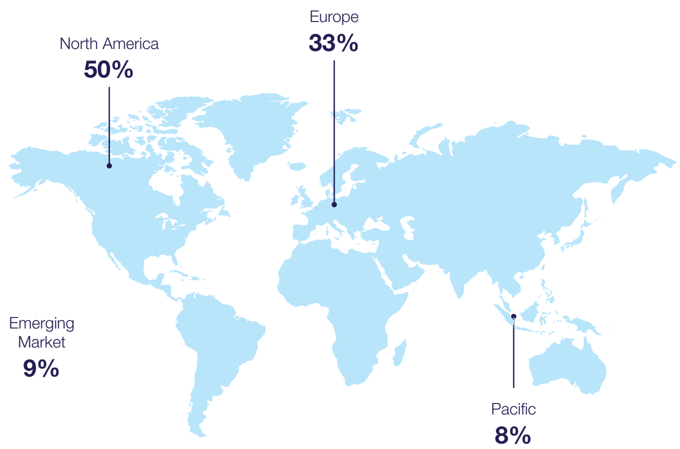
Activity (by Sector)



Activity (by Method)



Activity (by Region)



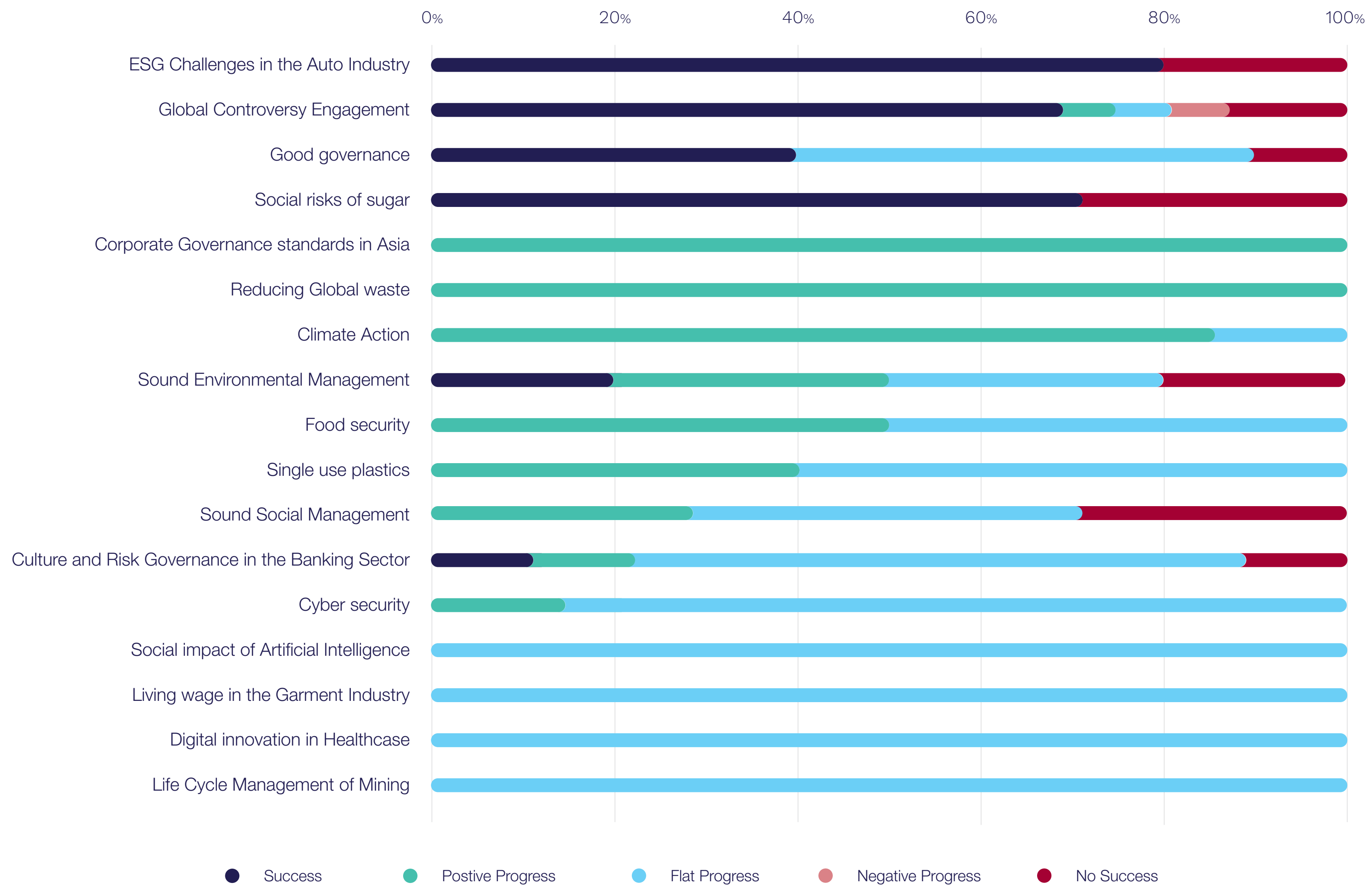
Source: Robeco Active Ownership Report Q2 2020

Responsible Investment Dashboard Q2 2020

2. Stewardship Headlines

Engagement (Public Markets)

Engagement Results (by Theme)



Source: Robeco Active Ownership Report Q2 2020

Examples

Direct investments

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

Real estate funds with assets in the UK and ex-UK

50 direct commercial properties in the UK (industrial, office, and retail). Tenant businesses provide goods, services, and employment opportunities.

High Standards for sustainablity

- Minimum standards for construction and refurbishment (BREEAM very good or excellent) (Building Research Establishment Environmental Assessment Method)
- A flood risk threshold below 0.1% (a 1 in 1000 chance of flooding each year as assessed by the Environment Agency).
- Properties are assessed for their suitability for the installation of photovoltaic panels.
- A rolling program of works to increase the Energy Performance Ratings of buildings to a minimum of EPC B by 2030.

18 sites have roof mounted solar PV installations currently

1,196,500
A generation capacity (at peak) (kW)

1,075,384
Energy generated annually (kWh)

Sufficient to power
371
UK households for a year.

Direct investments include some substantial properties in North West England:

Logistics Hub
Multiply Logistics North, Bolton

Redevelopment of former open cast coal mine between Preston and Manchester into one of the North West's premier logistics hubs, totalling 800 acres. The development consists of 10 distribution units ranging in size from 20,000 to 150,000 sq ft delivering modern facilities to local businesses and creating employment opportunities. The site is already home to Aldi's North West Regional Distribution Centre.

Responsible Investment Dashboard

3. Real World Outcomes - Real Estate

Examples

Direct investments

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

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Real estate funds with assets in the UK and ex-UK

The Fund's County Portfolio invests exclusively in the County of Lancashire.

Student Accommodation
St Leonards House, Lancaster

Redevelopment of disused listed building, former factory of renowned furniture manufacturer Waring & Gillow, into 180-bed student accommodation, situated in Lancaster city centre. There are circa 13k students studying at the University of Lancaster, 66.4% are from the UK, 9.7% are from other EU countries, and 23.9% are from non-EU countries.

Supermarket
Booths, Lytham St Annes

Part of the redevelopment of a former Department for Work and Pensions site, the building opened as a Booths store in 2015. The site (38,000 sq. ft) was acquired for the County Portfolio in May 2020 and houses a North-west company which provides employment, supports local businesses, supplies regional produce, and directly serves the local community.

4* Hotel
Park Hotel, East Cliff, Preston

The conversion of a landmark property back to its former use as a luxury hotel comprising 70 bedrooms, a ground floor restaurant and function rooms and high-quality office accommodation. The rejuvenation, construction, and operation of the hotel will create jobs and bring direct economic benefit to Preston.

Responsible Investment Dashboard

3. Real World Outcomes - Real Estate

Examples

Real Estate Funds

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

Real estate funds with assets in the UK and ex-UK

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Specialist accommodation

Healthcare Property Fund
UK care home facilities

A Healthcare Property Fund supporting best in class UK care home facilities through buildings let to tenant operators providing elderly, nursing, and dementia care to vulnerable residents.

18 homes

1,247 beds

100% ensuite rooms

96% full wetroom facilities,

+1,000 jobs

High satisfaction ratings

Residential accommodation

Shared ownership housing
Real Estate Investment Trust (REIT)

Facilitating the development of shared ownership residential properties in the UK through Heylo Housing. 3,095 homes in shared ownership across the UK.

3,095
homes in shared ownership across the UK through Heylo Housing

Private Rented Sector
Gatefold, Hayes (Middlesex)

A development of 119 quality new build apartments (1, 2 and 3 bedroom) for private rental in Hayes, Middx, incorporating affordable housing let to a local housing association.

Positive tenant feedback, particularly in relation to lockdown (Covid 19)

119
quality new build apartments

The named client pension fund has been assessed as an elective Professional Client for the purposes of the FCA regulations. All information, including valuation information, contained herein is proprietary and/or confidential to Local Pensions Partnership Ltd (LPP) and its subsidiary, Local Pensions Partnership Investments Ltd only (LPPI) (together the "LPP Group"). LPPI is authorised and regulated by the Financial Conduct Authority. This document and its content are provided solely for the internal use of the intended recipient(s) and subject to the terms and conditions of this disclaimer. Unless otherwise required by English law, you shall not disseminate, distribute or copy this document or any of the information provided in it in whole or part, without the express written consent of the authorised representative of the LPP Group. The purpose of this document is to provide fund and performance analysis for the named client pension fund only. It does not provide advice and should not be relied upon for any purpose including (but not limited to) investment decisions. Market and exchange rate movements can cause the value of an investment to fall as well as rise. Past performance is not an indicator of future performance. Without limitation to the aforesaid, this document and its contents are provided 'as is' without any representation or warranty (express or implied), and no member of the LPP Group nor any of their respective directors, officers and employees shall be held liable, as to the appropriateness, accuracy or completeness of the information provided herein.

ROBECO
The Investment Engineers

Appendix 2

Active Ownership Report Q2-2020

ROBECO | 01.04.2020 - 30.06.2020

LPP
Local Pensions Partnership

LPPI became a client of Robeco Active Ownership in Q1 2020.

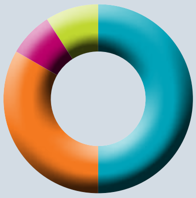
The engagement services provided by Robeco encompass the LPPI Global Equity Fund and LPPI Fixed Income Fund.

This Active Ownership Report is the first of a quarterly series providing information and insights.

Sustainable Investing Expertise by ROBECOSAM

Engagement activities by region

North America	50%
Europe	33%
Pacific	8%
Emerging Markets	9%



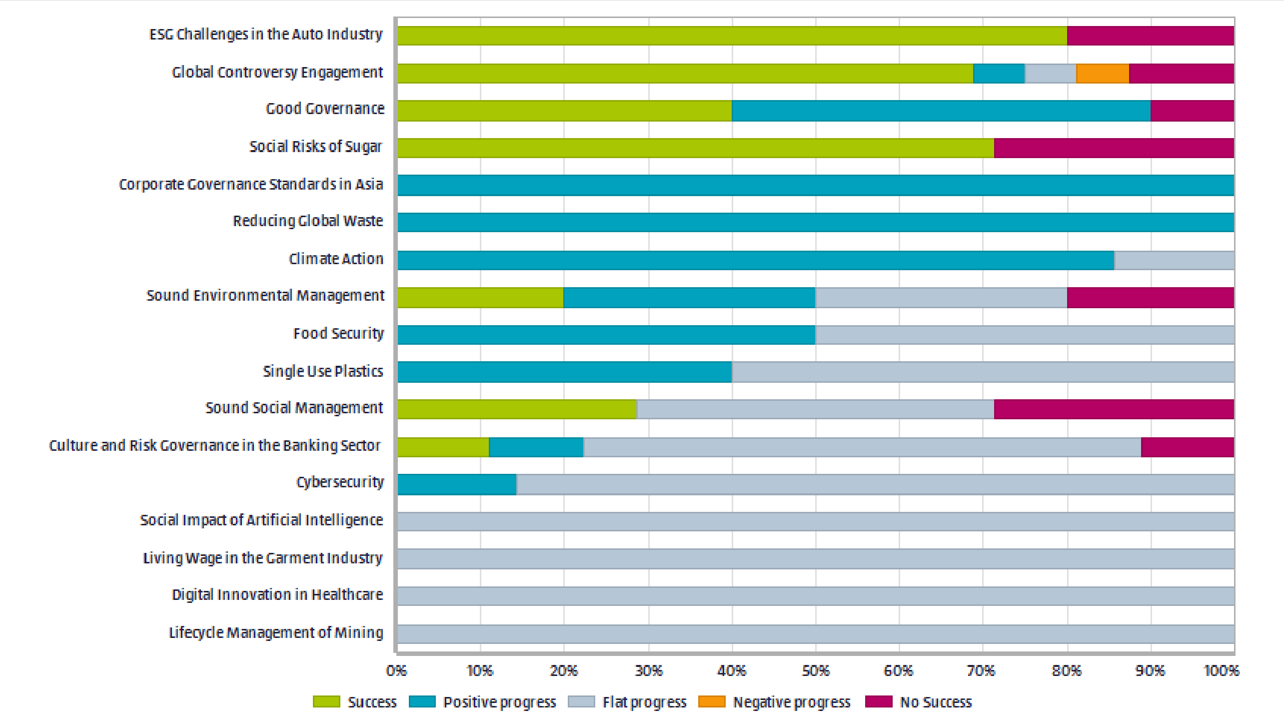
Engagement overview by topic

Environmental Management	16
Environmental Impact	5
Human Rights	11
Healthy Living	10
Social Management	3
Corporate Governance	19
Global Controversy	2

Engagement by contact type

Analysis (no actual contact with company)	7
(Open) Letter	16
Meeting at company offices	1
E-mail	33
Active voting	2
Shareholder resolution	0
Conference call	52
Speaking at a shareholder meeting	3
Meeting at Robeco offices	0
Speaking at conferences	1
Issue press release	0

Engagement results per theme



Contents

Introduction

The second quarter of the year is always a busy time for Robeco's Active Ownership team, since the majority of shareholder meetings take place. Although the Covid-19 pandemic caused some meetings to be postponed, the overall proxy voting system proved to be sufficiently resilient. Given the challenging circumstances around the world, it was especially important that we made our shareholder voices heard and encouraged companies to take action on material ESG issues.

Climate change was once again a central theme throughout the voting season, and we played an active role in bringing this issue front and center. In May, we successfully nominated a sustainability expert to the board of directors at Enel to enhance the climate expertise of the board. This accomplishment comes after a long standing engagement with the company surrounding its climate approach.

For this voting season, we also filed several shareholder resolutions on a variety of topics. On the social side, the potential for human rights abuse in the tech industry remains relatively unaddressed by some companies. Therefore, at Alphabet's recent annual meeting, we filed a resolution requesting the board to establish a Human Right Oversight Committee.

We are pleased to announce the official launch of our new engagement theme on the lifecycle management of mining. The aim of this engagement theme ranges from improving disclosure of tailing dam risks to encouraging best practices for water management.

Lastly, due to the important role of governments in our active ownership activities, we sent a letter to EU leaders calling for an economic recovery that maintains momentum on the Green Deal and sustainable finance agenda, with at least 25% of the EU's long-term budget contributing to climate objectives. The letter was prepared by IIGCC, in coordination with the Principles for Responsible Investment (PRI) and Carbon Disclosure Project (CDP).

Carola van Lamoen
Head of Active Ownership

Social risks of sugar

In July 2017, we began an engagement program with eight companies in the food and beverage industry to encourage them use less sugar in their products. The engagement called on them to speed up product reformulation and innovation to ensure a successful business model in the long run. We also discussed how these companies can provide more transparency around their lobbying activities and ensure that their marketing is responsible. In this article, Engagement Specialist Peter van der Werf shares our conclusions after three years of engagement.

Peter van der Werf

Global impact of sugar during the Covid-19 pandemic

Sugar contributes strongly to the current global obesity pandemic, and to the onset of diabetes, given its presence in almost all packaged food or drinks. The economic costs of this pandemic are clear; USD 2 trillion annually, or nearly 3% of global GDP. It is estimated that obesity, along with smoking and armed violence, is one of the top three social burdens induced by humans.

Sugar has a direct link with one-third of the Covid-19 fatalities as these were associated with diabetes, according to a study by the National Health Service (NHS) in the UK. In the US, researchers found that people with diabetes who contracted Covid-19 were twice as likely to die within a week than non-diabetic patients.

Product reformulation continues in 'stealth mode'

Companies across the engagement peer group have made good progress with product reformulation. We expect them to continuously review their product ingredients and reduce sugar content where feasible.

All eight companies agreed with the need for reformulation and are reporting progress on their metrics of product portfolio renovation in their sustainability reports. When it comes to communicating this to their clients, many companies initially opted for 'stealth reformulation', i.e. only mentioning on the back of the packet that the product's sugar content has been reduced. This is due to the negative reaction that their consumers often give to prominent announcements of sugar reduction, resulting in a sharp drop in sales.

We are satisfied with the product reformulation activity in the industry which in many cases has led to a drop of 10% of the sugar content on average. However, we remain concerned about the large volumes of sugar that are still sold to consumers as part of processed foods, especially

as this pertains to some of the flagship legacy products that remain a very important cornerstone of their product portfolios.

Innovation focuses on acquisition of healthy brands

Not all companies under engagement have made the level of progress on innovation management that we expect from the food industry. The leading companies have made larger shifts in strategy towards healthy product categories, which we think provides the best future-proof strategy when it comes to minimizing the social risk of sugar. Examples include focusing on dairy products or moving away from higher sugar content beverages into lower sugar categories.

Other companies indicated that in general, having healthy attributes are an important consideration for any new product launch. However, some companies remain heavily vested in high-sugar carbonated soft drinks, or are expanding into energy drinks with a high sugar content. Or they are continuing to focus on highly processed food products which in most cases need sugar to make them palatable for consumers.

Contribution to the Sustainable Development Goals

The lack of a broad adoption of significant product renovation and substantial innovation towards healthier product portfolios is of concern to us. A lack of progress in these areas leads us to be very cautious when it comes to our Sustainable Development Goal (SDG) assessments in the food industry. We continue to see an over-reliance on highly processed foods with a high sugar content that runs the risk of significantly contributing to obesity when it is not consumed in moderation.

Marketing efforts have slightly improved but are still geared towards maximizing consumption of all products, including those with a high sugar content. They are therefore not focused sufficiently on promoting healthy consumption among consumers.

Only a very small number of companies in our engagement peer group received a positive score in our SDG rating framework, as we assign a negative score to companies which derives more than 5% of its revenues from carbonated soft drinks, or companies that rely mainly on ultra-processed foods.

Obesity risk continues to be an overhang for the industry

We have asked all eight companies to improve their product reformulation and labeling; to engage in responsible marketing and responsible lobbying; and to make substantial innovation in both individual products and their overall product portfolio.

Ultimately, we want companies to make a positive contribution to SDG3 on Good Health and Well-being. The Covid-19 pandemic has further strengthened our view that obesity is an important global health risk with a significant economic impact.

The food industry will be held accountable for its future role in marketing high-sugar products for consumers who are not able to make dietary choices that prevent obesity. This obesity risk therefore continues to be a long-term overhang for the industry.

Living wage in the garment industry

The fashion industry has been severely affected by the Covid-19 pandemic due to its discretionary nature, impacting not only garment brands but also their supply chains. According to McKinsey, the average market capitalization of the sector dropped almost 40% in the first quarter of the year, a much steeper decline than that of the overall stock market. This epidemic has also shifted investor focus on how companies treat their employees, customers and suppliers.

Laura Bosch

Livelihoods of millions of garment workers at stake

Apparel brands and retailers have been cancelling or postponing orders as the pandemic forced store closures globally and revenue streams shrunk drastically. Factories in producing countries face major challenges to keep their business running whilst experiencing a decline in the volume of orders. In Bangladesh alone, the second-largest exporter of garments in the world, manufacturers lost more than EUR 2.7 billion in payments for orders already produced or sourced. Dire consequences stemming from this pandemic involve joblessness and financial hardship for people across the value chain. Yet, workers in low-cost manufacturing countries are expected to be hit hardest, given the lack of robust social protection systems in these markets. They are more exposed to sudden termination, lack of severance pay, inadequate social security and little or no health insurance.

Robeco is an active member of the Platform Living Wage Financials (PLWF) investor coalition which encourages investee companies to address the non-payment of living wage in global supply chains. In collaboration with the other members, we have sent letters to the companies in our engagement program urging them to respond to the challenges posed by Covid-19 in a responsible manner.

Key asks highlighted in the letter relate to upholding financial prudence whilst protecting labor and human rights standards in their own operations and across their supply chains. Collaboration with multi-stakeholder initiatives aiming to protect worker rights and offer support to overcome the pandemic is crucial to rebuilding a more resilient and inclusive supply chain.

An important sector-wide initiative has been coordinated by the International Labor Organization (ILO) which outlines a 'Call to Action in the Garment Sector'. Global brands, manufacturers, labor unions and other stakeholders can publicly endorse this statement. It aims to catalyse action to support manufacturers to survive the economic disruption caused by the Covid-19 pandemic and to protect garment workers' income, health and employment. This global action also calls for better systems of social protection to create a fairer and more resilient garment industry.

Industry shakeout

Company responses to the Covid-19 pandemic have been diverse. Apparel brands leading the PLWF assessment results have implemented measures to mitigate the impact of the pandemic across their supply chains. For instance, these companies committed to pay for all orders in process or completed, and they endorsed the ILO Call to Action. One company also supported its strategic suppliers in their efforts to secure financing from major banks to maintain their business operations and liquidity.

Yet, on the other end of the scale we noted that some brands in our engagement program have been in severe financial distress. Several companies have cancelled or postponed their 2019 dividends, whilst others were not able to pay suppliers for completed orders. In more extreme situations, companies had to reduce their headcount across global corporate functions as a cost-cutting business strategy to mitigate liquidity constraints.

The role of SDGs in building more resilient supply chains

The Covid-19 pandemic has highlighted vulnerabilities in the garment industry supply chain. Global apparel brands and retailers need to ensure that suppliers pay workers living wages and social benefits as a viable means to substantially reduce the pressure on garment workers and transition to a more resilient system.

Our engagement work on living wages in the apparel sector contributes positively to SDGs 1: No poverty and SDG 8: Decent work and economic growth. Working towards fair labor standards and the payment of living wages would achieve SDG target 8.8, aiming to protect labour rights and promote safe and secure working environments for all workers.

Strengthening social protection systems, which is one of the key asks from the ILO Call to Action, would contribute to SDG target 1.3, which aims to implement nationally appropriate social protection systems and measures for all.

Preparing for the next assessment cycle

One of the main means of stimulating company progress on paying a living wage is by assessing our investee companies against a robust l assessment methodology. This analysis is carried out by PLWF members on a yearly basis and the results are publicly disclosed. The assessment is conducted in the second and third quarter of the year, and will this year include a separate section on how companies responded to the challenges posed by the Covid-19 pandemic.

The methodology has also been adjusted to provide higher scores to companies moving beyond policy disclosures and showcasing their work with more granular reporting on their performance on the ground. After publishing the updated assessment, we will continue the engagement work with our investee companies to ensure they deem responsible labor practices and fair wages as being an integral part of their business model, and implement them across their supply chains.

Lifecycle management of mining

Cristina Cedillo & Sylvia van Waveren

Mining companies are exposed to significant ESG issues, as their operations can have significant adverse impacts on the environment and society. There is no doubt that the world needs mining in order to satisfy growing demand for metals and minerals. As our dependency on mining activities increases, so does the need for companies to ensure their operations mitigate environmental and social harm.

The energy transition is an important driver for future demand enabling commodities such as copper, lithium, cobalt and nickel. For example, research by Bloomberg New Energy Finance estimates that the number of electric vehicles on the road will increase from 5 million today to 530 million globally by 2040. A battery-electric vehicle requires four times as much copper as a conventional vehicle. In March 2020, we launched a three-year engagement program focusing on three critical environmental issues for the mining industry: water risk, tailings dam safety and asset retirement planning. Our engagement program aims to gain a better understanding of how companies are addressing these three key issues at the group and operational levels. We will call on companies to improve disclosures on their performance at the asset level, and urge them to take further action to mitigate any adverse impacts.

Water: An everlasting industry concern

Mining activities rely significantly on water availability. Water challenges are likely to intensify due to climate change. For example, mineral-rich regions like Chile and Australia have been experiencing more frequent and prolonged droughts, a trend that is expected to be further exacerbated by climate change.

Freshwater scarcity requires expensive solutions, such as power-intensive seawater infrastructure. As a result, companies exposed to water scarcity are likely to experience changes in their asset risk profiles, with higher operating risks and costs. Moreover, water scarcity and pollution add extra layers of risk, as they could undermine a miner's social license to operate. Prolonged droughts or polluted sources of fresh water can lead to stiffer competition for water resources

among stakeholders (agriculture, households, other miners) and lead to conflicts that have significant drawbacks for their operations.

Water risks are not particularly new for the mining industry. This topic has received significant attention from shareholders, as it has often impacted local communities and the mining industry itself. The International Council on Mining and Metals (ICMM) has developed water stewardship principles to set general minimum standards for the industry. Still, research by the Carbon Disclosure Project (CDP) shows that the mining industry is the one with the largest financial impacts from water issues, and only a small minority of companies have set targets related to water.

Tailings dam safety in the spotlight

Recent dam collapses in Brazil have brought to light the devastating consequences of poor management of tailing storage facilities. These dam disasters are not only incredibly harmful to the local communities and the environment, but they also have a substantial financial impact on the mining companies involved.

For example, following the Mariana disaster in 2015, in which a tailings dam operated by Samarco collapsed, Moody's placed the debt of the company's co-owner Vale on review for a downgrade as a result of potential liabilities. Additionally, the risk of occurrence is high, as shown by several reports that have come out since these two major disasters. Research by the Church of England Pensions Board (CEPB) and other investors including Robeco has found that more than one-third of global tailings dams are at high risk of causing catastrophic damage to nearby communities if they break.

The investor community responded by collaborating under the Investor Mining & Tailings Safety Initiative, which is led by the CEPB and the Swedish National Pension Funds' Council on Ethics. The initiative calls for enhanced disclosures from mining companies on where and how they have stored their waste. In total, the initiative reached out to 727 publicly listed mining companies for detailed information on their tailings storage facilities. By the end of 2019, a little less than half of the companies had responded. Robeco leads the engagement collaboration of investors aimed at the non-responding mining companies to disclose information about their tailings dams.

End-of-life of mines: Growing environmental liabilities

Mining companies are obliged to make provisions for the restoration and decommissioning of their assets. These provisions are liabilities to restore the environmental disturbance that was caused by the operations of the mining sites, and to rehabilitate the environment when the asset is depleted and closed. Examples of remedial work are removing industrial facilities and waste rock storage, building tailings dams and cleaning contaminated land.

Remediation sometimes costs hundreds of millions of dollars per site, and often requires costly annual monitoring and maintenance. The amount of environmental provisions is not a static number; it reflects the current expected future cash outlays and risks in the life cycle plans of a mining company's portfolio of assets. According to research by the Centre for Environmental Rights, the public disclosures of 11 listed South African mining companies about their rehabilitation costs, and their ability to cover these costs, were inconsistent, unclear and sometimes unreliable. At Robeco, we share this opinion, and advocate for a more detailed disclosure of this sizeable and material liability.

Moreover, mining companies can mitigate restoration and decommissioning costs through holistic strategic planning. For example, they may choose not to mine lower grade areas to avoid an escalation of rehabilitation costs in the future. They can also apply new mining technologies to limit environmental impacts and therefore costs.

Integrating the Sustainable Development Goals into our engagement

We aim to contribute to the advancement of the Sustainable

Development Goals (SDGs) through our engagement, particularly SDG 6 on clean water and sanitation and SDG 12 on responsible consumption and production. The mining sector can play an important role in mitigating adverse impacts on the environment and can contribute positively to the SDGs by developing solutions for water efficiency and recycling and the management of (hazardous) waste.

The energy transition, and the increasing demand for metals that it creates, must be sustainable in our view. Companies can secure their viability in the long term by adopting responsible mining practices. We as investors aim to call on companies to properly disclose their risks and liabilities, and to take further action if needed.

Single Use Plastics

Plastics have become a resource used in nearly every part of our modern economy, combining superior functional properties with low cost. Their use has increased twenty-fold since the 1970s and is expected to double again in the next two decades. Today nearly everyone, everywhere, comes into contact with plastic packaging every day, and it is mostly only used once. Reducing single-use plastic is now a priority for tackling the tsunami of waste that it is causing.

Sylvia van Waveren

While delivering many benefits, the current use of plastic packaging has drawbacks that are becoming more apparent by the day. Apart from the many environmental problems that are caused by plastic waste, there are also many economic consequences of this kind of pollution. For example, marine litter is already affecting tourism by making certain areas less attractive to go to, and thus decreasing economic prosperity in coastal areas.

Aim of our engagements

To address these issues, in the second quarter of 2019 we started an engagement program that aims to encourage companies in the plastic packaging value chain to move to a circular economy model. We expect companies to collaborate with each other along the global plastic value chain, as well as with governments and NGOs, to achieve systemic change towards creating a more circular plastic packaging system.

Furthermore, we aim to shed more light on the materiality of the plastic waste problem, whilst at the same time urging companies to improve their management of the plastic value chains towards a more sustainable circular model. In doing so, we plan to improve supply and demand for recycled plastic.

Progress after one year

Our engagement targets 10 companies within the industry and covers the full plastic value chain, from four chemicals companies to six in consumer packaged goods. In our first year of engagement, we discussed the companies' efforts and progress in relation to five engagement objectives: innovation, recycling, plastic harmonization, responsible lobbying, and industry collaboration and partnerships. We found that most companies were able to show good progress on three engagement objectives: innovation, responsible lobbying and industry collaboration and partnerships, but were lacking on recycling and plastic harmonization.

One example of positive progress regarding industry collaboration is a company that developed refillables for the Latin American and Caribbean market. It leverages this together with the Ellen Macarthur Foundation, an NGO which promotes the concept of a circular economy.

An example of strong innovation is a company that is helping its customers to recycle. The company has developed a unique recycled content material called Sustane, a polymer which sets new standards in recycled plastics and is designed to deliver consistently high levels of technical performance across a wide spectrum of applications. Sustane polymers have already been successfully introduced into packaging applications such as shrink film for beverages and industrial bags.

Another company has developed an innovative technology that enables black plastic to be recognized by recycling machines for sorting. This is important for two reasons. First, black plastic continues to be an important differentiator in marketing personal care products such as shampoo, and is therefore widely used by the industry. Secondly, black plastic is cheaper to make, since it contains more 'grey PCR'. This chemical has to be removed in a costly process when producing white or transparent packaging.

Another company informed us that their managers use NGOs and public authorities for their lobbying activities. They explained that with the increasing adoption of national legislation to counter plastic being dumped in the ocean, they expect this will lead to a snowball effect that will contribute to solving the issue.

Still early days on recycling and harmonization

It is still early days to report solid progress on our engagement objectives in relation to plastic recycling and plastic harmonization. We found here that the development of responsible packaging sometimes conflicts with other solutions. For example, the development of bioplastics is seen as a major solution to waste, as they degrade more easily than regular plastics, but this then complicates the recycling system even further. Bioplastics are also made of non-fossil fuel-based feedstock, which, is great for reducing the impact on climate change, but these compostable materials are in general not of sufficient quality to be used to package food. Another example is a company that has significantly invested in scaling up waste collection in Egypt, which provides economic opportunities for unemployed local people and educates the consumer about the value of recycling.. However, this type of fully traceable plastic comes at a much higher cost than virgin plastic.

Developments in recycling flexible packaging and SDGs

There is also some good news in relation to recyclability. Flexible packaging is one of the most difficult types of plastic to recycle using regular mechanical recycling methods. One company in the adhesive business is actively driving innovation in the recycling of CEFLEX flexible film. We see this as a crucial development in this field.

In relation to the Sustainable Development Goals (SDGs), there has been some improvement in the level of attention that our companies are paying to them. After our earlier requests, we are pleased to see that some companies are now mentioning the goals in their CSR reports, and that they continue to work on how to measure and report their contributions to the SDGs in more detail. Others inform us that they will start reporting on their SDG approach in next update of their impact reports. We believe that more integration of the SDG goals by the plastic companies into their thinking will lead to clearer guidelines and policies, and will therefore make an impact.

Next steps

As investors, we are able to get more insights into the materiality of the plastic waste problem through our discussions with companies. This also gives us the chance to urge them to improve their management of the plastic value chains towards adopting a more sustainable and circular model. More time is needed though to improve the supply and demand situation for recycled plastic. We will step up our engagement efforts on these topics.

Lifecycle Management of Mining
Newcrest Mining
Barrick Gold Corp.
Fortescue Metals Group Ltd.
Grupo Mexico SAB de CV

Reducing Global Waste
Waste Management, Inc.
Parker Hannifin Corp.

Climate Action
Chevron
Cummins, Inc.
Duke Energy Corp.
Enel
Royal Dutch Shell
Southern Co.

ESG Challenges in the Auto Industry
Bayerische Motoren Werke
Ford Motor
Honda Motor
Daimler

Sound Environmental Management
Kinder Morgan, Inc.
Royal Ahold Delhaize N.V.
Colgate-Palmolive Co.
Danone
Grupo Bimbo SAB de CV
McDonalds
Mondelez International
Nestlé
Tesco Plc
Wal-Mart Stores

Single Use Plastics
Henkel AG & Co. KGaA
Nestlé
PepsiCo, Inc.
Procter & Gamble Co.
Danone

Food Security
CNH Industrial NV
Deere & Co.
Mexichem SAB de CV
Syngenta AG

Living Wage in the Garment Industry
The Home Depot
NIKE

Social Impact of Artificial Intelligence
Alphabet, Inc.
Microsoft
Apple
Facebook, Inc.
Booking Holdings, Inc.
Visa, Inc.
Hangzhou Hikvision Digital Technology Co. Ltd.
Accenture Plc

Digital Innovation in Healthcare
AbbVie, Inc.
Fresenius SE
Roche
Sinopharm Group Co., Ltd.
HCA Holdings, Inc.
Anthem, Inc.

Social Risks of Sugar
Coca-Cola
Danone
General Mills
Nestlé
PepsiCo, Inc.
The Kraft Heinz Co.
Unilever

Sound Social Management
Henkel AG & Co. KGaA
Teva Pharmaceutical Industries Ltd.
Syngenta AG
InterContinental Hotels Group Plc
Procter & Gamble Co.
Thermo Fisher Scientific, Inc.

Corporate Governance Standards in Asia
Hyundai Motor
Samsung Electronics

Good Governance
Heineken Holding
Unilever
Royal Dutch Shell
Samsung Electronics
Persimmon Plc
Sumitomo Mitsui Financial Group, Inc.

Culture and Risk Governance in the Banking Sector
Wells Fargo & Co.
HSBC
ING Groep NV
De Volksbank NV

Barclays Plc
JPMorgan Chase & Co., Inc.
Citigroup, Inc.
Bank of America Corp.
BNP Paribas SA

Cybersecurity

Reckitt Benckiser Group Plc
Booking Holdings, Inc.
Visa, Inc.
Altice NV
Vodafone
Fidelity National Information Services, Inc.

Global Controversy Engagement

During the quarter, 11 companies were engaged based on potential breaches in the UN Global Compact.

AbbVie, Inc.	Credit
Accenture Plc	Equity
Alphabet, Inc.	Equity
Altice NV	Credit
Anthem, Inc.	Equity
Apple	Equity
Atlantia SpA	Credit
Barclays Plc	Credit
Barrick Gold Corp.	Equity
Bayerische Motoren Werke	Credit
BNP Paribas SA	Credit
Booking Holdings, Inc.	Equity
Citigroup, Inc.	Equity/Credit
CNH Industrial NV	Credit
Coca-Cola	Equity
Cummins, Inc.	Equity
Danone	Equity/Credit
DSM	Equity
Duke Energy Corp.	Equity/Credit
Enel	Equity/Credit
Facebook, Inc.	Equity
Fidelity National Information Services, Inc.	Equity/Credit
Ford Motor	Credit
Fortescue Metals Group Ltd.	Equity/Credit
Fresenius SE	Credit
General Mills	Equity/Credit
Grupo Bimbo SAB de CV	Credit
Grupo Mexico SAB de CV	Equity
Hangzhou Hikvision Digital Technology Co. Ltd.	Equity
Heineken Holding	Equity
Henkel AG & Co. KGaA	Equity
Honda Motor	Credit
HSBC	Equity/Credit
Hyundai Motor	Credit
ING Groep NV	Credit
JPMorgan Chase & Co., Inc.	Equity/Credit
McDonalds	Equity
Mexichem SAB de CV	Credit
Microsoft	Equity
NestlÃ©	Equity
Newcrest Mining	Equity
NIKE	Equity
Novartis	Equity
PepsiCo, Inc.	Equity
Procter & Gamble Co.	Equity/Credit
Reckitt Benckiser Group Plc	Equity
Roche	Equity
Royal Dutch Shell	Credit
Samsung Electronics	Equity
Sinopharm Group Co., Ltd.	Equity
Teva Pharmaceutical Industries Ltd.	Credit

The Home Depot	Equity
The Kraft Heinz Co.	Equity
Thermo Fisher Scientific, Inc.	Credit
Unilever	Equity
Visa, Inc.	Equity
Vodafone	Equity
Wal-Mart Stores	Equity
Waste Management, Inc.	Equity
Wells Fargo & Co.	Equity/Credit

Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at:
https://www.robeco.com/docm/docu-robeco-engagement-policy.pdf

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at:
https://www.unglobalcompact.org/

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at:
http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The team is headed by Carola van Lamoen who reports to Victor Verberk, Deputy Head of Investments at Robeco and member of the Executive Committee. The broad expertise of the Active Ownership team is complemented by access to, and input from, investment professionals based in local offices of the Robeco Group around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities.

About Robeco

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found at: https://www.robeco.com

ROBECO
The Investment Engineers

1318-07'20

Agenda Item 13

Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected: None;

Revised Terms of Reference for the Lancashire Local Pension Board.
(Appendix 'A' refers)

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, mike.neville@lancashire.gov.uk

Executive Summary

This report refers to the proposed revised Terms of Reference for the Lancashire Local Pension Board which have been developed following a review by the Board.

Recommendation

That the revised Terms of Reference, as set out at Appendix 'A' to this report, are approved and referred to full Council on the 15th October 2020 for consideration and approval.

Background and Advice

In December 2019 the Terms of Reference of the Lancashire Local Pension Board were reviewed by the Head of the Pension Fund in accordance with the 2019/20 work plan and a draft revised version was presented to the Board in January 2020.

When considering the draft the Pension Board discussed a number of topics, including the budget allocated to the Board, the quorum for meetings and arrangements for the reimbursement of employers regarding time spent by employees in fulfilling their duties as members of the Board. Following the discussion it was agreed that further work be done on some sections of the draft and that a revised version be shared with all members of the Board outside of the meeting.

In accordance with the decision further work was done on the Terms of Reference and a revised draft was circulated to all members of the Board for review. As the Board in April 2020 was cancelled due to the UK Covid-19 outbreak the revised draft Terms of Reference were approved by the Board using the written resolution procedure, as reported to the Board on the 14th July 2020.

The intention was for the revised draft Terms of Reference to be presented to the Pension Fund Committee on the 19th June 2020. However, that meeting was also cancelled due to the ongoing pandemic with significant items of business being deferred to the meeting in September.

A copy of the revised draft Terms of Reference for the Lancashire Local Pension Board is set out at **Appendix 'A'** to this report for the consideration and approval of the Committee. Any new or amended text is highlighted.

Should the Committee approve the revised draft then the Terms of Reference will be presented to the full Council on the 15th October 2020 for approval and inclusion in the Constitution of the County Council.

Consultations

The Head of the Pension Fund and the Lancashire Local Pension Board.

Implications:

This item has the following implications, as indicated:

Risk management

It is a matter of good governance to review the Terms of Reference of the Board in order to ensure that they remain fit for purpose.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate N/A
N/A

Appendix A

Revised Terms of Reference as approved by the Lancashire Local Pension Board

1. Role and remit of the Board

a) To assist Lancashire County Council as the Administering Authority in its role as Scheme Manager *(as delegated to the Pension Fund Committee):*

   i. to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS;
   ii. to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
   iii. in such other matters as the LGPS regulations may specify.

b) To ensure the effective and efficient governance and administration of the LGPS for the Lancashire County Pension Fund (the Fund).

c) To provide the *Pension Fund Committee* with such information as it requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

d) To review and scrutinise governance processes and procedures to ensure that the Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

e) To meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in any year.

f) To review the key policy documents for the Fund to ensure they are fit for purpose.

g) The Board must assist the *Pension Fund Committee* with such other matters as the scheme regulations may specify.

   This role involves but is not limited to assisting with, the oversight of and commenting on:

   i the development of improved customer services.

   ii the monitoring of administration and governance against key performance targets and indicators.

   iii the effectiveness of processes for the appointment of advisors and suppliers to the *County Council*.

   iv a review of the Lancashire County Pension Fund Risk Register as it relates to the Scheme Manager function of the Authority.

v the development of improved management, administration and governance structures and policies.

vi a review of the outcome of actuarial reporting and valuations.

vii any other area within the core function (i.e. ensuring effective and efficient governance of the Scheme) that the Board deems appropriate.

h) To review the outcome of internal and external audit reports in relation to the Fund.

i) To make such recommendations to the Pension Fund Committee and/or Full Council as it considers appropriate in relation to any matter that the Board considers may improve the performance of the Fund.

j) To submit to the *Pension Fund Committee* in March each year a proposed annual work plan for the forthcoming financial year.

k) To carry out any activities relating to the efficient governance and administration of the Fund which the Pension Fund Committee or Full Council may request the Board to undertake.

2. Membership and Appointment Process

The Board shall consist of 9 members and be constituted as follows:

4 employer representatives, of whom:

i. 2 shall be nominated by Lancashire County Council, where these are councillors or officers they shall meet the requirements of the relevant regulations in relation to avoidance of conflict with the County Council's role as Administering Authority;

ii. 1 shall be nominated by the Unitary, City, and Borough Councils and the Police and Fire bodies which are employers within the Lancashire County Pension Fund; and

iii. 1 shall be nominated following consultation with the other employers within the Fund.

4 scheme member representatives drawn from the membership of the Fund.

1 independent member selected by the *Pension Fund Committee* who shall not be a member of the Lancashire County Pension Fund and who shall be appointed as Chair of the Board.

Members in the above categories will only be appointed to the Board by the *full Council* if they meet the knowledge and understanding requirements set out in the relevant regulations and guidance, and as set out in Section 5 below.

Process

a) Two employer representatives shall be nominated by Lancashire County Council. The nomination of a County Councillor or officer shall comply with the requirements of the relevant regulations in relation to avoidance of conflict with the County Council's role as Administering Authority.

b) One employer representative to be drawn from the Unitary, City, and Borough Councils and the Police and Fire bodies which are employers within the Fund.

c) One employer representative to be drawn from all other employers within the Fund.

d) Four scheme member representatives to be drawn from the membership of the Fund.

Employers within the Fund shall be notified of any vacancies arising under categories b) and c) above. Any nominations shall be submitted to the county council's Director of Corporate Services.

A vacancy arising under category d) shall be brought to the attention of employer and member representative bodies to enable the vacancy to be advertised as widely as possible. This will include details of the vacancy being published on websites as appropriate. Scheme members shall submit expressions of interest to the county council's Director of Corporate Services.

All nominations and expressions of interest submitted under categories b), c) and d) would go through an initial sifting process by the Head of the Pension Fund in consultation with the Chair of the Lancashire Local Pension Board. Nominations and expressions of interest would be considered against the role profile and having regard to equal opportunities legislation. In the event that more than one suitable candidate is identified, there will be a formal interview process involving the Chair and two other members of the Board. The interview process would test the ability of the individual to meet the requirements of the role and any recommended appointment would be made on merit.

Once a suitable representative has been identified they would need to be formally appointed to the Board by the Full Council.

e) One independent member selected and appointed by the county council as the Administering Authority.

   This person shall not be a member of the Fund. Such appointment will only be made following an openly advertised competition for the role. Interviews will be arranged and conducted as necessary by the Head of the Pension Fund who shall make a recommendation to the Pension Fund Committee for consideration who will then refer the matter to the Full Council for a decision as appropriate.

3. Term of appointment and removal of members of the Board

a) The Independent Chair of the Pension Board shall be appointed by the Full Council for an initial 2 years with an option for the appointment to be extended for an additional 2 years.

b) Other members of the Board will serve for an *initial four year term with an option to extend for a further 4 years, subject to the approval of the Full Council.* Other than as a result of retirement at the expiry of this period the term of office of a member of the Board will come to an end:

   i) For employer representatives who are councillors if they
      - cease to hold office as a councillor,
      - are appointed to serve on the Pension Fund Committee,
      - are replaced in accordance with the change of membership procedure adopted by the County Council, or
      - are removed by a resolution of the Full Council.

   ii) For employer representatives who are not councillors when they cease to be employed by the employing body where they were employed on appointment;

   iii) For a scheme member or employer representative if they are appointed to a role with responsibility for the management or administration of the Fund.

   iv) For scheme member representatives if they cease to be a member of the Fund.

   v) Where there is a conflict of interest which cannot be managed in accordance with the Conflict of Interests Policy.

   vi) Where an individual fails to attend meetings, undertake training or otherwise comply with the requirements of being a member of the Pension Board.

c) Each Board member should endeavor to and is expected to attend all Board meetings during the year. Given the nature of the Board as a supervisory body and the need for appropriate knowledge and skills and the clear avoidance of conflicts of interest substitute members are not permitted.

d) Other than by ceasing to be eligible as set out above, a Board member (including the independent member) may only be removed from office during a term of appointment by the consent of the Full Council

4. Code of Conduct and Conflict of Interests Policy for Board Members, Officers and Advisors

The role of the Pension Board requires the highest standards of conduct and therefore the "seven principles of public life" will be applied to all Board members and embodied in their Code of Conduct as approved by the Board and published on the Local Pension Fund Website.

5. Knowledge and Understanding

a) A member of the Board must be conversant with:

   i) The legislation and associated guidance of the LGPS.
   ii) Any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund.

b) A member of the Board must have knowledge and understanding of:

   i) The law relating to pensions, and
   ii) Any other matters which are prescribed in regulations.

c) It is for individual Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

   In line with this requirement Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. A record of the training Board members have undertaken will be presented to the Board on an annual basis

d) Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

e) Board members will comply with the Training Policy approved by the Pension Fund Committee.

6. Role of the Chair

a) To ensure that the Board delivers its purpose as set out in these Terms of Reference.

b) To ensure that Board meetings are productive and effective and that all members of the Board have an opportunity to contribute to discussions.

c) To seek to ensure that the Board reach consensus when making decisions and to put decisions to a vote when it cannot be reached.

d) To facilitate the Annual Review of the effectiveness of the operation of the Board over the previous year and draft a report on the findings for inclusion in the Annual Report of the Fund.

7. Quorum

a) *For the Board to be quorate the Chair and at least 2 employer representatives and 2 scheme member representatives must be present.*

b) *In the event that the Board is inquorate the meeting may continue but any decisions will be non binding until they can be ratified by the Board.*

8. Decision making

Employer/members representatives on the Board will have an individual voting right but it is expected the Board will, as far as possible, reach a consensus. Under Regulation 106(7) of the LGPS Regulations 2013 the Chair is explicitly excluded from having the right to vote.

Written resolution procedure - Should the Board need to take a decision between scheduled meetings then all Employer/Scheme Member representatives on the Board shall be consulted by email on the proposal and asked to indicate whether or not they support the recommendation. The Chair will receive a copy of the written resolution for their information. The decision of the Board will then be based on a simple majority of the responses received and will be reported to the subsequent Board meeting.

9. Board Meetings – Notice, Minutes and Reporting

a) The Director of Corporate Services shall give notice to all Board members of every meeting of the Board, and shall ensure that papers are published on the Lancashire County Pension Fund Website at least 5 working days prior to each meeting.

b) The Director of Corporate Services shall ensure that a formal record of Board proceedings is maintained. Subsequent to each meeting the Chair will be asked to approve the minutes for publication and circulation to all members of the Board.

c) The Board in considering items of business at its ordinary meetings shall in relation to each item consider whether it wishes to make a recommendation to the *Pension Fund Committee* with the response of the Committee being reported to the subsequent Board meeting.

d) **Annual Report** - The Pension Board shall produce an Annual Report on the nature and effect of its activities for consideration by the *Pension Fund Committee*. The contents of the Annual Report will be subject to consideration and agreement at a meeting of the Board, but should include, inter alia:

i) Details of the attendance of members at Board meetings;
ii) Details of the training and development activities provided for members of the Board and attendance at such activities;
iii) Details of any recommendations made by the Board to the Pension Fund Committee and the response of the Committee to those recommendations.
iv) Details of the costs incurred in the operation of the Board.
v) A statement by the Chair on the findings of the Annual Review of the

effectiveness of the Board.

If approved by the Committee the Annual Report of the Board will be incorporated into the Annual Report of the Fund and submitted to the full Council for approval.

e) If considered appropriate the Board may establish Sub Groups to look in detail at specific issues and report back to the Board.

10. Publication of Pension Board information

Scheme members and other interested parties will want to know that the Fund is being efficiently and effectively managed. They will also want to be confident that the Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

The Board will ensure that up to date information is posted on the Lancashire County Pension Fund website showing

- The names, contact details and other relevant information about the Pension Board members;
- The responsibilities of the Pension Board as a whole;
- The full Terms of Reference and policies of the Pension Board and how they operate;
- Any specific roles and responsibilities of individual Pension Board members.

The Pension Fund Committee will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

11. Budget

a) The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board shall be met from the Lancashire County Pension Fund.

b) The Pension Fund Committee shall approve an annual budget for the Board which will be managed by and at the discretion of the Head of Fund.

12. Reimbursement of Travel and Subsistence Expenses and Renumeration.

a) All Board members shall, on the production of relevant receipts be reimbursed for travel and subsistence expenses they have actually and necessarily incurred in the conduct of their duties as a member of the Board, including attendance at relevant training and development activities.

b) Board members shall be reimbursed a mileage allowance for use of their own car at the rate proscribed by HM Revenues and Customs from time to time as adopted by Lancashire County Council.

c) *Where members of the Board are in employment their employer will be able to reclaim from the Lancashire County Pension Fund a sum equivalent to salary, employers' national insurance contributions and employers' pension contributions, in respect of time spent by the individual in fulfilling their duties as a member of the Board, including attendance at relevant training and development activities. Where any applicable sums and contributions are claimed by an employer, costs must actually have been incurred by the employer and evidence must be provided with any claim.*

Members of the Board may be able to reclaim from the Lancashire County Pension Fund a sum in financial loss commensurate to time spent by the individual in fulfilling their duties as a member of the Board, including attendance at relevant training and development activities, except where such sums are recoverable under any other paragraph of these terms of reference. Where any applicable sums are claimed by an individual evidence must be provided with the claim. The Head of Fund will have absolute discretion to determine the final sum reimbursed based on what is deemed sufficiently evidenced, reasonable and proportionate, to be assessed on a case by case basis.

d) In accordance with the decision of the Full Council on 28 February 2019, the Chair of the Board shall receive a fixed annual allowance of £12,500 (in addition to travel and subsistence expenses) to be inflated in April each year by the Consumer Price Index for the previous September. The payment of the annual allowance will be split 50:50 between the Lancashire County Pension Fund and the London Pensions Fund Authority.

13. Advisers to the Board

a) The Board may be supported in its role and responsibilities through the appointment of advisers, in addition to the County Council's officers and the Fund's various advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties.

b) The Board shall ensure that the performance of any advisers so appointed is reviewed on a regular basis.

14. Reporting Breaches

Any breach brought to the attention of the Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy

Note

Administering Authority	Is the Full Council of Lancashire County Council as set out in Part I of Schedule 3 of the Local Government Scheme Regulations 2013
Scheme Manager	Is the Pension Fund Committee (Full Council having delegated powers to the Committee as set out in the County Councils Constitution).
Pension Board or Board	Is the local Pension Board for the Lancashire County Council as Administering Authority for the Lancashire County Pension Fund as required under the Public Service Pensions Act 2013
Chair	The individual responsible for chairing meetings of the Lancashire Local Pension Board and guiding its debates.
LGPS or Scheme	Means the Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013,the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
Fund	Means the Lancashire County Pension Fund

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

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Appendix B

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